April 14, 2009

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

RE: Discussion Paper – Financial Statement Presentation

Dear Mr. Golden:

The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") has reviewed the Discussion Paper, *Preliminary Views on Financial Statement Presentation* (the "Discussion Paper" or "proposed financial statement model" or "proposed model") and is pleased to provide you with our comments. Note that we chose not to respond at this stage to every question posed in the Discussion Paper.

Overview of Key Comments

AcSEC's key comments are:

1. The proposed objectives and presentation model point towards improved financial statements.
2. The proposed model overreaches in achieving its objectives.
3. The proposed management approach to classification needs more implementation guidelines and parameters.
4. A lighter version of the proposed financial statement model is needed for nonpublic entities.
5. Financial statement preparers will encounter significant implementation and ongoing costs.
6. The proposed model requires too much disaggregation and provides too little related guidance.
7. The direct method of reporting cash flows is an improvement for financial reporting users.
8. The reconciliation schedule should be eliminated as a requirement. Entities could provide this information voluntarily in those rare settings where it is clearly demanded by financial statement readers.
9. The proposed model should eliminate intraperiod tax allocation.

These key comments, as well as other comments, are discussed below.

Proposed Objectives and Model Point towards Improved Financial Statements
(Comments relate to Respondent Question No. 1)

AcSEC believes that the proposed objectives of the Discussion Paper (cohesiveness, disaggregation, better information about liquidity and financial flexibility) will improve the usefulness of financial statements and help financial statement users make better decisions. A more cohesive financial picture will clarify relationships among items in the financial statements. Increased disaggregation of financial information should enhance the usefulness of that information in predicting future cash flows. Improved information about liquidity and financial flexibility will help financial statement users better understand whether an entity can meet its financial commitments as they come due and how well positioned an entity is to invest in business opportunities. Furthermore, the direction of the proposed financial statement presentation model appears consistent with trends in academia and analyst training.

The proposed model, although in need of some important modifications, points toward an overall improved set of financial statements for investors, lenders, creditors, and other financial statement users. AcSEC believes that the proposed model will help users in more fully understanding an entity's present and past financial position, how past operating, financing, and other activities caused an entity's financial position to change, and the components of those changes. The proposed model has the potential to engender a clearer picture of return on assets, return on equity, and return on invested capital. In addition, financial statement users will gain more information about an entity's cost structure.

Proposed Model Overreaches in Achieving its Objectives
(Comments relate to Respondent Question Nos. 2 and 6)

Although the objectives of enhanced cohesion, disaggregation, and more information about liquidity and financial flexibility will improve financial reporting, AcSEC believes that the proposed model overreaches in achieving those objectives. Building a high degree of structure and regulation around the classification of assets, liabilities, revenues, and expenses—and around the determination of individual line items in the financial statements—is problematic to many who believe that entities already have sufficient incentives to disclose financial information and that the marketplace rewards those entities that disclose a richer set of financial statement information.

The Proposed Management Approach needs more Guidelines and Parameters
(Comments relate to Respondent Question Nos. 5 and 7)

AcSEC agrees with a management approach to the classification and presentation of the financial statements. An entity should classify its assets and liabilities in a manner that best reflects the way the asset or liability is used within the entity. Such an approach mirrors how management internally looks at financial results and it provides the most meaningful information to financial statement users. However, the proposed model allows management too much flexibility and latitude and does not provide enough implementation guidance around the classification of balances and transactions. Too much latitude in presenting financial information may run counter to FASB's goal of fostering more consistency and comparability in financial reporting.

Investors and other financial statement users are looking for comparability across companies within an industry. For example, investors require a certain level of assurance that entities within an industry are treating costs in a similar manner. The management approach, in its current form, may weaken comparability and increase the level of inconsistent reporting within an industry, thereby rendering the financial statements more confusing and less useful to users. For example, manufacturing entities which own captive finance subsidiaries may view the financing arms differently from one another and thus classify the assets, liabilities, and operations of the financing subsidiary in different ways. Or, one company may view its financing of property, plant, and equipment as an operating activity whereas another company may view the same activity as general borrowing and classify the PP&E financing in the financing category.

In general, our concern is that the high level of flexibility allowed under the proposed management approach may result in a reporting environment where it is easier for management to manipulate an entity's balances and transactions and where it is more difficult for an auditor to assess management's categorizations.

AcSEC reminds FASB that segment reporting is an existing opportunity for management to present the reporting entity's business from its perspective. Other opportunities exist through the use of disclosures.

AcSEC believes that more guidance will be needed to minimize the possibility that management misuses the flexibility in that framework to inappropriately report enhanced financial results. The proposed guidance on the management approach should be modified to reduce the level of flexibility given to management in classifying assets and liabilities. To that end, guidelines on classifications are needed to strengthen consistent reporting among similar balances and transactions. Additional guidance is also needed on the allocation of assets and liabilities across the segments of an entity, because more and more entities are sharing assets across segments.

A "Lighter" Version of the Proposed Financial Statement Model is needed for Nonpublic Entities
(Comments relate to Respondent Question No. 27)

Users of nonpublic entity financial statements routinely have greater access to an entity's management and thus to detailed financial information about the entity than users of public company financial statements. Also, loan covenants in place at nonpublic entities often obligate management to provide additional financial information beyond the financial statements. Given the costs involved and the reporting environment for nonpublic entities, the high level of disaggregation proposed in the Discussion Paper, as well as the breadth of some other proposed changes, does not seem well suited for nonpublic entities and their financial reporting users.

Nevertheless, having two distinct financial statement models for public and nonpublic entities does not appear to be an attractive alternative because of the long-term negative implications for the accounting profession of having to support and work with two different ways of presenting financial statements. Consequently, AcSEC believes that the solution is to conduct further research into the needs of nonpublic entity financial statement users and then use that input to drive the development of a "light" version of the proposed model for nonpublic entities. The framework, format, and organization of the financial statements should be kept the same for both public and nonpublic entities, but a reduced level of disaggregation of financial information should be allowed for nonpublic entities. Conducting further research and developing a lighter version of the proposed model would be consistent with the current state of GAAP, where reduced levels of disclosure are allowed for nonpublic entities.

In addition to less disaggregation, AcSEC encourages FASB to consider and incorporate other scope reductions of the proposed model in developing a more suitable version for nonpublic entities. For example, FASB should consider 1) encouraging but not requiring those entities to report their cash flows using the direct method, and 2) eliminating the reconciliation schedule requirement for those entities, if the FASB decides to keep the reconciliation schedule in the final Standard.

In conducting further research, AcSEC believes that FASB should engage financial statement users in a more thorough discussion about their financial reporting needs. Some users tend to ask for as much financial data as possible, and yet are not able to truly utilize the abundance of information that they seek to obtain or already have. As such, FASB should understand how financial statement users' decision making would be improved by the detailed disaggregated financial data and the use of the direct method of reporting cash flows that the proposed model requires.

Financial Statement Preparers will Encounter Significant Implementation and Ongoing Costs

Given the level of disaggregation and categorizations required by the proposed model, management will need to analyze and tag each activity within an entity's accounts and ensure that disparate activities within each account are properly migrated to the correct financial statement sections. This promises to be a very costly undertaking. Such costs will include a potentially significant one-time implementation expense as well as ongoing expenses each reporting period.

AcSEC urges FASB to carefully weigh the level of disaggregation and granularity in the final financial statement model to strike an acceptable balance between the costs reporting entities incur and benefits of the information to external users.

The Proposed Model Requires too much Disaggregation and Provides too little Related Guidance
(Comments relate to Respondent Question Nos. 13 and 16)

Requiring further disaggregation of information within the financial statements is an improvement and will likely benefit investors and other financial reporting users. Increased financial statement granularity can assist users in understanding an entity's financial results, cost structure, segment-level strengths and weaknesses, and in predicting its future cash flows. However, as the Discussion Paper points out, there is a delicate balance between having too much information and having too little information.

AcSEC believes that the proposed model requires too much disaggregation and not enough guidance on the level and method of disaggregation, resulting in the following issues:

1. *More perplexing financial statements, that are less useful to users*. The high level of detail in the proposed financial statements may not necessarily help investors and other users. This level of disaggregation may in fact cause the financial statements to become too lengthy and swollen with information, clouding the financial presentation of key issues;
2. *The risk of disclosing proprietary information, which may harm an entity's competiveness*. Reporting entities try to strike a balance between providing sufficient disaggregated information to financial reporting users while not revealing proprietary information to competitors. Disclosing information at the proposed level of detail may reveal important proprietary facts about an entity's performance or force management to disclose its strategies in order to explain the financial results.
3. *Too much detail, rendering comparability analysis more challenging*. More detailed financial information injects more subjectivity and judgment by management into the financial statements which diminishes a user's ability to compare the financial statements of different entities.

AcSEC believes that the level of required disaggregation should be reduced and that improved guidance is needed in the proposed model on the level and method of disaggregation. One area where improved guidance is needed concerns the distinction between the "function" and "nature" of an expense as these terms are used in the Discussion Paper. Also, the proposed model needs to better balance the information needs of investors, analysts, and other financial reporting users with a reporting entity's need to protect its pricing strategy, cost structure, and competitive advantage.

In addition, the proposed model needs to better address the disaggregation and presentation of assets and liabilities that are measured on different bases. The objective of disaggregating and reporting mixed attribute assets and liabilities should be presented more clearly in the Discussion Paper.

The Direct Method of Reporting Cash Flows is an Improvement for Financial Reporting Users
(Comments relate to Respondent Question Nos. 19 and 20)

AcSEC is of the opinion that many financial statement users will find the direct method of reporting cash flows to be an improvement to the financial statements. Users will be better able to relate information about operating assets and liabilities and operating income and expenses to operating cash receipts and payments. The direct method of cash flow reporting will also help financial statement users better assess an entity's liquidity and financial flexibility.

The Reconciliation Schedule should be Eliminated
(Comments relate to Respondent Question No. 23)

AcSEC believes that the cost of preparing this reconciliation schedule will not support the perceived benefit to financial reporting users. Disaggregating the cash, accrual, and remeasurement components of comprehensive income at a detailed level will impose a substantial burden on the resources of reporting entities. In addition, AcSEC believes that the reconciliation schedule may lack significant predictive value. Therefore, FASB should eliminate the reconciliation schedule requirement.

If the reconciliation schedule remains in the final financial statement model, AcSEC believes that more guidance is needed about the "memo" column that could be added to the reconciliation schedule.

The Benefits of the Proposed Level of Cohesion with the Statement of Financial Position is Uncertain
(Comments relate to Respondent Question Nos. 1, 2, and 6)

Strengthening the consistency in the way information is presented in an entity's financial statements and more clearly associating related information across the financial statements are needed improvements in financial reporting. As such, the proposed model's goal of building stronger cohesion in the financial statements is correct and important. However, the proposed model appears to go too far in the manner in which it tries to induce cohesion with the statement of financial position. Clearly, strong cohesion is vital between the statement of comprehensive income and the statement of cash flows. But drawing in the statement of financial position may ultimately weaken the usefulness of that statement to users and burden those preparing it.

Separating assets and liabilities between the various categories proposed in the model will be a challenging exercise, laden with subjective judgments as management tries to decide which assets and liabilities go where. Indeed some assets may rightfully belong in more than one category. The end result of such an exercise may only make the statement of financial position more confusing to a user.

AcSEC questions whether the proposed changes to the statement of financial position are important enough to financial report users to justify the burden on the preparer and the risk of making the statement of financial position more perplexing. Creating improved linkage between the statement of comprehensive income and the statement of cash flows may accomplish the cohesiveness objective. AcSEC suggests that FASB consider providing additional guidance on how management should classify assets and liabilities and what constitutes investing activities. AcSEC also suggests that FASB consider the use of segment disclosures as an alternative to the proposed re-categorization of the balance sheet accounts.

The Proposed Model Should Eliminate Intraperiod Tax Allocation
(Comments relate to Respondent Question No. 17)

AcSEC believes that income taxes are transactions separate from the underlying taxable activity to which they relate. In addition, the current intraperiod tax allocation requirement is an arbitrary, difficult, and time-consuming process, made even more so by items such as valuation allowances and tax rate changes. Moreover, intraperiod tax allocation appears to be of questionable value to financial statement users.

Thus for both conceptual and practical reasons, AcSEC believes the existing requirements of intraperiod tax allocation should be eliminated and income taxes should be presented as a separate section in the financial statements. FASB held a similar viewpoint at an earlier stage of this project and AcSEC encourages FASB to return to that initial decision.

Eliminating intraperiod tax allocation would avoid the issue of stranding tax effects in various financial statement components and having to recycle those tax effects.

The objective associated with intraperiod tax allocation can be achieved by requiring the disclosure of the statutory tax rate associated with continuing operations and having that reconciled to actual tax expense. The reconciliation could disclose the tax allocated to various income statement components, such as discontinued operations and other comprehensive income.

Other Comprehensive Income should be included in the Statement of Comprehensive Income
(Comments relate to Respondent Question No. 14)

Some financial statement users have difficulty understanding what "other comprehensive income" represents. To minimize that difficulty and improve the clarity and understandability of revenue and expense, AcSEC agrees with FASB's decision to require that items of other comprehensive income should be presented in a single statement of comprehensive income.

Additional Field-testing by Preparers is needed

AcSEC recommends more extensive field-testing of the proposed financial statement presentation model be conducted across industries by preparers. Additional testing would surface problematic areas and improvements to the proposed model.

Transitioning of the Proposed Model is Recommended

Given the fundamental changes that the proposed model will require and the cost of making those changes, AcSEC believes that a lengthy transition period for the proposed model (including staged implementation phases) is necessary.

Pension Reporting Needs Clarification

FASB should clarify how pension reporting is accomplished under the proposed financial statement model. The Discussion Paper suggests that pension expense would be reported in one category in the statement of comprehensive income. Presumably that would be the operating category. Clarification is needed on what items of pension expense would be reported in the category of other comprehensive income. Furthermore, clarification is needed about whether any pension activity is more properly classified in the operating or financing categories. When an accounting model is based on the present value of future cash flows, guidance is needed about whether the time value element is a financing cost.

Lack of Consistency Regarding Dividend Payments

The proposed financial statement model requires that dividend payments be classified in the non-owner financing section in the statement of cash flows and in the owner financing section (equity section) in the statement of financial position. This is not consistent with the cohesiveness objective and may create confusion.

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We appreciate the opportunity to provide comments on the Discussion Paper. In addition, we are available to discuss these comments with Board members or staff at their convenience.

Sincerely,

Jay D. Hanson
Chairman
Accounting Standards Executive Committee

Bruce Johnson
Comment Letter Task Force Chairman
Accounting Standards Executive Committee