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October 21, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Invitation to Comment, *Agenda Consultation* (File Reference No. 2016-290)

Dear Technical Director:

We appreciate the opportunity to comment on the FASB's Invitation to Comment (ITC), *Agenda Consultation*. As the Board nears completion of its projects on long-duration insurance contracts and hedging, having recently issued major standards on revenue, leases, and financial instruments recognition and measurement and impairment, we believe it is an appropriate time for the Board to make a fresh assessment of the projects that it should undertake over the medium and longer term. We commend the Board for its outreach to constituents in that regard.

Priorities

We encourage the Board to continue its work on the projects currently on its agenda, particularly those on the conceptual and disclosure frameworks, and to reserve some resources to address unforeseen practice issues that may arise and to support constituents' implementation efforts related to the adoption of its new standards on revenue, leases, and financial instruments. In particular, we believe the Board's work on its conceptual and disclosure frameworks (including financial statement boundaries) should remain a high priority. In view of the existing constraints on its resources, we believe the Board should limit the number of major projects on its active agenda. To ensure meaningful progress on the areas that are of most pressing importance, we recommend that the Board prioritize work on the four major topics identified in the ITC as follows:

1. Distinguishing liabilities from equity
2. Reporting performance and cash flows
3. Intangible assets
4. Pensions and other postretirement benefit plans

Distinguishing Liabilities from Equity

We believe the issues related to distinguishing liabilities from equity and reporting performance and cash flows are more pressing than the issues related to intangible assets and pensions and

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other postretirement benefit plans. Distinguishing liabilities from equity is a critical building block that affects all of the basic financial statements. The proliferation of complex financial instruments that have characteristics of both liabilities and equity has made differentiating liabilities from equity increasingly challenging. In addition, current GAAP on this topic lacks a consistent conceptual underpinning and is complex and fragmented in large part because the topic has been addressed on an ad hoc basis.

We do not believe the Board can make meaningful progress on reporting performance and cash flows without also addressing the topic of distinguishing liabilities from equity and vice versa. We recognize that there are different perspectives about which issue should be tackled first – liabilities and equity or reporting performance – given the extent to which each affects the other. Our perspective is that liabilities and equity should be the Board’s top priority because it pertains to elements of the financial statements. We believe decisions about those elements should be a primary driver of the Board’s decisions about performance reporting and cash flows rather than the reverse.

We believe the Board should approach projects on distinguishing liabilities from equity and improving reporting performance and cash flows on a holistic basis. Although it is possible that the Board could make incremental targeted improvements to the guidance on distinguishing liabilities from equity while also undertaking a holistic project, we are not convinced the benefits would make that worthwhile since doing so runs the risk of perpetuating the ad hoc approach that has resulted in the current state of GAAP on this topic. In addition, that approach risks developing guidance that may ultimately be inconsistent with the guidance developed under a holistic approach. We recognize the challenges of a holistic approach, but we believe it will ultimately be the best solution and come at a long-term lower overall cost to the financial reporting community and financial statement users than either a series of narrow projects or multiple broad projects.

Reporting Performance and Cash Flows

Along with work on distinguishing liabilities from equity, we believe the other top priority for the Board from the topics identified in the ITC should be reporting performance and cash flows. The increasing use of non-GAAP measures, most of which pertain to an organization’s operating results, along with a shift away from paper-based consumption of financial information by investors, calls for an updated performance reporting framework to ensure that financial information provided in accordance with GAAP remains relevant to financial statement users. We believe that essential elements of the project on performance reporting and cash flows are (1) the importance of a cohesiveness concept (as articulated in the previous joint project of the FASB and IASB) on the presentation of performance and cash flow information and (2) the role of other comprehensive income (OCI) – specifically whether OCI is intended to be a performance measure (which should affect questions such as whether items should be reclassified from OCI to

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net income and whether EPS information should be provided on OCI and comprehensive income).

For purposes of the income statement, we believe it would be worthwhile for the Board to work on developing guidance on operating versus nonoperating income because this information is highly relevant to financial statement users. It seems likely that industry considerations ultimately may become a necessary element of the guidance since a definition of operating would need to reflect the entity's business model. We believe it is likely that operating and nonoperating income would need to include impacts of remeasurements and infrequently occurring transactions. We recommend that the Board pursue an approach under which those effects are displayed separately within each category because that will make it easier for users to distinguish transactions or elements with greater predictive value from other transactions or elements.

The presentation of OCI is integral to the presentation of net income and we believe the Board should consider both together. OCI has been used on an ad hoc basis for making distinctions between operating and nonoperating, recurring and nonrecurring, and core and noncore that, as the ITC discusses, could be made in the income statement. It has also been used when there is disagreement about recognition and measurement attributes of assets and liabilities (e.g., whether fair value is a relevant measurement attribute for assets and liabilities). However, OCI currently does not have a conceptual underpinning. As a result, the guidance in GAAP on when transactions should be reflected in OCI and when amounts included in accumulated OCI should be recognized in the income statement is inconsistent. We are not convinced that it is necessary to retain OCI if the Board is able to comprehensively address income statement presentation in a manner that appropriately disaggregates categories and elements of net income.

We believe there is currently insufficient alignment of the statement of cash flows with the income statement and insufficient clarity about how to classify individual transactions in the statement of cash flows. In addition, while the statement of cash flows currently reconciles to the income statement as well as other changes in assets and liabilities, we believe users are principally focused on the cash flow effects of transactions presented in the income statement, and secondarily focused on the cash flow effects of other changes in assets and liabilities. As part of a holistic project on reporting performance and cash flows we recommend that the Board reconsider the three-category structure and related definitions of the cash flows statement. In our view it is not critical to differentiate between investing and financing activities for cash flow impacts that do not relate to activities captured in the income statement.

The guidance on segment reporting also should be reconsidered as part of a holistic project on reporting performance and cash flows. Financial statement users have access to data analysis tools that give them the capability to digest ever-more-disaggregated information, including information about an organization's operating segments. However, the current guidance for identifying operating segments was designed in the context of paper-based periodic (e.g.,



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quarterly) internal reporting methods. It has not adapted well to today's electronic-based information access and communication methods. We believe requiring segment information to be presented in a more structured manner along with greater disaggregation of that information will be necessary to make it more relevant to users.

Intangible Assets

When the Board has the capacity, we believe it would be worthwhile to address the issues related to intangible assets. Transactions involving intangible assets are a pervasive aspect of doing business in many industries. Differences in the accounting for those assets based on their nature and whether they are purchased or acquired in a business combination, an asset acquisition, or internally developed make meaningful comparisons between companies more difficult, which impacts the relevance and usefulness of the financial statements. We believe these differences in financial reporting create a need for the Board to add a project to its agenda to address the issues after it makes sufficient progress on the issues related to distinguishing liabilities from equity and reporting performance and cash flows.

We believe a project on intangible assets should begin with development of a framework that could be broadly applied to all such assets and then that framework should be applied in stages to subsets of intangibles beginning with research and development. We have provided our thoughts about a potential recognition threshold for intangible assets under development along with subsequent measurement guidance upon completion of those assets in our responses to the questions in the ITC.

Pensions and Other Postretirement Benefit Plans

While the accounting for pensions and other postretirement benefits clearly is in need of improvement, we believe it should be the lowest priority of the four major financial reporting topics included in the ITC and does not warrant a major project by the Board. Relatively few companies offer defined benefit plans to new employees, so the impact of such plans on the financial statements broadly speaking is diminishing. We recommend that the Board limit its work in this area to targeted improvements as discussed in our responses to the questions in the ITC.

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KPMG's responses to the Board's specific questions are included in the Appendix. We look forward to the opportunity to discuss our views at one of the roundtable sessions the Board is hosting on this topic in November.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Prabhakar Kalavacherla at (415) 963-8657 or pkalavacherla@kpmg.com.

Sincerely,

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Appendix – Responses to the Board’s Questions

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.*

We believe the issues identified in the ITC are those that are in greatest need of the Board’s standard-setting efforts at this time. We also believe it is important for the Board to reserve some capacity to address unforeseen practice issues while it is working to address the broad issues identified in the ITC. In addition, we believe the Board should engage in research around how technology has changed the way that financial information is delivered and consumed and what information consequently is relevant to users of financial information. It is our sense that the relevance to investors of GAAP financial information is decreasing as their methods of financial analysis and the manner in which technology is employed to assist in that analysis evolve. While it is not always possible to respond to a particular user’s needs, we believe it is critical for the FASB to take a leadership role in reversing this trend by reconsidering how GAAP should be adapted (both the GAAP information and how and when it is disseminated) to remain relevant and keep pace with the technological developments that have contributed to this situation.

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 believe the issues related to distinguishing liabilities from equity and reporting performance and cash flows are more pressing than the issues related to intangible assets and pensions and other postretirement benefit plans. Distinguishing liabilities from equity is a critical building block that affects all of the basic financial statements. Developing an updated performance reporting framework is essential to ensure that financial information provided in accordance with GAAP remains relevant to financial statement users. We do not believe the Board can make meaningful progress on reporting performance and cash flows without also addressing the topic of distinguishing liabilities from equity and vice versa. We recognize that there are different perspectives about which issue should be tackled first – liabilities and equity or reporting performance – given the extent to which each affects the other. Our perspective is that liabilities and equity should be the Board’s top priority because it pertains to elements of the financial statements. We believe decisions about those elements should be a primary driver of the Board’s decisions about performance reporting and cash flows rather than the reverse. We also believe that essential elements of the project on performance reporting and cash flows are (1) the

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importance of a cohesiveness concept (as articulated in the previous joint project of the FASB and IASB) on the presentation of performance and cash flow information and (2) the role of other comprehensive income (OCI) – specifically whether OCI is intended to be a performance measure (which should affect questions such as whether items should be reclassified from OCI to net income and whether EPS information should be provided on OCI and comprehensive income).

We expect that projects on distinguishing liabilities from equity and reporting performance and cash flows could well consume most of the Board's available resources for a number of years. However, when the Board has the capacity, we believe it would be worthwhile to address the issues related to intangible assets. Transactions involving intangible assets are a pervasive aspect of doing business in many industries. Currently the accounting for those assets varies depending on their nature and whether they are purchased or acquired in a business combination, an asset acquisition, or internally developed. These differences affect both the balance sheet and the income statement, making meaningful comparisons between companies more difficult, which in turn impacts the relevance and usefulness of the financial statements. We believe these differences in financial reporting create a need for the Board to add a project to its agenda to address the issues after it makes sufficient progress on the issues related to distinguishing liabilities from equity and reporting performance and cash flows.

While the accounting for pensions and other postretirement benefits clearly is in need of improvement, we believe it should be the lowest priority of the four major financial reporting topics included in the ITC and does not warrant a major project by the Board. Relatively few companies offer defined benefit plans to new employees, so the impact of such plans on the financial statements broadly speaking is diminishing. We would be supportive of the Board making targeted improvements in this area as discussed in our responses to the questions on Chapter 2 of the ITC.

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. As discussed in our response to Question 0.2, distinguishing liabilities from equity is a critical building block that affects all of the basic financial statements. We do not believe the Board can make meaningful progress on reporting performance and cash flows without also addressing the topic of distinguishing liabilities from equity because it pertains to elements of the financial statements. We believe decisions about those elements should be a primary driver of the Board's decisions about performance reporting and cash flows rather than the reverse.

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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. Transactions involving intangible assets are a pervasive aspect of doing business in many industries. Currently the accounting for those assets varies depending on their nature and whether they are purchased or acquired in a business combination, an asset acquisition, or internally developed. These differences affect both the balance sheet and the income statement, making meaningful comparisons between companies more difficult to make, which in turn impacts the relevance and usefulness of the financial statements. Notwithstanding the challenges identified in the ITC, we believe these differences in financial reporting make this is an important project for the Board to undertake. However, we believe other projects should be given a higher priority on the Board's agenda.

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 are supportive of an approach whereby the Board develops a framework that could be broadly applied to all intangible assets and then applies that framework in stages to subsets of intangibles beginning with research and development. We believe it is important for the Board to establish a framework before developing asset-level guidance because otherwise inconsistencies in the asset-level accounting models may continue to exist. However, we favor applying the framework in stages to subsets of intangibles to provide constituents the opportunity to work through application issues that may arise in a more manageable fashion.

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 an approach like Alternative B in the ITC. We believe the Board should explore a recognition threshold for costs incurred related to intangible assets under development that is similar to the threshold used for determining whether a valuation allowance is required for uncertain tax positions. If the Board were to establish such a threshold, we recommend that the Board consider as part of the asset-level guidance for specific types of intangibles whether, once development is complete, the asset should be remeasured to fair value as though it was newly

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acquired in a business combination. We believe the existing (or revised) subsequent measurement guidance that applies to intangible assets acquired in a business combination should apply after development is complete. We do not believe a disclosure approach is a satisfactory alternative to recognition in the financial statements.

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?*

We believe fair value remeasurement (if any) on completion of a recognized intangible asset (refer to our response to Question 1.3) should flow through the income statement in the same manner as a bargain purchase gain in a business combination. As indicated in our response to Question 1.3, we do not advocate ongoing fair value remeasurement of intangible assets because it is costly and may not be decision-useful to users.

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.*

While the accounting for pensions and other postretirement benefits clearly is in need of improvement, we believe it should be a lower priority among the four major financial reporting topics included in the ITC and does not warrant a major project by the Board. In particular, we do not believe the Board should expend its time and resources reconsidering whether the projected (or accumulated postretirement) benefit obligation is an appropriate measurement attribute for the obligation. Relatively few companies offer defined benefit plans to new employees, so the impact of such plans on the financial statements broadly speaking is diminishing. We would be supportive of the Board making targeted improvements in this area as discussed in our responses to the other questions from this chapter of the ITC, but only if there are sufficient resources to allow projects on the other higher-priority topics identified in the ITC to proceed in a timely and comprehensive fashion.

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 believe Alternative B is operable and would improve the usefulness of financial information provided to financial statement users. Eliminating smoothing and recognizing actuarial

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gains/losses and prior service cost/credit immediately in earnings would increase the comparability of financial statements, and reflect the current economic cost of defined benefit plans without delay. However, if an IAS 19 approach (Alternative A) is ultimately more compatible with the Board's work on performance reporting, including work on whether OCI is intended to be a performance measure, we would be supportive of that alternative since it would result in greater convergence with IFRS.

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.*

As discussed in Question 2.2, our support for Alternative A depends on whether it is ultimately more compatible with the Board's work on performance reporting than Alternative B. We believe Alternative B is similar to IAS 19 apart from the recognition of remeasurements in the income statement rather than OCI.

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.*

We have not identified other approaches for addressing the issue of delayed recognition in earnings. Other approaches would likely involve ongoing delayed recognition in earnings or a more comprehensive reconsideration of the accounting in this area which we do not support as discussed in our response to Question 2.1.

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)?*

We do not recommend that the Board expend significant time or resources reconsidering the measurement guidance for defined benefit obligations. If the Board decides to make targeted improvements in this area, we believe it should focus on guidance regarding the interrelationship between discount rates and measurement of the interest and service cost components of net periodic benefit cost.

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Potential Path Forward

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

As discussed in our response to Question 2.1, we recommend that the Board limit its work in this area to targeted improvements.

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

We believe the Board could provide additional guidance relating to the accounting for cash balance plans, which have become increasingly commonplace. Currently there is a lack of guidance about how to measure the obligation for many of these plans. In general, we favor a measurement approach that would reflect the notional obligation of the plan at the reporting date.

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 critical building block that affects all of the basic financial statements. Differentiating liabilities from equity has become increasingly challenging with the proliferation of complex financial instruments that have characteristics of both liabilities and equity. In addition, current GAAP on this topic lacks a consistent conceptual underpinning and is complex and fragmented.

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.*

Yes. Existing GAAP on this topic is complex and fragmented in large part because the topic has been addressed on an ad hoc basis. Although it is possible that the Board could make incremental targeted improvements while also undertaking a holistic project, we are not convinced the benefits would make that worthwhile since doing so runs the risk of perpetuating the ad hoc approach that has resulted in the current state of GAAP on this topic. In addition, that approach risks developing guidance that may ultimately be inconsistent with the guidance developed under

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a holistic approach. We believe there is significant linkage between reporting performance and this topic, further supporting the need for a holistic rather than a targeted improvements approach. It seems unlikely that the Board can make meaningful progress on reporting performance and cash flows without also addressing this topic and vice versa.

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 part of a holistic approach to distinguishing between liabilities and equity, We believe the Board may also want to consider a variation of Alternative B under which, in addition to all perpetual instruments, equity includes instruments that may require settlement before liquidation of an entity regardless of the form of settlement if upon settlement they are not potentially dilutive on both a book value and fair value basis to the other instruments that are considered equity. For example, if Instrument A could require settlement in cash prior to liquidation of Entity B at an amount equal to Instrument A's proportionate share of Entity B's net book value, where net book value represents the aggregate of only the most subordinate interests in Entity B, Instrument A would qualify as equity because the net book value of each other instrument considered equity in Entity B would not change on settlement of Instrument A. (If Instrument A were dilutive on a book value basis but not on a fair value basis to the other instruments considered equity in Entity B, then Instrument A would also qualify as equity under this approach.) Under this alternative approach all other non-perpetual instruments would be considered liabilities regardless of the form of settlement. This approach would provide financial statement users relevant information because it focuses on whether a non-perpetual instrument could potentially reduce a residual interest holder's proportionate interest in an entity if the non-perpetual instrument were considered equity. We believe the appeal of this approach likely would depend to a great extent on the Board's decisions in a project on reporting performance and cash flows.

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.*

We believe that separately accounting for the components of complex instruments under an approach like Alternative A is likely to provide the most useful financial reporting information in this area. This is most likely to avoid form-driven outcomes that would result in significantly different financial reporting for economically similar transactions.

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

We believe the Board should focus on Alternative B in the ITC or the variation on that approach described in our response to Question 3.3. Alternative A would exclude some instruments from equity classification that are residual interests even though they may not be perpetual. In addition, Alternative A appears to be designed primarily for corporations rather than other types of entities such as partnerships. As a result, we believe it is a suboptimal alternative. Please also see our responses to the questions in Chapter 4 of the ITC.

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

As discussed in our response to Question 3.4, we believe an approach like Alternative A is most likely to provide relevant information to financial statement users. It is less susceptible than other approaches to financial reporting outcomes that may not reflect the economic substance of transactions.

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.*

We believe financial statement users are best positioned to respond to this question. However, it seems likely that a single remeasurement approach may not provide the most useful information for all types of liabilities. For example, the remeasurement approach that is most useful for share-settled liabilities may be different than the remeasurement approach that is most useful for cash-settled liabilities.

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?*

We believe financial statement users are best positioned to respond to this question.

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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. It is critically important for the Board to address the issues around income statement presentation identified in the ITC so that the financial statements remain relevant to users. The increasing use of non-GAAP measures, most of which pertain to an organization's operating results, along with a shift away from paper-based consumption of financial information by users, suggests that authoritative guidance on income statement presentation is in need of reconsideration. The Board's decisions in this area are likely to affect or be affected by its decisions about other topics, 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?*

We believe it would be worthwhile for the Board to work on developing guidance on operating versus nonoperating income because this information is highly relevant to financial statement users. Either Alternative A or Alternative B as described in the ITC could produce viable guidance that would improve the information provided to users. However, it seems likely that industry considerations ultimately may become a necessary element of the guidance as contemplated in Alternative B since a definition of operating would need to reflect the entity's business model. In our view, there is significant overlap between the notions of operating, core, and recurring. All are based on the essential ongoing activities in which an organization is principally engaged for the purpose of generating returns for its equity investors. Conversely, nonoperating, noncore, and nonrecurring activities are incidental to operating activities. If the Board were to develop guidance on operating and nonoperating categories of net income, we believe it is likely that both categories would need to include impacts of remeasurements and infrequently occurring transactions. We believe the income statement would be most useful if those effects were displayed separately within each category because it would be easier for users to distinguish transactions or elements with greater predictive value from other transactions or elements.

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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)?*

While we believe it is possible to define an operating category broadly for all types of reporting entities, it seems likely that the Board would also need to provide industry-based guidance on how the definition is applied in a manner that reflects an entity's business model.

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

This is a matter that the Board will need to evaluate primarily based on user input. However, in general, we believe there is nearly always merit in establishing a principle together with application guidance that requires the use of judgment to comply with the core principle. In our view the key is to ensure that the core principle is clearly articulated and understandable and that the application guidance is designed to preserve comparability among entities that are similarly situated.

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?*

Alternative B, as discussed in our response to Question 4.2.

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

Please refer to our response to Question 4.2. We encourage the Board to focus on non-paper-based methods of delivering financial information in its approach to this project, given the ease and frequency with which financial information is now conveyed electronically and the data analysis tools that are available to evaluate that information. This reality calls for a greater level of disaggregation in financial information than paper-based communication methods.

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?*

Yes. Financial statement users have access to data analysis tools that give them the capability to digest ever-more-disaggregated information. This includes information about an organization's operating segments. However, the current guidance for identifying operating segments was

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designed based on paper-based periodic (e.g., quarterly) internal reporting methods. It has not adapted well to today's electronic-based information access and communication methods. In addition, the other issues identified in the ITC suggest that this aspect of financial reporting is in need of improvement.

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 financial statement users are best positioned to respond to this question. In our view it is likely that Alternative B would provide more useful information to users. Although that alternative does not require disclosure of information that is not regularly reviewed by the CODM, the structured manner in which the disclosure is presented likely would more readily highlight areas of operations for which users may want to better understand why information is not regularly reviewed by the CODM. However, if the Board decides to require greater disaggregation in the income statement, even Alternative C (which is the least prescriptive of the three alternatives) may provide more useful information to financial statement users.

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?*

We believe financial statement users are best positioned to respond to this question. In our view the Board should reconsider the aggregation criteria, although we are not convinced that bright-line thresholds are a preferable solution. We understand that financial statement users generally desire more disaggregation of operating segments than is required by the current segment reporting requirements. We agree that the governance perspective approach is likely to result in greater aggregation, not disaggregation, of segment information. Therefore we believe it is not likely to be more useful to users and it is probably not worthwhile for the Board to expend significant time and effort developing that approach.

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.*

We believe financial statement users are best positioned to respond to this question.

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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. The presentation of OCI is integral to the presentation of net income and we believe the Board should consider both together. OCI has been used on an ad hoc basis for making distinctions between operating and nonoperating, recurring and nonrecurring, and core and noncore that, as the ITC discusses, could be made in the income statement. It has also been used when there is disagreement about recognition and measurement attributes of assets and liabilities (e.g., whether fair value is a relevant measurement attribute for assets and liabilities). As indicated in the ITC, OCI currently does not have a conceptual underpinning. As a result, the guidance in GAAP on when transactions should be reflected in OCI and when amounts included in accumulated OCI should be recognized in the income statement is inconsistent. We are not convinced that it is necessary to retain OCI if the Board is able to comprehensively address income statement presentation in a manner that appropriately disaggregates categories and elements of net income as discussed in our response to Question 4.2.

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 financial statement users are best positioned to respond to this question. If OCI is retained as a component of presenting total changes in assets and liabilities in a manner that essentially is not intended to be a performance measure as seems to be the case currently, it is difficult for us to envision OCI impacts not eventually flowing through net income (i.e., being reclassified) based on how OCI is currently used in GAAP. However, if the Board were to pursue one of the alternatives described in the ITC, we believe that Alternative A is likely to be the better approach because it is more holistic and therefore more likely to result in consistent outcomes in individual standards-level guidance.

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?*

We do not have strong views about whether the option for presenting OCI over two statements should be eliminated without having a clearer picture of other changes that the Board may make to the presentation requirements for the income statement. However, we believe there is significant evidence that users find earnings per share (EPS) measures based on net income to be

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useful. It is less clear that they would find EPS measures based on total comprehensive income to be useful. Likely this is because it is unclear whether the Board intends for comprehensive income to be evaluated as a performance measure.

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 are not convinced that it is necessary to retain OCI if the Board is able to comprehensively address income statement presentation in a manner that appropriately disaggregates categories and elements of net income as discussed in our response to Question 4.2.

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?*

Yes. We believe there is currently insufficient alignment of the statement of cash flows with the income statement and insufficient clarity about how to classify individual transactions in the statement of cash flows. We believe these issues have contributed to the significant number of financial statement errors involving the statement of cash flows and the need for recent standard setting. In addition, while the statement of cash flows currently reconciles to the income statement as well as other changes in assets and liabilities, we believe users are principally focused on the cash flow effects of transactions presented in the income statement, and secondarily focused on the cash flow effects of other changes in assets and liabilities.

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?*

We recommend that the FASB reconsider the three-category structure and related definitions. We believe the Board should focus on aligning the statement of cash flows with the income statement based on its development of operating results as discussed in our response to Question 4.2. In our view it is not critical to differentiate between investing and financing activities for cash flow impacts from other changes in assets and liabilities. We believe the overarching consideration for the Board in evaluating how the statement of cash flows should be organized and what details it should include is whether the resulting information contributes to the ability of users to predict an entity's future cash flows. Aligning the statement of cash flows with the income statement is likely to facilitate a user's ability to make such predictions.

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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?*

As indicated in our response to Question 4.16, we recommend that the statement of cash flows be closely aligned with the income statement. Accordingly, the specific disaggregation of cash flows would depend on the decisions the Board makes about operating results and disaggregation in the income statement. As discussed in our response to Question 4.2, we believe users likely would benefit from further disaggregation in the income statement. The systems and data analysis tools now available to reporting entities should make tracking cash flows in a way that articulates with more disaggregated income statement information feasible at a reasonable cost. Because cash is fungible, we recognize that an element of judgment will be a necessary aspect of identifying the cash flows associated with activities depicted in the income statement. As a result, we believe the Board also should develop disclosure requirements for entities to describe the methods and judgments used to associate cash flows with specific activities in the income statement. We do not believe there is a significant need for further disaggregation of cash flow impacts from other changes in assets and liabilities.

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

As discussed in our previous responses, we recommend that the Board undertake a holistic reconsideration of the presentation of cash flows along with a holistic reconsideration of income statement presentation. We do not recommend that the Board provide targeted guidance relating to specific cash payments and receipts other than the guidance the EITF is currently developing.

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?*

We prefer for the Board to explore Alternative C as described in the ITC, consistent with our responses to Questions 4.15 – 4.17. We believe two categories may be sufficient to address the needs of financial statement users, but we encourage the Board to engage more directly with users in making that determination. We believe it is not necessary to establish a fourth category as proposed by Alternative A. In addition, we believe Alternative B could result in inconsistencies

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between the statement of cash flows and the income statement as well as a lack of comparability between entities. Accordingly, we prefer that the Board not pursue that alternative.

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

A standardized structure, based on the development of operating activities as described in our response to Question 4.2, is more likely to facilitate comparisons between entities and should produce greater consistency between the statement of cash flows and the income statement. As a result, we prefer a standardized structure.

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?*

We believe an operating activities category should be a natural by-product of aligning the statement of cash flows with a revamped income statement. The primary benefit of such alignment is that the resulting information is likely to contribute to the ability of users to predict an entity's future cash flows.

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.*

If the Board decides not to undertake a holistic reconsideration of cash flow statement presentation requirements we believe it would be worthwhile to consider eliminating the indirect method of reporting cash flows from operating activities. We believe the direct method provides information for users that has better predictive value than the information provided by the indirect method. The systems and data analysis tools now available to reporting entities should make tracking the information necessary to present operating cash flows using the direct method feasible at a reasonable cost.

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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.*

As discussed in our responses to the other questions in Chapter 4 of the ITC, we believe the Board should approach a project to improve reporting performance and cash flows on a holistic basis. We recognize the challenges of a holistic approach, but we believe it will ultimately be the best solution and come at a long-term lower overall cost to the financial reporting community and financial statement users than either a series of narrow projects or multiple broad projects.

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 in Chapter 4 of the ITC.