October 17, 2016

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2016-290

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to provide feedback on the FASB's Invitation to Comment, *Agenda Consultation* (ITC). We commend the Board for soliciting input on the future agenda. With the issuance of final standards on revenue, leases, financial instruments—both recognition and measurement and the allowance for credit losses—and the recent issuance of exposure drafts on hedging and long-duration insurance contracts, the time is right to broadly consider the future direction of the FASB's efforts. While we believe there are some important issues for the FASB to address, we also caution the FASB to remain cognizant of the cost of change that is precipitated by new standards—to all constituents in the financial reporting supply chain—and that any potential project should be justified on the basis that the potential solution will significantly enhance the quality of financial reporting.

Overall priorities

We rank the four potential projects described in the ITC in order of priority as follows:

1. Reporting financial performance
2. Distinguishing liabilities from equity
3. Intangible assets
4. Pension and postretirement benefits

Reporting financial performance

We believe a reassessment of the financial performance reporting model should be the Board's top priority. The performance reporting model is critical to the continued relevance of GAAP, which has been challenged of late by the proliferation of non-GAAP measures, for example EBITDA, and the evolution of the manner in which financial information is consumed. We believe the income statement could be enhanced through the identification and more transparent reporting of items that are unlikely to have a continuing effect on an entity's business—remeasurements, nonrecurring transactions, and noncore activities—to aid analysis by users.

The presentation of other comprehensive income (OCI) should be considered concurrent with the performance statement. Many challenging standard setting debates seem to emanate from whether remeasurements should be included in net income (performance) or OCI rather than from fundamental questions of recognition and measurement of assets and liabilities. Although it may not eliminate the need for OCI, our proposal to redesign the performance statement, with more transparent reporting of gains and losses arising from remeasurements, could relieve some of that tension.

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Another element of financial performance reporting, segments, is worthy of further consideration by the Board. We believe any changes to the income statement should be reflected in the segment disclosures, necessitating that a review of segments follow the re-examination of the income statement. Segment disclosures assist users in evaluating performance *in the context of* the primary financial statements, and in many cases, form the basis for accompanying commentary in MD&A and other communications. We believe the ability to disclose additional segment performance measures, if used by management to assess segment performance, would enhance the relevance of the segment disclosures. We also suggest reconsideration of the aggregation criteria, which are difficult to apply in practice.

The statement of cash flows would also benefit from a re-examination; it seems to suffer from an identity crisis. Users clearly need and value information about cash flows, but from potentially two different perspectives: (1) an ability to generate cash flows in the future for purposes of developing an enterprise value (performance/income statement focus) and (2) an ability to generate cash flows to service debt and meet other financial obligations as they come due (liquidity/balance sheet focus). As described in GAAP today, the statement of cash flows essentially serves as a reconciliation of the beginning and ending balance of cash and cash equivalents, a balance sheet line item. If the objective of the statement is to report performance on a cash basis, as implied by one potential solution in the ITC that would more closely link the income statement and the statement of cash flows, then the overall purpose and design of the statement needs to be reconsidered. The Board may also wish to consider whether the statement should be re-oriented to report an intermediate measure of cash flow, defined by GAAP, that would be similar to EBITDA, a prevalent non-GAAP measure that is a proxy for the ability to generate cash from operations. Reconciling from net income to cash flows using a measure of performance without regard to how the entity is capitalized or taxed could provide users with sufficient decision-useful information such that a non-GAAP alternative would not be necessary.

If the statement of cash flows is instead used to provide a measure of liquidity, then we believe cash flows should be addressed in a separate project.

Distinguishing liabilities from equity

While we believe distinguishing liabilities from equity is a significant issue that warrants further standard setting, we would prioritize it behind reporting financial performance because we believe decisions in that project could influence potential solutions, or the acceptability of potential solutions, to this problem. The determination of whether an instrument is a liability or equity is an important decision that affects not only balance sheet classification but the selection of its measurement attribute and whether any measurement changes or related cash flows from interest or dividends are recognized through the income statement. Making this determination has become very challenging as financial instruments have become increasingly complex, often containing characteristics of both liability and equity. Navigating the existing guidance is challenging, even for seasoned professionals, and different accounting outcomes can arise from differences in contractual terms that are often nonsubstantive.

Given the evolution of these instruments over time, it has been challenging for the accounting standards to keep pace. Numerous patches to the literature have led to a complicated system that is more dependent on legal form than substance, and, as a result, not always reflective of economic reality.

We believe the FASB should first address performance reporting, in particular how remeasurements of financial instruments should be reported, before undertaking a holistic reconsideration of the distinction between liabilities and equity. Until the performance reporting project is completed, we propose that the FASB make two specific targeted improvements: (1) enable preparers to disregard remote scenarios in the equity versus liability classification question and (2) rationalize the accounting models for convertible instruments to focus on a single model that more faithfully represents the true economic cost of the instrument.

Intangible assets
With regard to intangible assets, we acknowledge the apparent disconnect between comprehensively recognizing them in a business combination and not recognizing internally-generated intangible assets. Some companies' most vital assets—intellectual property, patented technology, brand names—do not appear on their balance sheets, thus raising questions about the relevance of the balance sheet. Recording certain intangibles on the balance sheet could be a first step in providing additional information about an entity's financial position. However, we believe it would be challenging to identify the transition point, outside of a business combination, when an intangible asset, distinct from goodwill, has been created that should be recognized and measured. As a result, while we believe this is an area that warrants attention, especially given the number of existing models in GAAP for accounting for research and development costs, the Board should approach this area with some caution.

Which assets should companies record, and when? Given the wide range of intangible assets, it will likely be challenging to develop a new accounting model for all of them. As such, we recommend a phased approach, focusing first on software, which is arguably one of the more "tangible" intangible assets.

Pensions and postretirement benefits
Finally, while we acknowledge the long-standing criticisms of the reporting model for pension and other postretirement benefits, we believe such arrangements are less prevalent than they were historically and, thus, would carry a lower priority. However, we also recognize that for many companies, pension and postretirement benefit arrangements are significant to their financial position, especially when viewed on a gross basis.

Therefore, until the reporting of financial performance is enhanced in such a way that remeasurements might be more easily distinguished from core operating performance, the Board may wish to consider providing a policy choice that would permit immediate recognition of plan amendments, along with the policy choice to immediately recognize actuarial gains and losses. In addition, we also observe that measurement guidance for some hybrid plans (e.g., cash balance plans) would be helpful in achieving greater consistency in measurement.

* * * * *

Notwithstanding our observation about the need to consider the cost of change in developing new standards, regardless of the major projects the Board decides to take on, it should continue to allocate sufficient resources to address practice issues as they arise.

Our answers to the specific questions in the ITC provide more detail on our views and are included in the Appendix. We also look forward to the opportunity to participate in the upcoming roundtable discussion on this topic in November.

If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152.

Very truly yours,

PricewaterhouseCoopers LLP

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Appendix

Question 0.1: Are there major financial reporting issues that are not considered in this ITC that should be addressed by the FASB before any of the issues discussed in the ITC are addressed? What are the considerations or criteria that you used to identify these issues? Please describe any of those issues and your perspective about how the FASB should resolve the issues.

No. We do not believe that there are other major projects that need to be addressed at this time. We made this determination by considering how each project would impact the relevance of financial reporting to users. Although we are not recommending any additional projects, we believe it is necessary to continue to address practice issues as they arise.

Question 0.2: What is your view about the priority of addressing the major financial reporting issues addressed in this ITC? In other words, is addressing one or more of the issues more critical than others? Please describe your assessment criteria and why you prioritized certain issues above others.

We view reporting financial performance as the most important because of its importance to users, its critical role in the ongoing relevance of the GAAP reporting framework, and its potential influence on the alternatives considered in distinguishing liabilities from equity.

Question 0.3: Is it necessary to resolve one or more of the issues before resolving others? In other words, is the resolution of any of the issues dependent upon the resolution of one or more other issues? Please identify any of the projects that should be completed before others and why.

Yes. Determination of the form and content of the performance statement, particularly any disaggregation or reorganization of the components of net income and the interaction with remeasurements currently reported in OCI, should be the Board's top priority.

Under current GAAP, the liability/equity distinction matters because liabilities flow through the income statement and equity does not. Certain income statement presentation alternatives may make that distinction less important. In addition, any changes to the income statement should be reflected in the segment disclosures.

Chapter 1—Intangible Assets (including Research and Development)

Question 1.1: Is the accounting for intangible assets (including research and development) a major financial reporting issue that the FASB should consider for improvement? Please explain why.

Yes. We believe the accounting for intangible assets is a major financial reporting issue that the FASB should consider for improvement, but as stated in our cover letter, believe other projects should be prioritized before it.

Currently, the accounting for intangible assets is not addressed by an overarching framework. There are various accounting models in US GAAP and another in IFRS, some of which yield inconsistent results. Consider the inconsistencies, for example, in the treatment of internally-generated assets versus those acquired in a business combination, or the treatment of internal-use software and software for sale under

US GAAP. In the case of software, the differences in accounting become more difficult to navigate as the line between software as a service and software sold to third parties becomes less distinct.

The inability to recognize internally-generated intangible assets is a gap in today's financial reporting framework that leads to questions about the continued relevance of the balance sheet. Recording certain intangibles on the balance sheet would be a first step in alleviating this concern.

Question 1.2: If yes, should the issue be addressed broadly for all intangible assets or should it first be addressed for a subset of intangibles (for example, research and development)? Please explain why.

We recommend a phased approach to addressing the accounting for internally-generated intangibles. Because each type of intangible asset (e.g., intellectual property, customer relationship, trade name) may require a different accounting model to produce decision-useful information, and because of the inherent challenges in identifying the recognition threshold for each type, we suggest that the FASB begin with intangibles that are likely to arise as a direct result of an entity's research and development activities (i.e., internally-generated intellectual property), specifically software.

We believe the FASB's examination of research and development activities should consider whether:

- it is still reasonable to differentiate between internal-use software (which includes software provided to customers as a service) and software licensed or sold to customers,
- the differences between software and other types of technology are sufficient to justify different accounting models,
- technological feasibility is an appropriate threshold for capitalizing development costs or whether another threshold, such as completion of the project being more likely than not or probable, may be more appropriate, and
- it would be appropriate to distinguish between research costs and development costs, as under IFRS.

Question 1.3: Which approach to addressing the issue is appropriate, considering the benefits and costs of each approach and why? If you recommend a recognition approach, please explain your view about (a) the threshold for recognizing the asset and (b) the measurement of the asset (cost or fair value). If you recommend a disclosure approach, please explain the disclosure objective and recommend what specific information should be disclosed. If you recommend an approach to adopt IAS 38, please explain any implementation concerns.

We recommend a recognition approach based on the cost of research and development activities similar to Alternative B. As noted in our response to Question 1.2, we suggest starting with a subset of research and development activities—those related to software—using a cost accumulation approach. We acknowledge the challenges in identifying the recognition threshold—the point at which the activities produce something discrete that has the ability to generate future economic benefits—and the somewhat arbitrary assignment of costs to the asset, which may not bear any economic relationship to the value of the asset. Conversely, we would be concerned with a model that requires recognition of internally-generated intangible assets at fair value. Finally, we do not believe a disclosure-only approach would produce sufficient comparability to be helpful to users.

Question 1.4: Recognition of an intangible asset if a threshold is met and measurement of that asset at fair value would likely result in (a) a gain in the period in which the asset initially is recognized and (b) gains or losses in each period for the change in the fair value of the asset. How should those initial and subsequent gains and losses be presented in the income statement?

As noted in our response to Question 1.2, we are not in favor of a fair value recognition model. If one were adopted, performance reporting alternatives relative to remeasurement gains/losses should be explored.

Chapter 2—Pensions and Other Postretirement Benefit Plans

Question 2.1: Is the accounting for pensions and other postretirement benefit plans a major financial reporting issue that the FASB should consider for improvement? Please explain why.

In consideration of other FASB agenda items, we do not think pensions and other postretirement benefit plans is a major financial reporting issue. While the assets and liabilities associated with these plans often represent a material balance sheet account, especially when viewed on a gross basis, we observe that relatively few companies—public or private—are offering new pension plans. However, we would be supportive of considering targeted improvements in two areas: (1) providing a policy election for immediate recognition of plan amendments (see additional commentary in our response to Question 2.2) and (2) providing additional measurement guidance for obligations under so-called "hybrid" plans (see additional commentary in our response to Question 2.5).

Issue 1—Delayed Recognition (Smoothing) in Earnings

Question 2.2: Would Alternative A (see paragraphs 2.15–2.16) and/or Alternative B (see paragraphs 2.17–2.19) improve the usefulness of financial information provided to users and be operable?

We suggest a more targeted and narrow improvement in this area. We note that a number of companies have elected to recognize actuarial gains and losses immediately in net income. We recommend expansion of the accounting policy choice to plan amendments, which is not currently permissible under GAAP. In addition to allowing for immediate recognition of the income statement effects of changes in market conditions or plan terms, this would greatly simplify the accounting for certain defined events, such as curtailments and settlements, which we believe would enhance the understandability of reported results.

Question 2.3: If you support Alternative A (convergence with IAS 19), would you recommend any modifications to IAS 19 or would you expect any implementation issues? Please explain why.

We do not support Alternative A. Although we favor convergence with IFRS when attainable, US GAAP currently requires recycling all elements of OCI, and IFRS does not recycle in this area. We believe all non-owner changes in equity should ultimately be reported in net income.

Question 2.4: Are there other approaches to consider for addressing the issue of delayed recognition in earnings? If so, please provide them in sufficient detail so that the FASB can consider your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

Please see our response to Question 2.2.

Issue 2—Measurement of Defined Benefit Obligation

Question 2.5: Is the current measurement of a defined benefit obligation appropriate? If not, what changes do you suggest and why (for example, what characteristics of plans are not adequately reflected in the current measurement of the benefit obligation)?

Although we acknowledge the criticisms of the existing measurement model for defined benefit pension plans, we believe the model is well understood and consistently applied in practice today. However, that model was developed for traditional pension arrangements in which employees are entitled to retirement benefits that are typically a function of years of service and/or wages over their careers.

The use of cash balance plans has significantly increased over the last decade. In these plans, the benefit is expressed in terms of an account balance rather than a monthly or annual annuity benefit. Because the existing measurement guidance does not specifically address these types of plans, we have observed diversity in practice. As such, we suggest that the FASB consider providing guidance on the measurement of the obligation for these types of plans. We caution against attempting to define a new category of plan (e.g., hybrid plans), but instead recommend that the FASB focus on the development of measurement guidance that could support alternative benefit structures.

Potential Path Forward

Question 2.6: What approach (that is, targeted improvements or comprehensive reassessment) would you recommend and why?

We recommend targeted improvements only. Please see our responses to Questions 2.1, 2.2, and 2.5.

Question 2.7: Are there other issues for pension and other postretirement benefit plan accounting that should be considered for improvement?

No. However, we refer to our comments on the exposure draft, *Compensation–Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, that would result in disaggregation of pension costs on the income statement. If the Board proceeds with that project, then we recommend adding a project to consider more holistically whether the single unit of account for all aspects of a pension plan is still appropriate.

Chapter 3—Distinguishing Liabilities from Equity

Question 3.1: Is the accounting for distinguishing liabilities from equity a major financial reporting issue that the FASB should consider for improvement? Please explain why. In making your assessment, what criteria were used (for example, is the issue not sufficiently addressed in current GAAP, or is it addressed in a way that makes compliance costly or creates diversity in practice because the guidance is conceptually or economically flawed)?

Yes, distinguishing liabilities from equity is a major financial reporting issue. The determination of whether an instrument is a liability or equity affects not only a fundamental balance sheet classification distinction, but also the selection of a measurement attribute and whether any resulting measurement changes or related cash flows from interest or dividends are recognized through the income statement. Making this determination is challenging given the increasing complexity of financial instruments, often containing characteristics of both a liability and equity, and the complex patchwork of accounting standards that exist for these instruments, which tends to rely more on legal form than economic substance.

Question 3.2: Is the issue of distinguishing between liabilities and equity a financial reporting issue that requires a holistic approach to resolve as opposed to targeted improvements? Please explain why.

We believe distinguishing between liabilities and equity will likely require both a holistic approach and targeted improvements. Issues exist in practice today that can be resolved through targeted improvements in advance of a longer-term, holistic reconsideration. As noted in our cover letter, we believe that holistic reconsideration could depend on some of the decisions made in the project on reporting financial performance and should be sequenced following that project.

The holistic reconsideration is both a conceptual and standards-level challenge. Although the tension from the treatment of remeasurements of liability instruments in the income statement may be alleviated by changes to the performance reporting model, the fundamental question of how the elements of liability and equity are defined would still need to be addressed. However, the definitions of liability and equity elements are not distinct. Equity is the residual category (assets less liabilities), although many of the existing standards (and interpretations from regulators) attempt to prescribe equity classification for some instruments issued in the form of shares.

In terms of targeted improvements, we recommend the FASB begin with:

- *Reducing the number of accounting models for convertible instruments*
  GAAP currently contains four models for convertible debt:

  1. Bifurcation of a derivative (fair value for the derivative and residual value for liability)
  2. Separation of convertible debt with a cash conversion option (fair value for liability, residual value for equity-linked conversion option)
  3. Separation of a beneficial conversion feature (BCF) (intrinsic value of the conversion feature, residual value for the liability)
  4. Accounting for the instrument as a liability in its entirety (originally from Accounting Principles Board Opinion No. 14)

  We believe a separation model that incorporates elements of the derivative bifurcation and the cash conversion models would more accurately reflect the economic substance of convertible debt. The derivative bifurcation model accounts for the debt component as debt and the embedded equity conversion option the way a freestanding warrant with the same terms would be accounted for. The cash conversion model accounts for the debt component as debt and the embedded equity conversion option in a manner similar (but not identical) to the way a freestanding warrant with the same terms would be accounted for. As a result, the income statement impact would be very similar regardless of whether the instrument is considered a convertible instrument or a debt instrument with a detachable warrant. In addition, such a model would bring US GAAP closer to the current accounting for convertible debt under IFRS.

  In addition to the four models for debt, there is yet another model for convertible preferred stock that depends on the nature of the preferred stock that tends to be somewhat form-based. When preferred stock is deemed to be a "debt host," the derivative bifurcation model is used. When it is deemed to be an "equity host," no embedded conversion features are bifurcated because they are considered clearly and closely related to the equity host. We suggest that the FASB also re-examine the accounting for convertible preferred stock and consider if it should mirror the debt models.

- *Disregarding remote scenarios when determining liability or equity classification*
  Current GAAP (codified from EITF Issue 00-19) requires an issuer to consider *any* possibility under which cash settlement could be required when determining classification of an instrument. It is often difficult for an issuer to assess whether there is *any* possible scenario under applicable securities laws and regulations that may result in mandatory cash settlement. Furthermore, requiring liability classification for an instrument solely on the basis that a remote circumstance could trigger the possibility of cash settlement seems inappropriate and is contrary to having the accounting reflect the economic substance of the transaction. As a result, we propose a model that disregards events that could require cash settlement if they have a remote chance of occurring.

- *Reorganizing the literature*
  In conjunction with targeted changes, the FASB should consider reorganizing the literature to provide more sequential guidance for the assessment of the classification of an instrument as liability or equity. This should be subject to appropriate due process to ensure that no unintended changes occur or that changes are understood and accepted.

Question 3.3: Are there other alternatives for simple instruments that the FASB should consider for resolving the issue of distinguishing between liabilities and equity? If so, please provide the alternatives in sufficient detail such that the FASB can consider your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

As described in our response to Question 3.2, we propose a different approach that does not depend on a "simple" versus "complex" designation of the underlying instruments.

Question 3.4: Are there other alternatives for addressing the financial reporting issues with conversion options in complex instruments that the FASB should consider? If so, please provide sufficient detail such that the FASB can consider your proposal(s). Please provide your rationale for why your proposal provides the users of financial statements with more useful information.

As described in our response to Question 3.2, we propose a different approach that does not depend on a "simple" versus "complex" designation of the underlying instruments.

Question 3.5: Considering the alternatives described for simple instruments, which alternative provides more useful information to the users of financial statements and why?

As described in our response to Question 3.2, we propose a different approach that does not depend on a "simple" versus "complex" designation of the underlying instruments.

Notwithstanding that view, Alternative B provides a better starting point for deliberations. Alternative A is overly restrictive in that only perpetual instruments would qualify as equity. However, we believe some nonperpetual instruments (e.g., a forward contract on the entity's equity) that directly participate in earnings, losses, and residual net assets should be considered equity.

In addition, Alternative A is problematic for forms of organization other than corporations. A number of entity types, such as partnerships and cooperatives, do not have traditional capital structures. Many entities have various redemption or distribution mechanisms that View A would preclude from equity classification even though they directly participate in the earnings, losses, and residual net assets of the entity.

Question 3.6: Considering the alternatives described for complex instruments, which alternative provides more useful information to users of financial statements and why?

As described in our response to Question 3.2, we propose a different approach that does not depend on a "simple" versus "complex" designation of the underlying instruments.

Question 3.7: Which provides more useful information to the user of financial statements: remeasuring liability classified instruments at fair value or at intrinsic value? Please provide the rationale for your choice.

This question may be best answered by users, who can provide insights as to whether fair value or intrinsic value would provide more decision-useful information.

Question 3.8: Are there instances in which the remeasurement of liability-classified instruments at each reporting period is not useful? If so, which instances and why?

Similar to our response to Question 3.7, we believe this question may be best answered by users.

Chapter 4—Reporting Performance and Cash Flows

Income Statement

Question 4.1: Is income statement presentation a major financial reporting issue that the FASB should consider for improvement? Please explain why. In making your assessment, what criteria were used?

Yes. We consider the project on reporting financial performance, in particular, income statement presentation, to be the highest priority project for the FASB's future agenda. As we indicated in our cover letter, maintaining and enhancing the relevance and usefulness of the financial statements is of the utmost importance. The proliferation of non-GAAP measures and the evolution of the manner in which financial information is consumed requires a reassessment of whether the existing income statement model is suitable for today's capital markets.

In addition, some of the presentation alternatives in the ITC (e.g., separately identifying remeasurements) could alleviate concerns with potential solutions in other projects, such as distinguishing liabilities from equity.

Question 4.2: How should the components of net income be categorized, if at all? If the FASB were to develop an operating activities category and display a subtotal for operating income, how should the category be defined or described?

Many companies already present an income from operations, or operating income, subtotal. However, given the variety of industries and business models and the attendant variations in the manner in which operating income is determined, we believe it would be very challenging for the FASB to develop a definition of income from operations that could be broadly applied across industries. Rather than focusing on subtotals or categories of net income, we believe it would be more effective to consider disaggregation of the components of income (line items) between transactions and remeasurements, recurring and nonrecurring transactions, and core and noncore activities.

Question 4.3: Could an operating activity category be defined or described consistently and effectively for all types of reporting entities (for example, entities involved in financial services, investing, banking, and financing)?

Please see our response to Question 4.2.

Question 4.4: How should the FASB evaluate the benefits of a standardized definition versus a management determination of an entity's operating activities?

Please see our response to Question 4.2.

Question 4.5: Which, if any, of the three alternatives described for combining or separating items provides more useful information to users of financial statements, and why?

We believe Alternative B, distinguishing remeasurement gains and losses from other activities, would provide more useful information to financial statement users because it provides greater qualitative information that users may find helpful in assessing those elements that have predictive value.

Question 4.6: Are there other alternatives for presenting lines within the income statement that the FASB should consider?

In light of the expanded use of computer-automated consumption and analysis of financial information and users' desire for proprietary arrangement of that information to suit their needs, we believe the challenge will be how to define elements of performance. In addition, establishing the boundary of the primary financial statements will be challenging given that based on the proliferation of non-GAAP measures, the traditional financial statements may not be fully meeting users' needs. In our view, disaggregating line items between transactions, remeasurements, and core and non-core activities would provide the most decision-useful information. This would be a combination of Alternatives A and B.

While some users may find disclosure of the nature of expenses to be useful, we do not believe it would be broadly relevant. Therefore, we do not support Alternative C.

Segment Reporting

Question 4.7: Is segment disclosure a major financial reporting issue that the FASB should consider for improvement? In making your assessment, what criteria were used?

In general, financial statement users desire greater disaggregation. One relevant dimension of disaggregation is by segment. As a result, we believe segment reporting warrants continued focus. Segment disclosures assist users in evaluating performance in the context of the primary financial statements, and in many cases, form the basis for accompanying commentary in MD&A and other communications.

Question 4.8: Considering the three alternatives described for improving aspects of the Topic 280 disclosure requirements, which, if any, alternative provides more useful information to the users of financial statements and why?

We believe Alternative A, presenting additional performance subtotals for segments (if used by the chief operating decision maker), would provide more decision-useful information to financial statement users. However, a rigid standardization of the presentation of segment disclosures is inconsistent with the flexibility inherent in the management approach and may be challenging to apply across a wide range of industries and business models.

Question 4.9: Would the described improvements to (a) reexamine the aggregation criteria and (b) apply the segment standard from a governance perspective provide more useful information to users of financial statements and why?

(a) The aggregation criteria in ASC 280 have proven challenging to apply in practice and would benefit from re-examination. However, we are aware that users generally prefer greater disaggregation of information, which suggests that permitting aggregation or greater flexibility in aggregation may be viewed unfavorably by the user community.

(b) Implicit in the management approach to segment reporting is the notion that the information management uses internally to run the business is valuable to users. A board will generally receive information at a more aggregated level than that used by the chief operating decision maker to allocate resources and assess performance. As a result, we agree with the statement in the ITC that a governance approach would result in less information being provided to users. Rather than focusing on the information provided to a governance body, we recommend enhancing the guidance for identifying operating segments to specifically refer to other aspects of the organization's structure besides the chief operating decision maker and discrete segment managers.

Question 4.10: Are there other alternatives for improving segment reporting that the FASB should consider? If so, please provide them in detail to help the FASB in considering your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

Overall, we believe any improvements to segment disclosures should be based on what users consider important to their decision making. Specific suggestions are outlined in our responses to Questions 4.8 and 4.9.

Other Comprehensive Income

Question 4.11: Is the presentation of other comprehensive income a major financial reporting issue that the FASB should consider for improvement? In making your assessment, what criteria were used?

Yes. We believe that the presentation of OCI should be considered when the income statement is addressed. As noted in our cover letter, many challenging standard setting debates seem to emanate from the distinction between net income (performance) and other comprehensive income. A redesigned performance statement that clarifies the purpose of both net income and OCI could answer many questions in other projects, or at least determine that those questions are still valid and worthy of the Board's attention.

Question 4.12: Considering the two alternatives described for minimizing the use of reclassification adjustments, which alternative provides more useful information to the users of financial statements and why?

We believe net income is the primary performance indicator and OCI is a reflection of those changes in assets and liabilities that are not recognized in net income. Because of the importance that most users place on net income, we believe all items of income and expense should ultimately be reported in net income once the reason for the initial exclusion from net income no longer applies. As a result, we do not support either alternative in the context of the existing reporting model.

Question 4.13: Do the described improvements to (a) remove the option for presenting comprehensive income over two statements and (b) emphasize other earnings per share measures improve the relevance of the performance information included in other comprehensive income?

In our experience, users focus on net income and earnings per share; they do not appear to be focused on comprehensive income or per-share measures of comprehensive income. Thus, the two-statement approach seems to be meeting the needs of users.

With respect to computing and reporting a per share amount for comprehensive income, we believe that any changes should be supported by feedback that users would find this information useful. Calculating diluted per share amounts involves a number of complications that would likely be equally challenging in the context of comprehensive income.

On these bases, in our view, neither of the proposed alternatives would enhance the usefulness of the financial statements. However, as noted in our response to Question 4.11, we believe that OCI should be considered as part of income statement presentation.

Question 4.14: Are there other alternatives for improving the relevance of other comprehensive income that the FASB should consider? If so, please describe them in detail to help the FASB in considering your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

We have no other alternatives to suggest.

Cash Flow Statement

Question 4.15: Is the presentation of cash flows a major financial reporting issue that the FASB should consider for improvement? In making your assessment, what criteria were used?

One of the fundamental objectives of general purpose financial reporting is to provide users with information to assess an entity's ability to generate future cash flows. In addition, a key aspect of many questions of asset and liability recognition and measurement relates to the entity's ability to produce cash flows or requirement to expend cash. The statement of cash flows is therefore presumptively critical to the ability of financial statements to serve their objective. However, the manner in which the statement of cash flows is presented and some of the recent decisions on how certain items should be classified in the statement raise a more fundamental question with regard to its purpose.

ASC 230 indicates that the objectives of the statement of cash flows, when combined with information in the other financial statements, are to help investors and creditors assess (1) liquidity, (2) the entity's ability to generate positive future net cash flows, (3) the reasons for differences in net income and cash flows, and

(4) the effects of cash and non-cash investing and financing transactions. These four objectives could lead to some confusion as to whether the primary purpose of the statement is focused on the balance sheet and liquidity or the income statement and performance.

Including the statement of cash flows in the discussion of reporting financial performance, and in particular a proposal to link cash flow presentation to the income statement, suggests that the emphasis of the statement is to assist users in projecting future cash-generating performance. Also, the recent exposure draft on the presentation chapter of the Conceptual Framework reinforces this notion by indicating that the statement helps to assess "profitability."

Because the cash flow statement is currently prepared and presented as a reconciliation of the beginning and ending balance of cash and cash equivalents, a balance sheet line item, we observe that many users have sought a proxy for their version of operating or "performance" cash flow in the form of EBITDA or similar non-GAAP measures. Once the purpose of the statement is clarified, it may be worth exploring whether those sorts of non-GAAP proxies could be replaced with information obtained directly from the statement of cash flows.

Question 4.16: Do you recommend that the FASB retain or reconsider the three-category structure and the definitions of operating, investing, and financing activities within the statement of cash flows?

Please see our response to Question 4.15.

If the* FASB *Maintains the Current Three-Category Structure and Definitions:

Question 4.17: What specific cash flows should be disaggregated in the future that are not being disaggregated today and is that disaggregation feasible?

Our experience suggests that sufficient disaggregation exists in the current investing and financing categories. In the operating section under the indirect method, the most prevalent method in practice, no actual cash payments or receipts are presented; it is simply a reconciliation of net income and changes in balance sheet captions. Further disaggregation of those items is not likely to produce useful information about cash flows. Therefore, we do not support further disaggregation.

Question 4.18: What specific cash payments and receipts are in need of additional classification guidance?

Please see our response to Question 4.15. However, if the Board decides not to undertake a comprehensive reconsideration of the statement of cash flows, we are aware of a number of specific classification questions that have been provided to the FASB that indicate that additional interpretive guidance is needed.

If the* FASB *Reconsiders the Current Three-Category Structure and Definitions:

Question 4.19: How should the cash flow statement be categorized, if at all? Considering the three alternatives that would reconsider the current structure of the cash flow statement, which, if any, alternative provides more useful information to users of financial statements and why? How should the FASB define or describe those categories?

Please see our response to Questions 4.15 for thoughts on the form and content of the statement of cash flows. Assuming the objective of the statement is to present cash flow-generating *performance*, Alternative C, which would establish a linkage between accounting performance and cash performance, would be most appropriate. Regardless of the outcome of the reconsideration of the purpose of the statement, we do not support Alternative A, which would result in a fourth "residual" category, or Alternative B, which would be based on internal management designations and as a result, would reduce comparability.

Question 4.20: How should the FASB evaluate the benefits of a standardized structure versus a management determination to classification of cash flows?

We do not support a management approach to classification within a primary financial statement as it would reduce comparability.

Question 4.21: If you prioritize a standardized structure and recommend an operating activities category, how should the Board evaluate the benefits of aligning the description or definition of that category across the income and cash flow statements?

Similar to our view that defining operations on the income statement would be challenging given the variety of industries and business models, we do not believe it is worthwhile to define operating activities in the statement of cash flows. However, as described in our responses to Questions 4.15 and 4.19, if the objective of the statement of cash flows is to report performance, then the presentation of the statement of cash flows should be linked to the presentation in the income statement.

Question 4.22: Are there other alternatives for improving the cash flow statement that the FASB should consider? If so, please describe in detail to help the FASB in considering your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

Given the evolution of treasury and cash management practices and the development of various products in the marketplace to absorb or create short-term liquidity, it may be worth revisiting the definition of cash equivalents.

Further, under the current reporting framework, we believe the decision-usefulness of the statement of cash flows would be enhanced by greater clarity about the impact of non-cash transactions. Currently, there is a specific requirement to disclose non-cash investing and financing activities, but it is not required on the face of the statement of cash flows and there is no similar requirement to report non-cash operating activities. Because non-cash transactions are not presented together with similarly classified cash flows, preparers sometimes impute cash flows for non-cash transactions in an attempt to understand the overall activity within each category. One suggestion would be to present non-cash transactions relevant to each classification category next to the subtotal of cash flows in that category to provide more transparency as to the impact of non-cash transactions.

Paths Forward

Question 4.23: What type of project or projects do you recommend that the FASB prioritize to improve the reporting of performance and cash flow information? If you recommend multiple projects or different combinations, please explain the recommended sequencing of those projects.

We believe a holistic and comprehensive project is the best approach to improving financial performance reporting and the statement of cash flows. We understand this approach may be more challenging and take longer to complete, but it would consider the interactions between statements and we believe would ultimately result in a better outcome. In certain projects, we believe targeted improvements could provide some shorter-term relief until the primary projects, the income statement and OCI, are resolved.

Question 4.24: What issues and solutions should be addressed within those projects? Please consider the priority of pursuing the issues and solutions.

Please see our responses to the other questions within Chapter 4.