



LETTER OF COMMENT NO. 178

April 16, 2009

Mr. Russell Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 1630-100  
Discussion Paper "Preliminary Views on Financial Statement Presentation"

Dear Mr. Golden:

We appreciate the opportunity to share our views on the discussion paper, *Preliminary Views on Financial Statement Presentation* (the "DP") issued jointly by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards).

Liberty Global, Inc. is a leading international provider of video, voice and broadband internet services. These services are provided through our consolidated operating subsidiaries in 15 countries, primarily in Europe, Japan and Chile. Therefore, our views on the proposals presented in this DP are from the perspective of a multi-national public company with (i) over 15 independently managed operating subsidiaries, each with their own local accounting systems processing a high volume of transactions and operating on a variety of different platforms, (ii) highly complex global financial reporting and consolidation systems and processes, (iii) several different functional currencies and (iv) many reportable segments for which we are already providing the required disclosures.

In general we are supportive of a new standard that will improve the comparability and usefulness of financial statements, and are in agreement with some of the changes proposed by the DP; however, we have a variety of concerns which are discussed below in our responses to specific questions posed in the DP.

- 1. *Would the objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the Boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this Discussion Paper? If so, please describe and explain.***

The cohesiveness, disaggregation, and liquidity objectives outlined in the DP are all important objectives for financial presentation, however, we should not overlook or discount the objectives of understandability and cost effectiveness in preparation, which, with the implementation of the proposed changes, would be sacrificed to some degree for the sake of the first three objectives. Our concern is that the DP seems to address the needs of only the most sophisticated institutional investors and analysts, leaving the small investor to wade through layers of detail and complexity that he or she cannot fully understand unless they themselves are highly experienced in interpreting financial statements. In addition, the Boards should give serious consideration to the additional costs that would be incurred by reporting entities in terms of not only the initial costs of implementation, but also the ongoing system maintenance, audit costs, and financial statement preparation time. Although we have not conducted a thorough evaluation to identify all of the changes to our systems and processes that would be required in order to comply with the Boards' proposals, it is our preliminary assessment that the additional costs we would incur in implementing some of the more obvious changes would more than outweigh the incremental benefits derived from greater disaggregation or cohesiveness. The final standard needs to reflect a healthy balance between the needs of all types of users as well the burdens placed on the reporting entities.

- 2. *Would the separation of business activities from financing activities provide information that is more decision useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?***

We do not believe that reclassifying the balance sheet and income statement into business and financing activities is particularly useful for a number of reasons. First, management does not view the business in this manner nor do we organize our accounts, transactions or records into operating, investing and financing buckets. Therefore, this change



would require a major reorganization of our accounting systems and financial reporting processes for no other purpose than to supply a narrow group of financial statement users with information that they, for the most part, are able to calculate on their own from the financial statements and notes as presented today. As noted in the Summary of User Interviews on financial reporting, which was conducted by members of the FASB at the start of its initial research for this project, "there is no widespread dissatisfaction with or demand for sweeping change in financial statement display," nor was categorizing the balance sheet and the income statement into business and financing buckets a suggestion that came up during the interviews. Moreover, our own investors have not suggested that there is a need for any such changes. With this being the case, it is difficult to justify the costs involved in making such a major change. Creating line item cohesiveness between statements for its own sake without having a significant underlying need for the information does not make sense. Secondly, the comparability issues that will result from each reporting entity making its own subjective determination as to what balances belong in each category will diminish the benefits of having this information. Finally, this level of disaggregation and fragmentation in the primary financial statements would create more confusion than clarity, making it more difficult to see the "big picture" of the reporting entity's working capital and overall financial position. Users would be forced to search for and aggregate balances that previously were grouped or subtotaled together making the financial statements more cumbersome.

**3. *Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36, and 2.52–2.55)? Why or why not?***

For reasons discussed in (2) above, we are not in favor of classifying the financial statements into business and financing sections. However, if they were to be classified into categories and sections as proposed, we believe equity should be in a section separate from financing because it better accomplishes the cohesiveness objective by quantifying for the users the net assets invested for the benefit of owners and the cash flows related to transactions with owners, which should tie back to the statement of changes in equity.

**5. *The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraph 2.27, 2.34, and 2.39–2.41).***

**a. *Would a management approach provide the most useful view of an entity to users of its financial statements?***

For reasons discussed in (2) above, we are not in favor of classifying the financial statements into business (operating and investing) and financing sections. As we do not view our business in the discreet buckets suggested by the DP, we do not believe the segregation of items into these categories provides investors with any useful information with respect to how management views the business. In our view, the segment reporting requirements already accomplish the objective of providing investors with information that is consistent with management's view of the business. As we don't think that the investing activities of one company will necessarily be comparable to the investing activities of another company, we believe that the disaggregated disclosures will in fact impair an investor's ability to compare one company to another. Further, we believe that we would encounter significant challenges if we were to apply the disaggregation principles given our multi-national operations, complex ownership structures and significant subsidiary reporting requirements.

**b. *Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?***

Yes, we believe, among other factors, that the reduced comparability that would result would outweigh any benefits.

**6. *Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?***

We have discussed the DP with our investor relations (IR) group and they are very concerned with the added complexity and reduced comparability that would result from the suggested disaggregated disclosures. In addition, our IR group believes that our analysts and investors have no concerns with our current financial statement presentation and that most



of the changes suggested by the DP, including the disaggregation requirements, would not be welcomed by our analysts or investors.

- 7. Paragraphs 2.27, 2.76, and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.**

As noted above, we are not in favor of the disaggregated disclosures proposed by the DP and believe that, in addition to this question, countless questions would arise as to how the disaggregation should be accomplished.

- 8. The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income, and cash flows. As discussed in paragraph 1.21(c), the Boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the Boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the Boards consider to make segment information more useful in light of the proposed presentation model? Please explain.**

We are not in favor of categorizing the balance sheet and income statement for reasons discussed in (2) above. We believe the total revenue, operating expense, SG&A, operating cash flow, capital expenditures, investments in affiliates, long-lived assets and total assets disclosures by segment that we currently provide today in the notes to our financial statements are more than adequate in communicating the profitability and financial performance of a segment and the assets being utilized by the segment.

- 12. Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?**

No, we believe that cash equivalents should continue to be included with cash in financial statement presentation for the same reason Statement 95 initially included them in 1987 – "whether cash is on hand, on deposit, or invested in a short-term investment that is readily convertible to a known amount of cash, is largely irrelevant to users' assessments of liquidity and future cash flows". In our view, the current definition of cash equivalents is straightforward and we see no compelling reasons to change its presentation. We do not believe it is necessary that "a short-term investment have all of the characteristics of currency on hand and on-demand deposits" as long as an entity is able to convert it to cash quickly enough to satisfy its liquidity needs which should be the primary concern to investors and lenders.

- 13. Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?**

We believe details of asset and liability balances that are measured on different bases should be provided in the notes to the financial statements rather than on the face of the balance sheet in order to avoid cluttering the balance sheet with these details.

- 15. Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision useful? Why or why not?**

We would not consider the categorization of items within other comprehensive income (OCI) by operating, investing and financing activity to be particularly useful to financial statement users. In this regard, we do not believe that investors are particularly interested in the components of OCI since these components have little to do with the core activities of the business. Therefore, the additional effort required to comply with this proposal would outweigh the benefits.

- 16. Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains, and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's**



***future cash flows. Would this level of disaggregation provide information that is decision useful to users in their capacity as capital providers? Why or why not?***

We are not opposed to the disclosure of expenses by their nature and function in a manner similar to that already required by IFRS in that the cost of providing such information would not appear to outweigh the benefits to investors. That said, it should be understood that we would need significant lead time to modify our various accounting systems so that we could accurately report expenses by their nature.

**18. *Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.***

***a. Would this provide decisions-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.***

We are not in favor of categorizing the balance sheet into operating, investing, and financing sections for reasons discussed in (2) above, and therefore, we see no benefit in providing this proposed disaggregation of foreign currency transaction gains and losses on the face of the income statement. We also view the disaggregation into these categories of gains and losses from the remeasurement of an entity's financial statements into its functional currency as being particularly impractical and uninformative, and believe that in any event, these amounts should be handled similar to foreign currency translation gains and losses in OCI, for which disaggregation by operating, investing, and financing has not been proposed. An alternative would be to provide in the notes to the financial statement amounts summarized by the type of transaction giving rise to the gains and losses. We believe this level of detail would be sufficient for users of the financial statements in understanding the types of foreign currency risks to which the entity is exposed.

***b. What costs should the Boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?***

The Boards should obtain feedback from the field test participants regarding the costs and challenges of categorizing these gains and losses as proposed and evaluate these costs with the perceived incremental benefits to be obtained. Since we don't see this proposal as improving the quality of the information presented, we believe any additional costs would not be justified.

**19. *Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.***

***a. Would a direct method of presenting operating cash flows provide information that is decision useful?***

We do not believe that the information derived from the direct method is any more useful to our investors than what is currently available from the indirect method. In this regard, none of our key performance measures single-out the components of cash provided from operations; and we would not anticipate that this would change if we were required to prepare a direct method cash flow statement. As outlined in the DP, both the direct method and the indirect method of preparing cash flow statements have their merits. Costs of preparing aside, the method that is preferable from a usefulness standpoint will depend on the type of operating cash flow information considered most critical to the users of the financial statements. Before mandating that the direct cash flow method be used, we strongly urge the Boards to undertake a thorough evaluation of the specific benefits to be achieved by the various user groups from the new information, the importance of achieving these benefits, and whether or not there are any other reasonable reporting alternatives that can assist in accomplishing the same objectives. From management's perspective, calculating specific operating cash receipts and payments has never been particularly useful nor required for understanding and managing the business. Hence, very few accounting systems are currently designed to generate a direct cash flow statement.

***b. Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?***

Not really. LGI's indirect method cash flow statement is highly cohesive with the income statement as it relates to net income and noncash income and expenses. Of the 19 line items presented in the operating section of our cash flow statement, only three of those cannot be tied directly to the income statement or to a corresponding note in the case of



deferred tax expense and stock-based compensation expense. Two of these three items are related to changes in working capital. We do not feel that disaggregating operating cash receipts and payments into their specific income and expense cash flows for the sake of achieving total cohesiveness with the income statement is warranted for reasons just discussed.

***c. Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?***

For the most part, yes. Since the proposed reconciliation format is reconciling the individual income statement line items to the related direct cash flow statement line items, by definition, all of the noncash income statement elements must be identified in one or more of the columns within the reconciliation

**20. *What costs should the Boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between oneoff or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?***

In order to adequately convey our perspective on this issue, it is important to emphasize that LGI is a multi-national public company with over 15 independently managed operating subsidiaries each with their own local billing, collection, disbursement, and general ledger systems as well as different charts of accounts. These systems process high volumes of relatively small transactions and operate on a variety of different accounting system platforms. These local general ledger systems interface with a common global consolidation and financial reporting system, which consolidates summarized financial data in several different functional currencies and performs the necessary foreign currency translations and intercompany eliminations. Balance sheet accounts are analyzed and codes are assigned to the various movements within each account, which are uploaded each period into the financial reporting system in order to create the cash flow statement using the indirect method. We have invested millions of dollars into (i) designing and configuring our current system in order to meet current reporting requirements, (ii) building the local system interfaces necessary to pull in the summary data needed today and (iii) designing and implementing processes and controls at all levels within the organization in order to produce timely and accurate financial information.

As with most companies, we currently analyze the movements of all balance sheet accounts in order to prepare the cash flow statement under the indirect method. This approach works under the indirect method because the cash movements within working capital accounts such as accounts payable, accrued payroll, trade accounts receivable, and other current receivables do not, for the most part, need to be disaggregated into the specific expense, revenue, or asset line item to which they relate as they would under the direct method. Performing this level of disaggregation requires knowledge of the nature and function of every cash payment and receipt moving through highly automated accounts payable, accounts receivables and payroll systems. Since the variety of payments processed through accounts payable could range anywhere from utility expenses to interest payments, to capital asset purchases, it would be impossible to determine the purpose of the payment without tracking this information at the transaction level. The same idea applies to payments made from the payroll system (which depending on the nature of the payment could be an operating expense, an increase to inventory or a capital asset) or accounts receivable (which could relate to customer revenue, reimbursements, income taxes, etc.)

Aside from the significant additional cost of redesigning and reconfiguring the global financial reporting and consolidation system structure in order to capture all of the reportable items under the direct cash flow method, we would have to develop the means of collecting accurate cash transaction data at the operating subsidiary level. To prepare a cash flow statement using the direct method, every debit or credit to cash would have to be tracked at the transactional level to determine the true nature and possible function (depending on the required level of disaggregation) of the originating transaction. Theoretically, one could argue that if a one-to-one relationship existed between a vendor account and a cash payment transaction code and a customer account and a cash receipt transaction code, the nature of the payment or receipt could be determined based on the particular vendor or customer account number from which the invoice was paid. The problem with this approach is that the number of vendor and customer accounts would have to increase exponentially. To illustrate, if we purchase both equipment which we capitalize and supplies which we expense from the same vendor, we would require two different vendor numbers in order to get the proper transaction codes. In addition, if the supplies purchased from that vendor needed to be disaggregated between operating, marketing, and SG&A functions, the number of vendor codes would increase exponentially and become unmanageable from system maintenance and internal control perspectives.



There may well be system solutions that would allow a company such as ours to efficiently and accurately prepare a cash flow statement using the direct method. However, any such system solution would clearly be costly and time consuming for our company to implement. It is also likely that we would incur significant incremental cost increases on an ongoing basis related to, among other items, (i) entering data at the transaction level, (ii) maintaining and ensuring the consistent use of the account hierarchy, (iii) reviewing and aggregating at the operating subsidiary level the data to be interfaced into the global financial reporting system, (iv) reviewing and auditing a much greater level of detail and (v) designing, testing and maintaining new internal controls around these new reporting systems and processes. As you can easily imagine, upgrading or purchasing new transactional systems within each of our operating subsidiaries in order to capture and assimilate this information would be a massive and very expensive undertaking, would take years to accomplish, and would increase labor and audit costs on an ongoing basis, making the move to a direct method cash flows statement cost prohibitive for our company. In consideration of these factors, coupled with the fact that we do not believe that the direct method cash flow statement, and the proposed footnote reconciliation of the direct method cash flow statement to the statement of comprehensive income, significantly improve the overall usefulness of the financial statements, we are strongly opposed to this proposed change.

21. ***On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?***

No, we do not believe they should be allocated. As we have previously explained, we do not see the value of categorizing the statement of comprehensive income at all, and would view the allocation of the effects of basket transactions in either this statement or the cash flow statement as even less meaningful. We believe users are most interested in understanding the transaction in its entirety, and what the overall effects were to the company's profitability and to its cash flows. Fragmenting these transactions and scattering the pieces throughout the statements makes them less useful in our view. We are in favor of presenting the effects of basket transactions as a single line in the income statement and the cash flow statement investing sections as we currently do today. We would also like to point out that the conclusion expressed in the DP that companies do not engage in basket transactions every reporting period does not hold true for LGI. We typically have some degree of business acquisition or sale activity every period, thus making this an important issue for us.

23. ***Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.***

- a. ***Would the proposed reconciliation schedule increase users' understanding of the amount, timing, and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.***
- b. ***Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.***
- c. ***Is the guidance provided in paragraphs 4.31, 4.41, and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.***

While we can see some benefit to users in the proposed reconciliation format of disaggregating those components of comprehensive income that involve a higher degree of subjectivity from those with more predictive value, we would first need to be capable of efficiently and accurately producing a direct method cash flow statement, which as we have discussed, would be an extremely difficult and costly task for our company. In addition to these challenges, we would then need to implement new systems, processes and controls designed to categorize all other noncash comprehensive income movements into the one of the other three columns in the reconciliation, thus adding even more in the way of implementation costs. Due to the highly detailed nature of this reconciliation, we believe there would also be an increase in recurring audit costs if this reconciliation were required. In light of these factors, we do not believe that the significant costs associated with providing the proposed reconciliation is in any way justified by the limited benefit that investors might obtain from the proposed reconciliation. In this regard, our IR group believes that most of our investors and analysts would not obtain any significant incremental benefit from the proposed reconciliation since our investors are focused on understanding the significant drivers of our overall cash flows as opposed to auditing the



relationship between our cash flow and income statements. In this regard, we believe that our indirect method cash flow statement, together with our segment disclosures, provide more than adequate information with respect to the drivers of our cash flows.

In summary, we acknowledge that relatively minor changes in accounting standards might be helpful in addressing the inconsistencies currently seen in financial presentations as well as improving the usefulness of financial statements to investors and potential investors. However, we believe that the sweeping and fundamental changes proposed by the DP, particularly the direct cash flow statement, the related reconciliation to comprehensive income, and the categorization of the balance sheet and comprehensive income statement, have significantly crossed the boundaries of what companies can reasonably be expected to provide on a quarterly and annual basis and, in our view, the cost of providing this information cannot be justified by what we would view as a very limited benefit to our investors. Accordingly, we strongly urge the Boards to abandon the proposals to require (i) the preparation of direct method cash flow statement and related footnote reconciliations and (ii) the categorization of the balance sheet and comprehensive income statement into operating, investing and financing categories.

We appreciate the opportunity to comment on this DP. I can be contacted at (303) 220-6603 or [bdvorak@lgi.com](mailto:bdvorak@lgi.com) with any questions you might have.

Sincerely,  


Bernard Dvorak  
Senior Vice President, Co-Chief Financial Officer

cc Leo Stegman, Vice President, Accounting and Reporting, Deputy Controller, Liberty Global, Inc.  
Ted Harms, Partner, KPMG