



September 2010

Welcome to the questionnaire for investors and analysts regarding the FASB's and IASB's staff draft on Financial Statement Presentation.

The IASB and FASB invite individuals and organizations to comment on all matters in this staff draft, particularly on the issues and questions below.

Questionnaire responses will be accepted through **October 15, 2010**.

If you are unable to respond online, please contact Chandy Smith at (203) 956-5311 or ccsmith@fasb.org

Why are we doing this questionnaire?

In July 2010, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly published a draft of proposals for an Exposure Draft on Financial Statement Presentation. The FASB and IASB are currently obtaining feedback from their constituents (including investors and analysts) on the draft of these proposals. This questionnaire asks 15 questions about how the proposals will affect your analysis.

Check the FASB website www.fasb.org (Investors/Recent Proposals) for more detailed information that may be helpful to you in responding to the questionnaire, including:

- A slideshow and investor webinar which summarize the proposal
- Introduction and Summary of the project Financial Statement Presentation
- FASB and IASB Financial Statement Presentation staff draft
- Illustrations of financial statement formats
- Project page Financial Statement Presentation

Instructions for completing the questionnaire

The target audience for this questionnaire is financial statement users (including investors and analysts). Other outreach efforts are being conducted to consult with different groups of constituents. If you are not part of the target demographic, please do not complete this questionnaire.

Comments are requested from those who agree with the proposals as well as from those who do not. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposals are asked to describe their suggested alternatives, supported by specific reasoning. Thoughtful, reasoned responses will be most helpful to the development of the Exposure Draft.

Why have the IASB and FASB issued this proposal?

How an entity presents information in its financial statements is vitally important because financial statements are a principal means of communicating financial information to those outside the entity.

The IASB and the FASB initiated the joint project on financial statement presentation to address users' concerns that existing requirements permit too many alternative types of presentation and that information in financial statements is highly aggregated and inconsistently presented, making it difficult to understand fully the relationship between an entity's financial statements and its financial results.

The proposals in this staff draft are intended to improve the comparability and understandability of information presented in financial statements by imposing some degree of standardization, particularly regarding how information is classified and the degree to which it is disaggregated.

Expected benefits of the IASB and FASB's staff draft on Financial Statement Presentation:

- (a) Separation of business activities from financing activities on each of the financial statements. It should be easier for users to analyze an entity's performance independent of its capital structure.
- (b) The proposed financial statement structure has common sections, categories, and subcategories in each financial statement. The belief is that this will provide greater comparability in financial reporting across entities.
- (c) Presenting net income and other comprehensive income in the same statement would improve the understandability of changes in the balance sheet, statement of comprehensive income, and what is reported as net income.
- (d) The statement of comprehensive income and related notes would include more line items than is required today because of the required reporting of dissimilar items (that is, income and expense items by function - the activity - and by nature - the input). This additional detail should provide a better basis for users to make informed investment decisions.
- (e) Disaggregating operating cash inflows and outflows on the statement of cash flows (that is, presenting actual cash flows) is believed to make the statement of cash flows more intuitive and understandable, improve the ability to predict future cash flows and provide insight into an entity's cash conversion cycle.
- (f) A rollforward of the changes between the beginning and ending balances of assets and liabilities showing the various components of change and disclosure of amounts recognized in income from remeasurement (for example, fair value changes) should result in a better understanding of the likelihood that earnings levels are sustainable or likely to recur.
- (g) The [FASB only] requirement to disclose by-nature information in the segment note (for an entity with more than one reportable segment) along with other key operating measures (e.g. assets, liabilities, cash flows) will help users analyze and forecast segment level results.

Question 1. Please enter your personal information. It will help us better understand your responses.

Note that the information you provide is for IASB and FASB internal use only. While we may use this information to report findings on an unattributed basis, we will not publicly distribute or share individual responses received without your permission.

Name _____

Company _____

Title _____

Job Function (Buyside/Sellside/Rating Agency) _____

Investor perspective (long only, long/short, equity, credit) _____

Sector Coverage (Generalist, Financials, Retail, etc) _____

Years Experience _____

Primarily use - US GAAP, IFRS, other _____

Email _____

Phone Number _____

The proposed financial statement structure uses common sections, categories and a subcategory to organize information across each of the financial statements based on the underlying activities (operating, investing and financing) an entity engages in. Activity based metrics such as return on operating assets, return on investing assets and cost of financing could be calculated using subtotals from each category.

For example, a building used in production, its depreciation expense and cash flows associated with the building would be reported in the operating category across all of the statements. Whereas, issued debt, the interest to which it relates and cash payments on the debt would all be reported in the financing section across all the statements.

Question 2. Do you think this structure would be helpful to your analysis?

- Yes. (If yes, explain how the information provided will influence your analysis.)
- No. (If not, why? Please identify or illustrate any alternative financial statement structure you would recommend and explain the improvement that change would provide.)

Explain your answer

The balance sheet and statement of comprehensive income present operating liabilities that have a finance component (e.g. pensions, leases, vendor financing) separately in an **operating finance** subcategory. This decision was based on the belief that investors could more easily consider these as either operating liabilities or financing liabilities, as desired.

Question 3. Does the benefit of this segregation outweigh any complexity that it may add to the format of the proposed financial statements?

- Yes
- No
- Maybe

Explain your answer

In a separate joint project, the FASB and IASB have proposed to require a statement of comprehensive income containing two different sections—profit or loss/net income and items of other comprehensive income. The boards believe this will result in a transparent presentation of all income and expenses that are components of the total changes in equity (non-owner). The boards also believe that an overall statement of comprehensive income will provide more consistency in presentation and make financial statements more comparable.

Question 4. Will presenting profit or loss/net income and other comprehensive income in the same statement improve the comparability, transparency, and understandability of financial statements?

Yes

No

Explain your answer

Information in the statement of comprehensive income would be disaggregated (presented separately) based on their function and nature.

Function refers to the primary activities in which a company is engaged (selling, manufacturing, marketing, etc).

Nature refers to the economic characteristics or attributes that distinguish assets, liabilities, and items of income, expense, and cash flow that do not respond similarly to similar economic events. (e.g. materials, labor, transportation).

Question 5. Would line item detail (disaggregation) on the bases of function and nature improve your analysis?

Yes (If so, explain how it would benefit your analysis)

No (If no, explain why not)

Explain your answer

There is a difference between the FASB and IASB proposals regarding by-nature income and expense information for multi-segment entities. The FASB proposal is that when an entity has more than one reportable segment, its by-nature income and expense information should be presented for each reportable segment as part of the segment note along with a measure of operating assets, operating liabilities, operating profit (loss), and operating cash flow by reportable segment. The IASB does not want to modify its segment reporting requirements at this time (prior to its 2011 post-implementation review of IFRS 8-Operating Segments). Therefore, the IASB proposal is for all entities to present their by-nature income and expense information on the face or in the footnotes. A multi-segment entity would present that information separate from the segment note and NOT at the segment level.

Question 6. Which approach do you find most helpful?

- IASB approach - Separate from the segment note, on a consolidated (i.e. not by segment) basis
- FASB approach – When there is more than one segment, as part of the segment note, by reportable segment, with additional operating measures by reportable segment. Otherwise, on a consolidated basis either on the face or in the notes.
- Doesn't matter – It doesn't matter to me as long as the information is somewhere
- Other

Explain your answer

Page 7 Cash Flow Information

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The proposal requires the presentation of gross operating cash receipts and gross operating cash payments (e.g. Cash from customers, Cash paid for materials, Cash paid for labor). This is commonly referred to as “direct cash flows”. The boards’ proposal will also continue to include a reconciliation of income to cash flows. However, it is proposed that income from operating activities (not net income) will be reconciled to cash flows from operating activities. This will eliminate many of the non-operating adjustments that are often made to net income in the current reconciliation requirements.

Question 7. Should the financial statements include both a reconciliation of income from operating activities to net cash flows from operating activities as well as detailed information on gross operating cash receipts and payments?

Yes Maybe

No

Explain your answer

	For the years ended December 31,	
	20X1	20X0
BUSINESS		
Operating		
Cash collected from customers	2,812,741	2,572,073
Cash paid for labor	(810,000)	(845,000)
Cash paid for materials	(935,554)	(785,000)
Cash contribution to pension plan	(340,200)	(315,000)
Other operating cash outflows	(260,928)	(242,535)
Cash paid for lease	(50,000)	-
Capital expenditures	(54,000)	(50,000)
Proceeds from disposal of property, plant and equipment	37,650	-
Proceeds from sale of receivables	8,000	10,000
Net cash flows from operating activities	407,709	344,538

Question 8. When looking at the illustrative statement of cash flows above (operating category only), would the level of detail used to report cash receipts and payments be helpful in your analysis of cash flow?

Yes Maybe

No

Explain your answer

Question 9. If the following changes to cash flow reporting were required, would disaggregation of operating cash flows (e.g. cash received from customers, cash paid to suppliers) provide additional information that would be useful to your analysis?

- (a) The reconciliation of income to operating cash flows would begin with operating income (rather than net income)
- (b) The net change items in the operating category in the statement of cash flows would be disaggregated so that they correspond with the line items in the statement of financial position

- Yes – Disaggregation of operating cash flows would **also** be useful.
- No – The improvements you mention above are adequate. I would not need a disaggregation of operating cash flows.
- Not sure – There are still a few operating cash flow line items for which I would like detailed amounts presented (give examples below), but I would not need a full disaggregation of operating cash flows.

Explain your answer

Page 9 Cash Flow Information (continued)

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For users of financial services entity financial statements: The illustration below is an example of a financial services firm's operating cash flow information as proposed in the staff draft.

	For the years ended December 31,	
	20X1	20X0
BUSINESS		
Operating		
Interest received from loans	118,750	125,000
Cash interest received from available-for-sale securities	11,875	12,500
Cash provided for federal funds sold	3,672	3,400
Cash received from federal funds purchased	(19,224)	(17,800)
Interest paid – interest checking deposits	(61,220)	(68,150)
Total interest collected, net of interest paid	53,853	54,950
Mortgage banking revenue	7,907	8,931
Service charges on deposits	32,079	31,033
Wages, salaries and benefits	(35,000)	(30,000)
Other net cash outflows	(28,159)	(30,200)
Cash received for interest and fees, net of cash paid for expenses	30,680	34,714
Cash flows related to operating assets and liabilities		
Principal collected on loans	86,400	80,000
Cash paid for loan originations	(103,680)	(96,000)
Cash received from trading securities	2,375	2,500
Cash received from deposits, net		
Interest checking deposits	6,545	6,170
Savings deposits	58,300	61,500
Time deposits	76,500	76,100
Noninterest-bearing deposits	24,500	25,000
Cash from federal funds purchased, net of federal funds sold	17,604	16,300
Cash paid for advances and loans to banks, net	(4,924)	(406)
Purchase of equipment	(25,000)	(25,000)
Sale of loans	8,000	10,000
Purchase of available-for-sale securities	-	(130,000)
Sale of available-for-sale securities	55,080	51,000
Received from settlement of derivatives	340	315
Net cash flows from operating activities	232,720	112,193

Question 10. Does the disaggregation of operating cash flow information as proposed in the staff draft provide information you try to obtain today?

Yes

No

Explain your answer

Page 10 Remeasurements

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A remeasurement is an amount recognized in comprehensive income that increases or decreases the net carrying amount of an asset or a liability and that is the result of:

- A change in (or transaction at) a current price or value
- A change in an estimate of a current price or value or
- A change in any estimate or method used to measure the carrying amount of an asset or a liability.

The following example illustrates the presentation of remeasurements in a single note:

	<u>20X1</u>	<u>20X0</u>
Operating		
Gain on disposal of property, plant, and equipment	22,650	-
Gain on futures contracts	5,821	5,390
Loss on sale of receivables	(4,987)	(2,025)
Change in estimate for bad debt expense	-	2,707
Loss on inventory	(29,000)	(9,500)
Impairment of goodwill	-	(35,033)
Change in estimated share-based compensation liability	(6,250)	(5,000)
Change in litigation accrual	(1,998)	(1,850)
Investing		
Fair value change of securities	98,700	81,000
Fair value change of investment in company	7,500	3,250
Foreign currency translation adjustment on equity method investment	(2,160)	(2,000)
Other		
Foreign currency translation adjustment - consolidated subsidiary	3,222	(2,295)

Question 11. Does a note disclosing information on remeasurements (as illustrated above) provide useful information?

- Yes
- No

Explain your answer

An entity would disclose an analysis of the changes between the beginning and ending balances of asset or liability line items, i.e. a rollforward, that management regards as important for understanding the current period change in the entity's financial position, including cash flows, recurring non cash transactions (for example, credit sales), non-recurring noncash transactions (for example, a business combination), allowances, accounting allocations (for example, depreciation expense) and remeasurements (for example, fair value changes).

The following illustration presents an example of an analysis of changes (rollforward) disclosure for accounts receivable and customer advances:

	<u>Accounts receivable, net</u>	<u>Customer advances</u>
Beginning balance, January 1, 20X0	339,500	(650,000)
Cash collections (a)	(2,282,073)	(300,000)
Revenue accrual	2,714,250	525,000
Remeasurement – loss on sale of receivables	(2,025)	-
Amounts allocated for bad debts	(17,741)	-
Remeasurement – change in estimate for bad debts (b)	2,707	-
Amounts reclassified to discontinued operations	(225,000)	-
Foreign exchange adjustment	(1,777)	-
Ending balance, December 31, 20X0	<u>527,841</u>	<u>(425,000)</u>
Cash collections (a)	(2,496,741)	(324,000)
Revenue accrual	2,920,600	567,000
Remeasurement – loss on sale of receivables	(4,987)	-
Amounts allocated for bad debts	(23,068)	-
Foreign exchange adjustment	(1,609)	-
Ending balance, December 31, 20X1	<u><u>922,036</u></u>	<u><u>(182,000)</u></u>

Question 12. Is a "rollforward" of this information helpful to your analysis?

Yes. If so, explain how you would use this information in your analysis.

No. If not, why?

Explain your answer

Question 13. Should the requirement to disclose an analysis of changes be expanded to include ALL asset and liabilities on the balance sheet (or is the proposed requirement to rollforward "important" line items sufficient)?

Yes

No

Explain your answer

Question 14. Should an entity be required to analyze the changes in all accounts that normally constitute net debt (cash, short-term investments, capital leases, and line items in the debt category)?

Yes. Please describe how this information is useful to you.

No. If not, why?

Explain your answer

Consider the following aspects of the proposed presentation model:

- a. Classification of financial information into the required sections, categories, and subcategory
- b. Increased disaggregation by nature for income and expense items
- c. Disaggregation of operating cash flows
- d. Disclosure of analyses of changes in asset and liability line items.
- e. Disclosure of remeasurements

Question 15. When thinking about the changes that would need to be made to your models, processes and analytical tools, compare the costs and benefits you anticipate from the above aspects of the proposed presentation model.

Question 16. Are there any other comments you would like to make regarding this proposal?

Would you be willing to be contacted for clarification of your answers and/or for additional outreach on this project in the future?

- Yes
- No

Thank you for your participation in the Financial Statement Presentation user questionnaire. If you need to make changes to your responses, please contact Chandy Smith at ccsmith@fasb.org or 203-956-5311 or Holger Obst at hobst@ifrs.org or 44-20-7246-6947.