Project **Financial Statement Presentation**

Topic **Analyst Field Test Results**

Purpose

1. This paper summarizes the results of the analyst portion of the field test. The field test was conducted to test the proposals in the October 2008 discussion paper *Preliminary Views on Financial Statement Presentation* (DP).

2. At their respective September meetings, the staff will present the findings of the analyst portion of the field test to the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) [collectively, the boards]. Those discussions represent the culmination of work to be completed on the field test. However, the staff expect to incorporate the findings from both the analyst and preparer portions of the field test in subsequent board papers as support for alternatives developed on deliberation topics.

Background

3. The purpose of the field test is two-fold, to:

   (a) Determine whether the proposed presentation model improves the usefulness of the information in an entity's financial statements to users in making decisions in their capacity as capital providers

   (b) Understand the costs of implementing the proposed presentation model and identify any unintended consequences in applying that model.

4. The field test consists of three parts:

(a) **Preparer information**: recast financial statements, preparer responses to a post-completion survey, and cost estimates to implement the proposed presentation model.

(b) **Quantitative information** that will provide a description of the additions, changes, and movements of line items between the non-recast and recast financial statements.

(c) **Analyst information**: responses to a survey about their review of specific recast and non-recast financial statements.

5. The **preparers** were asked to recast financial statements for any two consecutive years using the principles and guidance in the DP and complete a survey about their recasting experience. Results of the preparer portion of the field test were provided to the boards in May 2009 (see FASB Memorandum #61 and IASB small group meeting paper dated 15 May 2009). In June, the staff provided the boards with **quantitative** summary information about selected attributes that were tracked between the non-recast and recast versions of the financial statements submitted by field test participants (see FASB Memorandum #62 and IASB small group meeting paper dated 8 June 2009).

6. The **analyst** portion of the field test consisted of 43 individual analysts completing a survey about their review of two different versions of an entity's financial statements—financial statements as currently presented (non-recast) and financial statements presented in accordance with the proposed presentation model (recast). The survey consisted of multiple choice, ranking, and open ended questions. For many of the questions, there was an opportunity to either explain or provide an alternate answer. Analysts were not asked to manipulate any of the financial statement amounts or produce any metrics for the field test.

7. The survey used in the analyst portion of the field test duplicated some questions asked in the preparer survey in order to compare the perceptions of the two groups on particular aspects of the proposed presentation model. This board paper also compares the analyst responses to survey questions with the preparer responses to similar survey questions where appropriate. *Italic* text is used to identify the preparer participant responses.

Summary of analyst responses

8. The majority of analysts that completed the survey indicate that they rely on an entity's annual report for more than 50% of the information they use in their analysis. The respondents indicate that they rely somewhat equally on the primary statements and the notes.

9. Nearly 60% of the respondents use or create a primary performance metric from the income statement that uses net income as its foundation. About 40% of the respondents identify a debt/equity ratio as the primary performance measure they use or create from the balance sheet. The most important components to the top three metrics used or created by this group of respondents were debt, cash flow, equity, and EBITDA. About 20% of the top three metrics identified by the respondents had a least one component that was characterized as an "operating" measure.

10. Respondents rank "increased disaggregation" as the most useful aspect of the proposed presentation model and the management approach to classification as the least useful aspect. *Preparers ranked the management approach the most useful aspect while increased disaggregation was ranked third.*

11. Most respondents agree with the proposed definitions of *operating* and *financing*. The respondents were split evenly regarding the definition of *investing*. Most of the respondents think the recast financial statements are better at presenting the operating and investing results of the companies they reviewed. However, only half think the recast statements are better at presenting the results of the entity's financing activities.

12. Cohesiveness enhanced the usefulness of the income statement and the cash flow statement the most. However, the respondents rank this aspect of the proposed presentation model fifth out of six in terms of overall usefulness.

13. The direct method presentation of cash flows was ranked as the third most useful aspect of the proposed presentation model. For the sub-group of respondents that reviewed Bank Corp's financial statements, this was ranked second in usefulness. Most respondents thought the recast statement of cash flows (SCF) was more decision useful than the non-recast version and had an appropriate

amount of disaggregation. *Preparers ranked the direct method presentation of cash flows as the least useful aspect in terms of communicating their financial results.*

14. About 70% of the respondents indicate that the reconciliation schedule enhanced the decision usefulness of the financial statements they reviewed. The “cash” and the “accruals and allocations” columns were cited as the most useful on the proposed reconciliation schedule.

15. The majority of respondents do not think that the recast statements present the entity’s liquidity and financial flexibility any better than the non-recast statements.

Description of field test process

16. A variety of methods were employed to solicit analysts to participate in the field test. Calls for participants went out through the FASB and IASB staff, the Joint International Group, the Financial Institution Advisory Group, and the American Accounting Association. Requests for participants were also posted on the FASB and the IASB website along with a link for analysts to register their interest. Out of 105 individuals that initially volunteered and registered to participate, 68 participants confirmed their availability to participate, and 43 individuals ultimately completed the analyst field test survey.

17. For reasons related to Regulation FD and similar market listing rules previously discussed with the boards, the recast financial statements prepared by preparer field test participants were not used in the analyst portion of the field test. Instead, the staff combined and masked the non-recast and recast financial statements of the two preparer participants from the steelworks industry. Analyst participants reviewed either this amalgamated set of financial statements for Steelworks or one set of illustrative financial statements presented in the discussion paper (ToolCo or Bank Corp).

18. The financial statements provided to participants included:

    (a) balance sheet/statement of financial position

    (b) income statement/statement of comprehensive income

(c) statement of cash flows

(d) reconciliation schedule (for recast version only).

19. Participants reviewing ToolCo or Bank Corp also received a statement of changes in equity and supplementary notes regarding the entity and some of its transactions.

20. Participants reviewing Steelworks did not receive a statement of changes in equity nor supplementary notes regarding the entity. However, staff incorporated other comprehensive income items that were identifiable from the non-recast financial statements (ie separate statement of other comprehensive income or statement of changes in equity) in the non-recast version of the income statement provided to the analyst participants.

21. Eighteen participants reviewed Steelworks, 18 reviewed ToolCo and 7 reviewed Bank Corp. The decision to review ToolCo or Bank Corp was left to the participant.

Demographics of test population

22. The analysts completing the survey identified their role in the financial reporting community as:

	Steelworks	**ToolCo** or **Bank Corp**	**Total**	**Percentage**
Equity analyst	3	7	10	23%
Credit analyst	2	15	17	49%
Academic	11	0	11	26%
Other	2	3	5	12%
Total	**18**	**25**	**43**	100%

23. Two-thirds of respondents indicate they are not industry or sector specialists. Those that are specialists cover a wide range of industries and sectors that include manufacturing, banking, and insurance.

24. Respondents’ familiarity with the discussion paper (DP) prior to participating in the field test vary as follows:

(a) read the entire DP (30%)

(b) read select portions of the DP (40%)

(c) only familiarity with the project is through the "snapshot" provided with the field test materials (21%)

(d) gained familiarity mainly through discussions with others (9%).

Survey results

25. The remainder of this paper presents the survey results. Paragraphs 27–36 summarize responses to questions in the survey that were structured to obtain insight from the participants about the sources of information they rely on and how they use the information from these sources. The participants' responses regarding the different aspects of the proposed presentation model are presented in paragraphs 38–71.

26. The results compiled from the analyst survey responses are not statistically meaningful and cannot be interpreted to represent the population of analysts as a whole. The test participants were self-selected and the number of participants was small. However, the results may provide some useful insights and provide a basis for further inquiry on certain issues.

Source of information relied on by respondents

27. About 70% of the respondents indicate that more than 50 percent of the information they rely on to make judgments in their work as analysts comes from the annual report, as follows:

    (a) Between 50-75 percent of the information they rely on is from the annual report (42% of analysts).

    (b) Between 75-90 percent of information they rely on is from the annual report (23% of analysts).

    (c) More than 90% of the information they rely on is from the annual report (5% of analysts).

28. Information outside the annual report, such as news releases, and financial and industry press, account for 10-25% of the information relied on by the analysts.

29. Based on survey responses, filings with market or industry regulators provide the least significant portion of information relied upon by the analysts More

than half indicate that 10% or less of their information comes from filings with market or industry regulators and 35% indicate that 10-25% of the information they rely on comes from this source. (See Figure A below.)

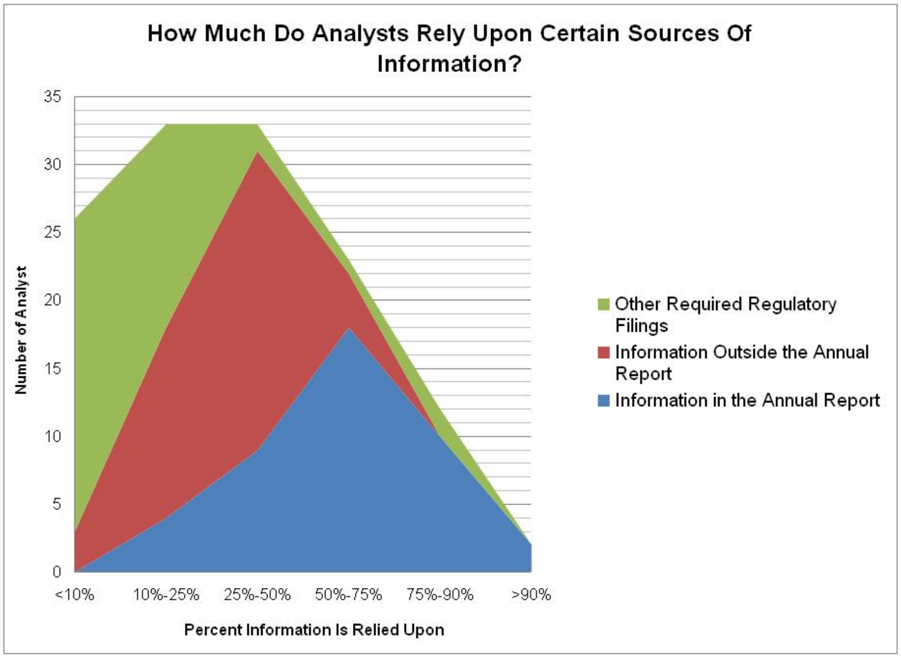

Figure A

30. Within the annual report, respondents indicate they rely somewhat equally on information from the primary statements and the notes to financial statements. Management's discussion and analysis/commentary is also a significant source of information for the respondents, however, the responses are skewed towards 50% or less of the relied upon information coming from this source. (See Figure B below.)

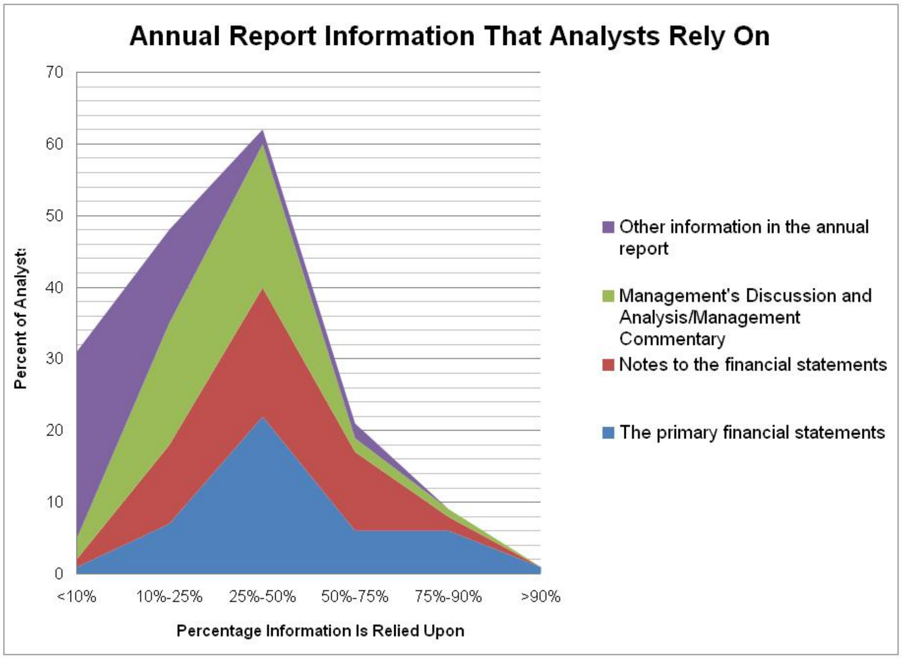

Figure B

Income statement metrics

31. The survey asked participants to indicate which primary performance metric they use or create from an entity's income statement. They were provided with the following options:
    (a) Net income
    (b) Pre-tax income
    (c) EBIT
    (d) EBITDA
    (e) Operating income
    (f) Comprehensive income
    (g) Other.

32. Operating income (31%) and EBITDA (27%) were identified as the two primary performance metrics that respondents use or create from an entity's income statement. Fifty-seven percent of the respondents identified a primary performance metric that uses net income as its foundation (pre-tax income would be in this group). (See Figure C below.)

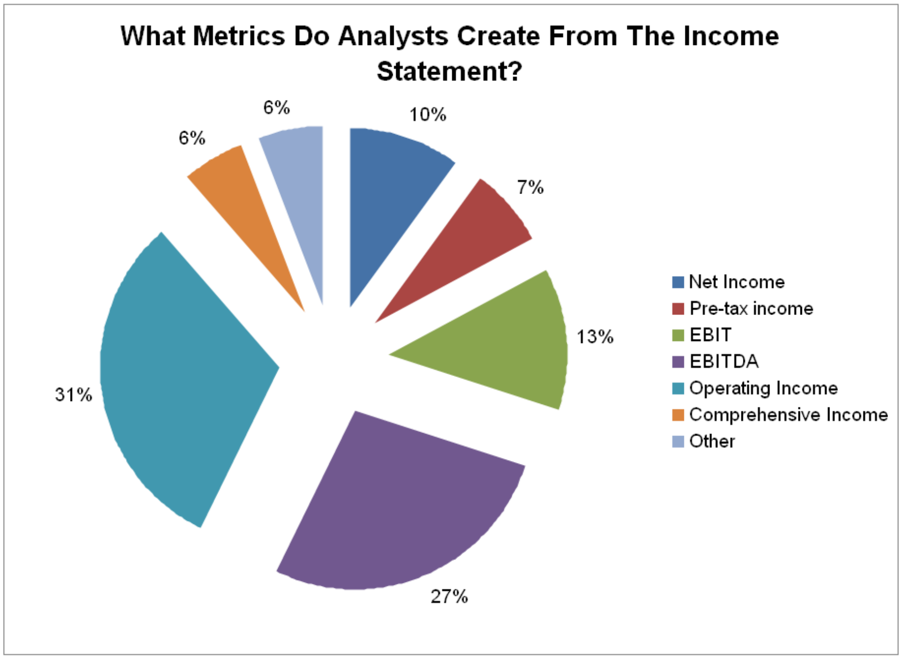

Figure C

33. The distinction between *net income* as a starting point and *operating income* as a starting point is highlighted here because it could have been a potential source of bias in the survey. Operating income is generally defined as: *Revenue* - *Cost of good sold* - *Operating expenses* - *Depreciation* and does not include investments in other firms, taxes, interest, or non-recurring items. Operating income is potentially most affected by the proposed presentation model. The proposed operating category and the resulting *operating income* subtotal could be significantly different under the proposed presentation model than the current general definition of this metric. The proposed *operating income* subtotal could include some or all of the items analysts currently exclude from their calculation of operating income. Additionally, the management approach to classification could result in the presentation of revenues and expenses in more than one section or category and an analyst may want to combine or move those items for their analyses. Therefore, respondents using the operating income metric may perceive the statements as less useful or more difficult to use if their definition of *operating* differs from that of management. However, it does not appear that this was an influencing factor in the responses of respondents who use an operating income metric, because a majority of this sub-group indicate that the operating category in the DP is appropriately defined.

Balance sheet metrics

34. Respondents identify a debt/equity ratio (41%) and total equity (21%) as the primary performance metrics they create or use from an entity's balance sheet. Ten percent indicate net operating assets and 9% indicate total assets are primary performance metrics. The majority of the respondents that identify a debt/equity ratio as their primary balance sheet performance metric agree that the financing section is appropriately defined in the DP. (See Figure D below.)

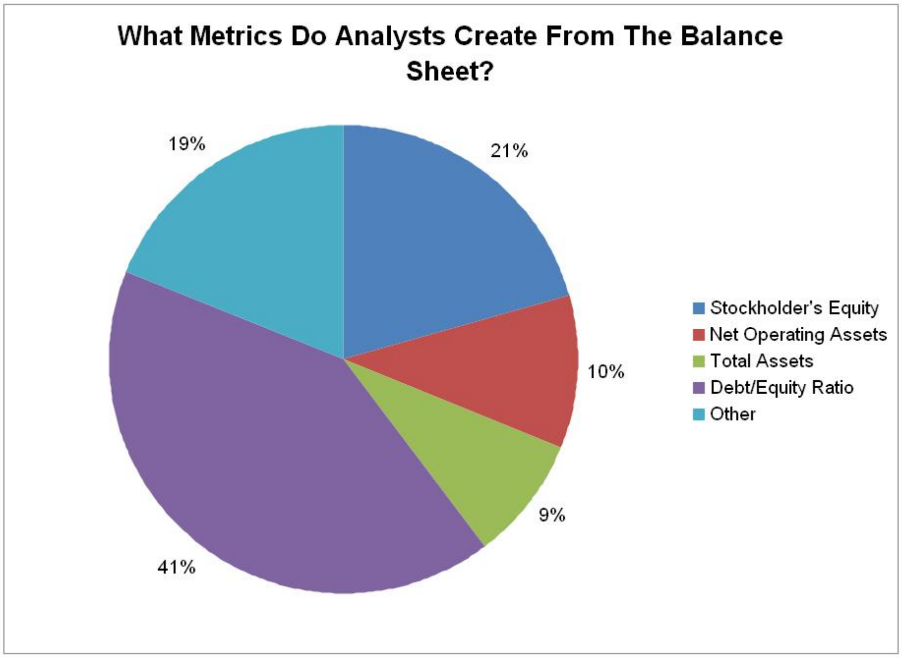

Figure D

Other important metrics

35. Analysts were asked in an open-ended question to provide the three most important metrics that they compute from an entity's financial statements overall. Out of 126 metrics provided, 20% of them had debt as a specifically identifiable component, 20% had some form of cash flow as a component, 15% had EBITDA as a component and 22% had some form of equity identified as a component. Many of the metrics identified consist of ratios with numerators or denominators that came from different financial statements. This appears to reinforce the importance of the interrelationship of the financial statements but not necessarily the cohesiveness of the statements. Twenty percent of the

metrics contain some component identified as *operating* (i.e. operating margins, cash flow from operations).

36. In valuing an entity or determining an entity's creditworthiness, 38% of the respondents indicate they use a discounted enterprise or free cash flow approach. Valuation multiples such as price-earnings ratios are used by 21% of the respondents.

Most useful aspects of proposed presentation model

37. A number of survey questions provided respondents with possible answers on a scale from for example *very useful* to *not very useful.* The method the staff used to rank the survey responses to those "scaled" questions does not assign any value to respondents' *somewhat useful* answers. The method also sets the minimum measure of "usefulness" at either *useful* or *better than* survey responses. The staff performed a weighted-average analysis on all the responses to the scaled responses to determine whether the relative number of *not at all useful* and *somewhat useful* responses would influence the rankings. In all cases the rankings remained the same. A "*useful* or *better than* as a benchmark" methodology was used throughout the results analysis.

38. Participants were asked to indicate the usefulness of the following six principle concepts in the proposed presentation model on a 5-point scale from *not very useful* to *very useful*:

    (a) management approach to classification

    (b) increased disaggregation

    (c) alignment of items in sections and categories across the statements (cohesiveness)

    (d) the reconciliation schedule

    (e) the direct method presentation of cash flows

    (f) the separation of business and financing activities.

39. Considering the number of respondents that indicate an aspect as either *useful* or *very useful*, the most useful aspects of the proposed presentation model are:

    (a) increased disaggregation (82%)

(b) the separation of business and financing activities (67%)

(c) the direct method presentation of cash flows (65%)

(d) the reconciliation schedule (63%).

40. The **fewest** number of respondents indicate that the management approach to classification and the alignment of items in sections and categories across the statements are *useful* to *very useful*. Therefore, those two aspects were ranked as the least useful. (See Figure E below.)

41. *Preparer's ranked the most useful aspects as:*

(a) Management approach

(b) Alignment of items in sections and categories across statements

(c) Increased disaggregation and liquidity/flexibility.

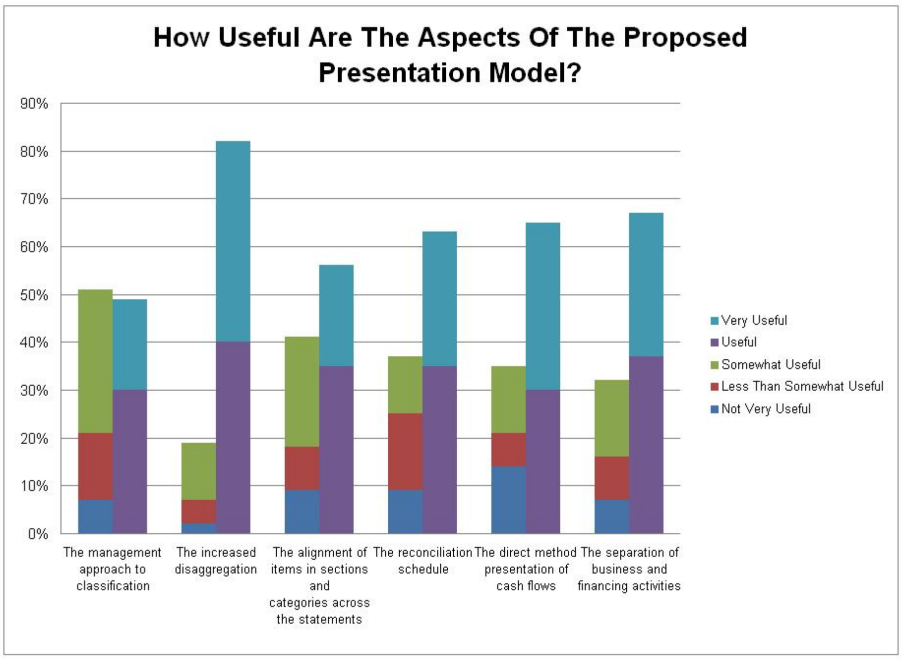

Figure E

Management approach to classification

42. Approximately 60% of the respondents think the management approach to classification will provide a truer view of the business. However, about 25% think it will provide management too much opportunity to present the business any way they want. The majority (70%) think this approach to classification will result in financial statements that are more decision useful. As noted above

and shown in Figure A, when asked to rate the usefulness of this aspect of the proposed presentation model, respondents rank it last, with only 49% responding that this aspect is *useful* or *very useful*.

43. However, when asked to explain why they think the management approach to classification will make the financial statements more decision useful, two-thirds of the explanations either included assumptions that could not be supported by the guidance in the DP or were not related to the concept of management approach. For example:

    (a) Over 20% of the explanations are based on assumptions that the proposed model would apply to segment reporting

    (b) About 15% of the responses are based on an assumption that "more information is better"

    (c) About 30% of the explanations appear to be related to other concepts or principles in the DP instead of the management approach.

44. In the remaining explanations that appear related to the management approach to classification, two main observations emerge:

    (a) There is some value in understanding management's view of the business even if it is just a starting point for additional questions to ask management.

    (b) The management approach will provide better groupings of information, such as a better distinction between business and financing activities or between core and non-core activities.

45. Those who think the management approach to classification will make the financial statements less useful cite inconsistency of interpretation and application between managers at different companies, and loss of comparability between companies. A more detailed example of this is discussed in paragraph 51(e) below.

Definitions of sections and categories: general

46. Respondents appear to be more comfortable with the definition of the operating category than the investing category. About 60% of the respondents agree with the definition of *operating* provided in the DP and 51% agree with the definition of *investing*. The majority of those that disagree with the definitions of those two categories indicate that they think they are too loosely defined.

47. About 60% of respondents agree with the definition of the financing section overall. Nearly 80% of the respondents indicate they view “treasury assets” as part of an entity’s financing activities. (*Treasury assets* is not a defined term in the survey or the DP.) Twenty-one percent thought *financing* was too strictly defined and 17% thought it was too loosely defined. *This is similar to the preparer’s responses except that they thought the financing section was too strictly defined.*

Operating and investing definitions: application

48. When asked how well the financial statements they reviewed communicate the results of the entity’s core operations (operating), 64% thought the recast statements capture the core-activities and results *clearly* or *very clearly*. Only 44% felt the recast statements clearly identify non-core (investing) activities of the entity they reviewed. (See Figure F below.)

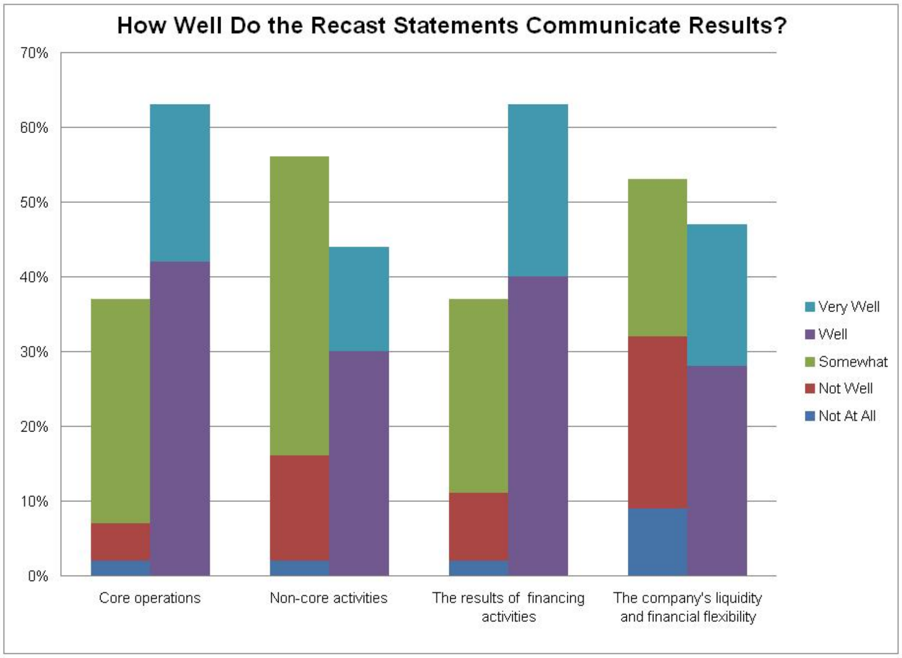

Figure F

49. However, when asked to compare the recast and the non-recast versions of the entity's financial statements, 84% said that the recast statements communicate the operating (core operations) better and 58% said that the recast statements communicate the results of investing activities (non-core) better. (See Figure G below.)

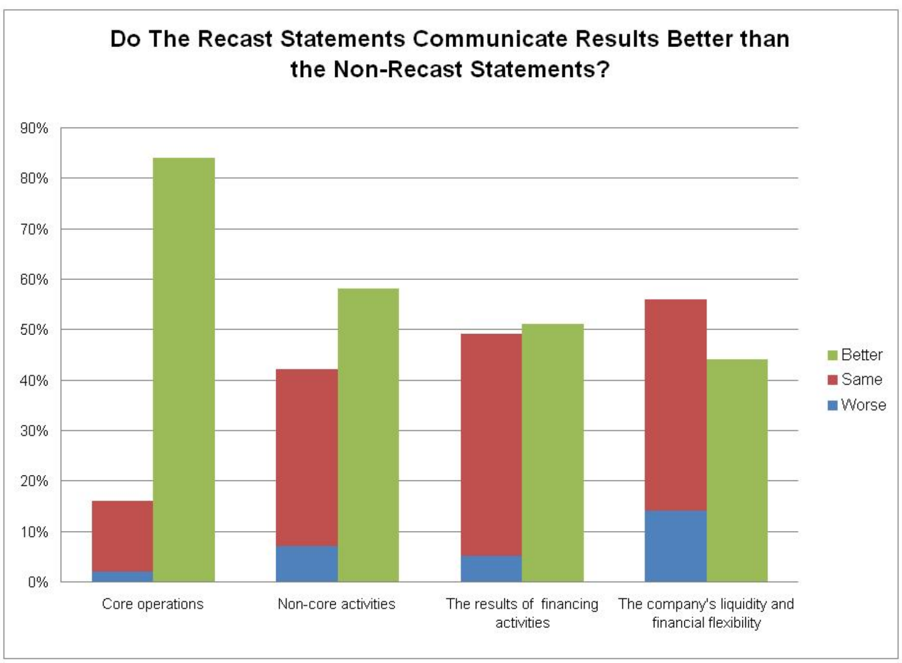

Figure G

50. *Preparers' responses regarding the communication of operating and investing activities in the recast statements were generally in line with the analysts' responses. However, the preparers do not think the recast statements provide as much incremental benefit over the non-recast statements. Only 50% think the recast statements do a better job at communicating the operating results and 32% think the recast statements are better at presenting the investing activities than the non-recast statements.*

51. In the financial statements provided for review, participants do not agree on the classification of several items in the operating section, primarily lease liabilities, interest on lease liabilities, and income taxes. Several thought lease liabilities and related interest should be classified as a financing item instead of an operating item. Likewise, several respondents comment that some income taxes should be presented as part of the operating category. Specifically, taxes should be split between operating and financing components. Other areas of concern are explained below:

    (a) Property, plant, and equipment (PP&E): The gains and losses on disposals of PP&E and capital expenditures are not related to day-to-day operations and therefore should not be included in the operating category. There are several possible explanations for this position. First, entities today are required to classify expenditures on and cash flows from PP&E as *investing* in the cash flow statement. Comments from the respondents also indicate that some of respondents separate expenditures for "maintaining" current capacity from "investing" in PP&E to expand capacity.

    (b) Investment in securities: It was unclear to some respondents why these are classified as operating when cash and short-term investments are classified as financing assets. The lack of robust note disclosures explaining the entity's classification policy could be a factor for this issue. [Also see discussion of consistency issues in (e) below.]

    (c) Sales of receivables: This was seen as a financing activity not an operating activity.

(d) Investment in associates/affiliates: Some respondents do not understand the classification of investments in associates/affiliates as investing. The lack of robust note disclosures explaining the entity's classification policy could be a factor for this issue. Some comments indicated there was too much leeway given to management to classify an item as operating or investing.

(e) Consistency issues: A number of respondents commented on what they perceived as inconsistent treatment in presentation of debt-related transactions and transactions involving cash, short-term investments, and investments in marketable securities. The underlying argument appears to be that there is a fundamental purpose for those two groups of transactions and that purpose is universally the same regardless of management's view of the transaction or account. Therefore, those accounts should be presented in the same category or section.

(i) For debt, this point was argued both directly and indirectly. For example, one respondent stated that all interest-bearing debt should be classified in financing, not split between operating, investing, and financing. They argue that the substance of the transaction is the entity borrowed an asset (or cash) which it will pay a usage fee (interest). The form of the transaction should not affect the classification. (Hence, all leases should be in financing.) In addition, respondents note that the interest associated with the debt should be readily identifiable. The classification of interest-bearing debt as financing and transparency of the related interest expense assists in determining the capital employed. Other arguments state that it is difficult to separate debt used to acquire fixed or intangible assets from debt used for operating (working) capital items such as the purchase of inventory. Therefore, classifying only specifically identifiable debt in operating (i.e. a specific loan for operating PP&E) and not classifying general debt in operating even though operating assets were obtained with that debt could be arbitrary and adversely affect comparisons between companies.

(ii) A similar issue was raised regarding marketable securities. In the Steelworks financial statements, some marketable securities were shown in a section different than cash and available-for-sale securities. Some respondents appear to view the accounts for cash, short-term investments, and marketable securities as all a means of "storing excess value" (cash) that is not currently required in the day-to-day operations of the business. There is a concern that all transactions for storing cash should be classified in the same section or category and should not be subject to interpretation by management.

(iii) Cash: Two respondents commented that cash or at least some portion of cash should be classified as operating.

Financing definition: application

52. Nearly 90% of the respondents indicate that they make a distinction between the operating and financing activities of the companies they evaluate. There was not a majority agreement on what debt they treated as financing with the following exceptions: (See Figure H below and note that the choices provided as answers to the participants are incremental in nature, that is, one element was added while maintaining all previous elements.) In the legend for Figure H, the description *All financial liabilities* is abbreviated from what was in the survey. The complete description in the survey is *All financial liabilities, such as bank loans, bonds and notes payable*.

(a) over 90% consider capital leases financing debt; additional comments indicate the majority of respondents would define all leases as financing debt (the *other* responses also included all leases)

(b) only 2% consider trade payables and other short-term operating "liabilities" as financing debt

(c) a significant portion of the respondents (58%) consider unfunded post-employment benefits and other non-financial obligations (i.e. asset retirement obligations) as financing debt.

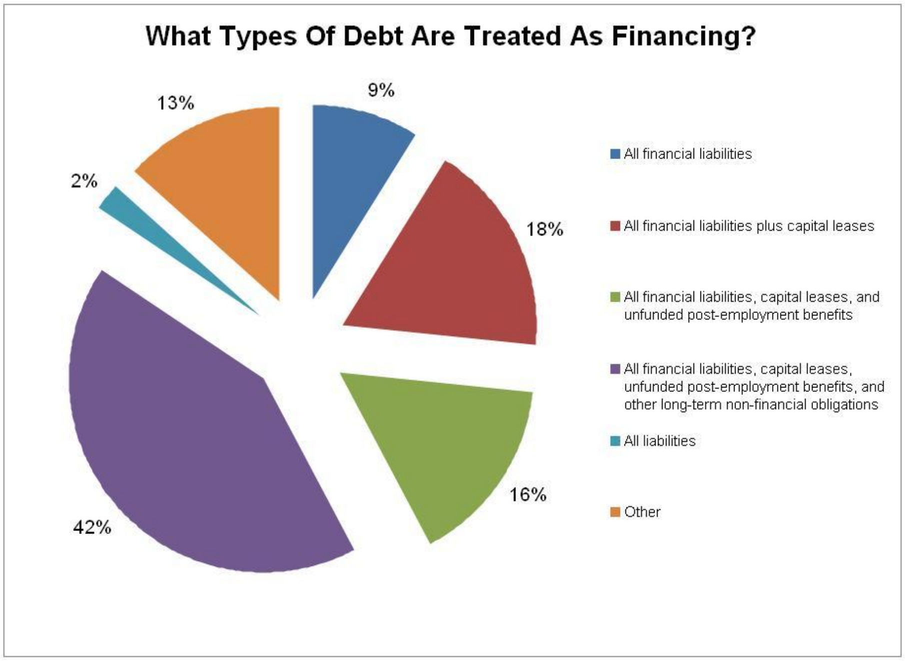

Figure H

53. Almost 70% of the respondents think that the separation of business and financing activities is a *useful* or *very useful* aspect of the proposed presentation model. About 63% think the recast statements they reviewed clearly communicate the results of the entity's financing activities. However, only half think the recast statements do a better job than the non-recast statements in presenting the entity's financing activities. *Only 32% of the preparers think the recast statements communicate the results of their financing activities better than the non-recast statements.*

54. Respondents said that the following items should have been included in the financing section but were not:

(a) operating leases and any lease related items

(b) pension liabilities

(c) proceeds from the reissue of treasury stock

(d) loss on sale of receivables

(e) interest expense related to derivative movements in the income statement.

55. In addition, several respondents indicate that at least some cash should have been classified as an operating asset.

Cohesiveness

56. Nearly 65% of the respondents indicate that their understanding of the relationships among, or classification of line items for, the recast statements was better than the non-recast statements. Respondents also agree that the alignment of the line items across the financial statements (cohesiveness) enhances the decision-usefulness of recast financial statements. (See Figure I below.)

57. When asked which financial statement cohesiveness enhances the usefulness of, respondents indicate the income statement the most (77%), followed by the cash flow statement (72%) and lastly, the balance sheet (58%). However, cohesiveness ranked fifth out of six attributes that were considered *useful* to *very useful* from the proposed presentation model. (See Figure E following paragraph 41.)

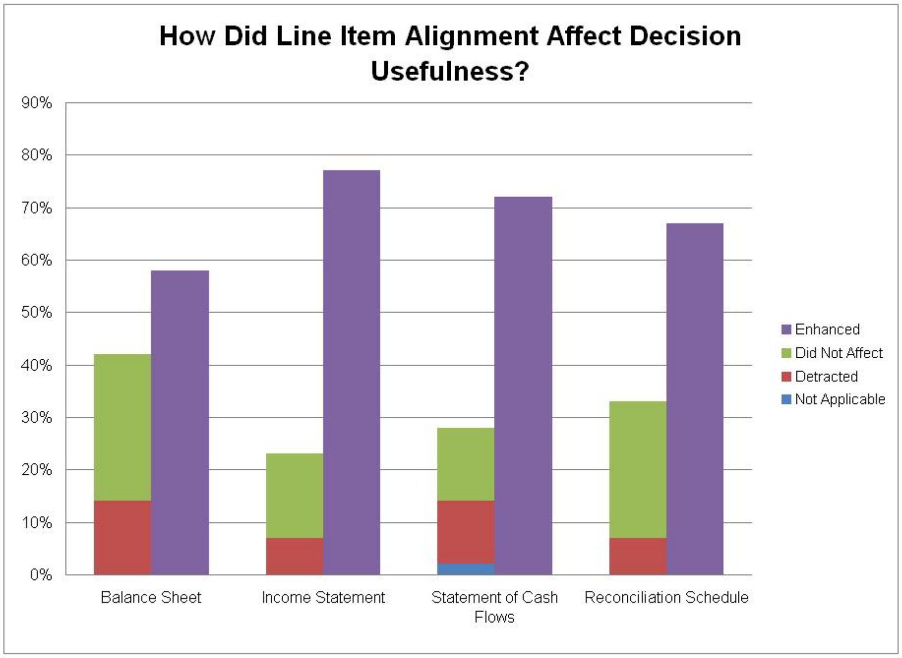

Figure I

58. *Sixty-one percent of the preparers thought cohesiveness improved their ability to communicate their entity's results in the income statement while only 44% percent found it helped them with the balance sheet or cash flow statement.*

Disaggregation

59. Increased disaggregation of line items was cited by respondents as the single most useful aspect of the proposed presentation model (82%). (See Figure E following paragraph 41). Respondents indicate that they believe disaggregation by measurement bases and disaggregation by function and nature would be about equal in usefulness in their analyses. However, after reviewing the financial statements provided to them, the respondents indicate disaggregation by function (70%) and disaggregation by nature (68%) were more useful than disaggregation by measurement bases (56%). When comparing the non-recast and recast statements, respondents indicate that application of the disaggregation principle enhanced their understanding of the income statement (81%) and the statement of cash flows (70%) the most. (See Figure J below.) Sixty-five percent of the respondents indicate that the recast financial statements had an appropriate amount of disaggregation; 10% said there was still too little disaggregation and 13% said there was too much disaggregation.

60. *Fifty-four percent of the preparers thought the proposed presentation model resulted in too much disaggregation and generally did not help in communicating their entity's results.*

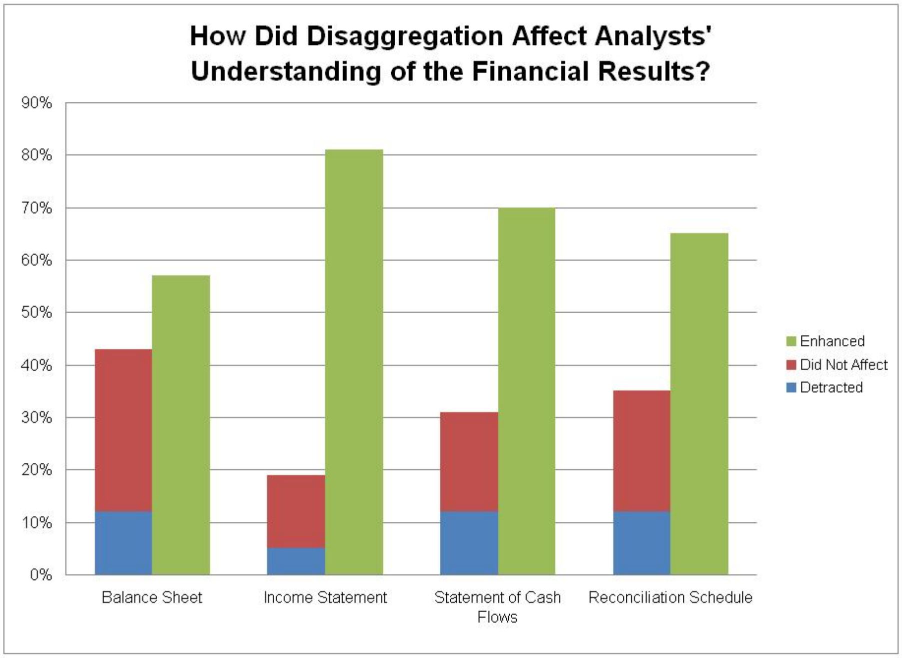

Figure J

61. Sixty percent of the respondents indicate that they view disaggregation by nature as separating expenses into their fixed and variable components or by the volatility of the expense. Respondents were evenly split on whether the separation of cash and cash equivalents resulted in more decision-useful information.

Direct method statement of cash flows

62. The direct method presentation of cash flows ranked as the third most useful aspect of the proposed presentation model behind increased disaggregation and the separation of business and financing activities. (See Figure E following paragraph 41.) The respondents who reviewed the Bank Corp financial statements rated the direct method statement of cash flows as the second most useful aspect.

63. Less than 30% of the respondents indicate that the non-recast SCF communicates the relationship between the entity's cash flows and its assets, liabilities, income, expense, gains, and losses for the period. In comparison, over 60% found the recast statements communicate this relationship *well* or *very well*.

64. The recast SCFs were found to be more decision useful than the non-recast version by 70% of the respondents. (See Figure K below.) Most respondents (76%) said that the recast statement of cash flows had an adequate amount of disaggregation; 10% indicated that the recast statements would be more useful with additional disaggregation and 14% indicated they prefer less disaggregation.

65. Several respondents commented that the direct method presentation of cash flows was more intuitive and made it easier to grasp the actual sources and uses of cash flows. Many state that the relationship between the recast SCF and the other statements was improved due to the increased disaggregation and alignment of sections and categories across the statements. However, respondents also indicate the recast SCF needs more information on working capital movements and interest income and expense. There were some requests for a reconciliation between the indirect and direct method of presenting cash flows. The staff interpret those comments as agreeing with those who request additional or more transparent information regarding working capital movements.

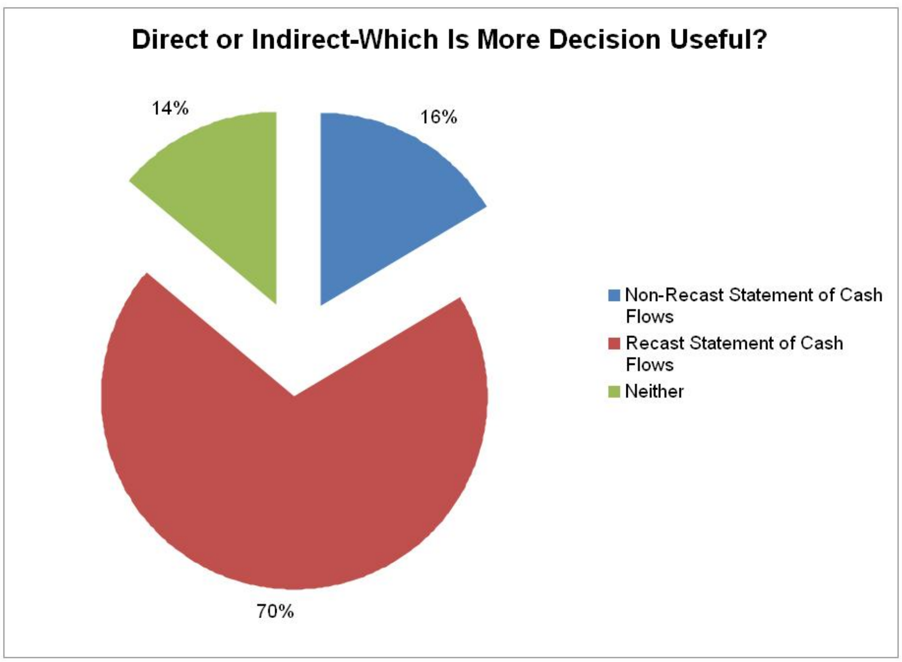

Figure K

66. Fifty-six percent of the respondents indicate that the non-recast cash flow statements would be more decision useful with more disaggregation; however,

this was not the only factor affecting usefulness. One-third of the respondents indicate that the decision-usefulness of the non-recast cash flow statements is affected by something other than disaggregation. Specifically, several respondents comment that the non-cash items in the indirect SCF do not necessarily represent cash flows and can be remote from the actual economic activity of an entity making it difficult to assess the quality of reported earnings.

67. *Preparers indicated that the direct method SCF was the least useful aspect of the proposed presentation model in communicating their entity's financial results.*

Reconciliation schedule

68. About 70% of the respondents indicate that the reconciliation schedule enhanced the decision usefulness of the information provided in the financial statements they reviewed. About 10% state that the schedule detracted from the decision usefulness of the financial information provided. The cash column was cited as the most useful on the schedule (68%) followed by the accruals and allocation column (65%). Most state they would not further separate any of the columns currently proposed in the schedule. (See Figure L below.)

69. *Responses from the preparers indicate that only 25% think the reconciliation schedule enhanced the communication of their entity's financial results; 46% thought it detracted. Preparers do agree that the cash column is the most useful column in the reconciliation schedule in explaining their entity's financial results.*

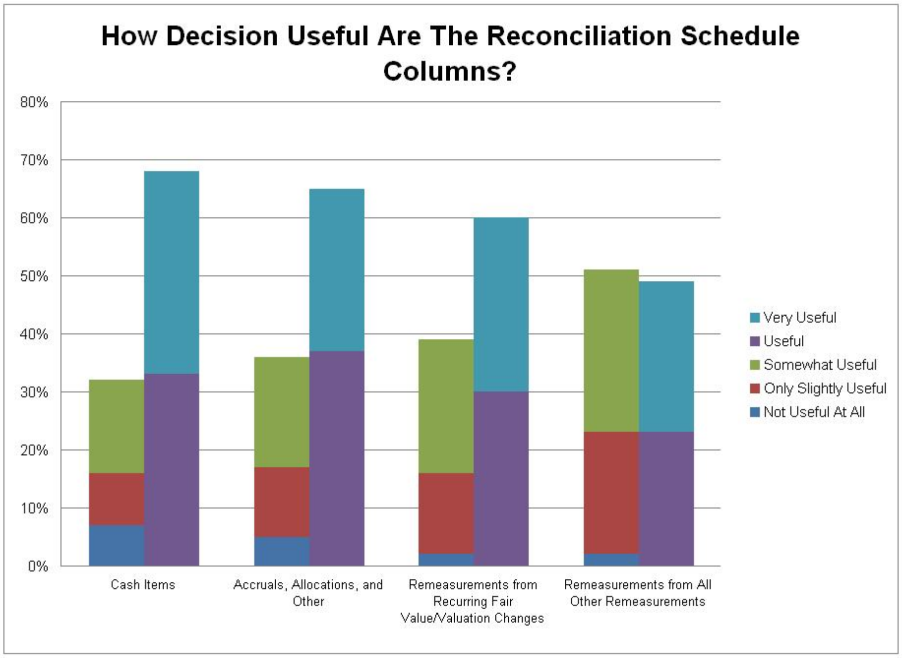

Figure L

Liquidity and financial flexibility

70. Fifty-six percent of the respondents think the recast financial statements communicate the entity's liquidity and financial flexibility the same or worse than the non-recast statements. *The majority of preparers indicated that incorporating the liquidity and financial flexibility guidance did not affect the communication of their entity's financial results.*

Bank Corp differences

71. Seven field test respondents reviewed the Bank Corp financial statements. The staff compared the responses of the 25 participants that reviewed ToolCo (manufacturing) financial statements with the responses from the 7 participants that reviewed the Bank Corp (banking) statements to capture any noticeable differences between the two groups of respondents. This small test population makes it difficult to fully develop a separate analysis that would ascertain the usefulness of the proposed presentation model for financial services entities compared to non-financial entities. However, a few observations between the two sets of responses are provided below:

(a) Those reviewing Bank Corp indicated a higher reliance on the annual report and regulatory filings as sources of information. Over half of the Bank Corp respondents indicate they get 75% or more of their information from the annual report.

(b) Net income was the most important income statement metric (57%) to the Bank Corp respondents compared to a preference for EBITDA for those reviewing ToolCo (61%).

(c) The majority of Bank Corp respondents indicate they also separate business activities from financing activities for analysis purposes.

(d) The management approach only enhanced the financial statements for 43% of the Bank Corp respondents, compared to 72% for ToolCo respondents.

(e) The disaggregation by different measurement bases and the separation of cash and cash equivalents was more useful to the Bank Corp respondents than the ToolCo respondents.

(f) The recast SCF appeared to be a significant improvement in usefulness over the non-recast statement compared to the ToolCo respondents. Only 14% of the Bank Corp respondents found the non-recast cash flow statements communicated the relationship between the entity's cash flow and its assets, liabilities, income, expenses, gains, and losses for the period compared to 28% for the ToolCo respondents. About 70% of the Bank Corp respondents found the direct method SCF more useful than the indirect SCF. This was comparable to the ToolCo respondents.

(g) The direct method presentation of cash flows was ranked the second most useful aspect of the proposed presentation model (72%), behind increased disaggregation (85%). The direct method presentation of cash flows ranked third for the ToolCo respondents.