



Staff Paper

Date **December 6, 2010**

Project	Financial Statement Presentation
Topic	Overview of Outreach Activities

Introduction

1. This paper for discussion at the financial statement presentation (FSP) working group (WG) meeting provides a preliminary overview of the following:
 - (a) Field visit meetings
 - (b) Financial statement user meetings
 - (c) Field test results and feedback
 - (d) Other outreach.
2. At the WG meeting we will provide an oral update of any additional information we receive from outreach activities between issuance of this paper and the meeting. We will also invite WG members to summarize any input they have heard at meetings they have attended (that might differ from what is summarized in this paper).
3. Feedback received regarding financial services entities are incorporated into each paper provided. At the end of the WG meeting we will have an open discussion regarding financial services entities and the feedback received.
4. The following topics are covered in the WG agenda papers 2-7:
 - (a) Paper 2 - Cohesiveness Principle; Section and Categories; and the Statement of Financial Position
 - (b) Paper 3 – Statement of Cash Flows
 - (c) Paper 4 – Disaggregation of Income and Expense Items
 - (d) Paper 5 - Analyses of Changes in Assets and Liabilities and Disclosure of Remeasurements

This paper has been prepared by the technical staff of the FASB and the IFRS Foundation for discussion at a public meeting of the FASB and IASB working group identified in the header of this paper.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

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- (e) Paper 6 – Next Steps
- (f) Paper 7 – Financial Services Entity Issues

Overview

Field visit meetings

5. We have had field visits with 9 companies; 6 in the United States and 3 in Europe. We have the last field visit planned for December with a European company. The field visit meetings have been very informative. The three main issues discussed are: direct method cash flow information, disaggregation of expenses by nature, and the analyses of changes.
6. We have gained a better understanding of some of the financial reporting complexities companies face and of their reporting systems and processes. Companies are providing us with estimates of the cost and time that would be involved in implementing the proposals and with their views on possible alternatives to the Staff Draft proposals.

Financial statement user meetings

7. Since the issuance of the Staff Draft, the FASB staff has received feedback from more than 42 investors and other users of financial statements on numerous aspects of the FSP project through face-to-face meetings with individual investors and groups of investors. Face-to-face meetings were arranged with a broad range of investors, including accounting, credit ratings, and equity (buy and sell side) analysts. The investors who spoke directly with the staff as part of this outreach effort are employed by various organizations and cover a number of industries, including aerospace and defense, autos, banking, consumer durables and non-durables, capital goods and equipment, healthcare, industrials, insurance, media and entertainment, paper and forest products, retail, technology, transportation, and utilities. The analysts who participated in consultations with the FASB represented their own views and not the views of the organizations by which they are employed.
8. The investor meetings focused on the proposed structure and cohesiveness of the financial statements, cash flow information, by-function and by-nature disaggregation, and the analyses of changes and remeasurements disclosure.

IASB/FASB Staff paper

The staff explained the proposals and then asked a series of questions related to the proposals designed to understand the benefits (or lack of benefit) of the proposals to users.

9. The IASB team met with members of CRUF from the United Kingdom, France, and Germany. During the meetings, CRUF members expressed interest in seeing before and after (recast) financial statements so that they can get a better understanding of the impact of the Staff Draft proposals and evaluate the benefits. The IASB team is currently working with two non U.S.-listed companies to recast their financial statements and share the results (anonymously) with various user groups.
10. We prepared a case study file that includes specific examples of how financial statement presentation can make a difference in resource allocation decisions. We are using those examples in our meetings with users to help explain the possible benefits of the new information/proposed model.
11. On the investor page on each board's website we posted the following:
 - (a) A PowerPoint package (without voice over) explaining the main aspects of the Staff Draft.
 - (b) A questionnaire directed at users asking for their input on the potential benefits (to them) of the Staff Draft proposals.

Field test results and feedback

Discussion paper follow up

12. All 30 entities that participated in the discussion paper (DP) field test were asked to implement the draft proposals that differ from the October 2008 DP, *Preliminary Views on Financial Statement Presentation*. They primarily focused on the analyses of changes note disclosure and the by-nature segment information [U.S. GAAP only] and completed a questionnaire that will supplement the questionnaire they completed as part of the DP field test. The questions focus on differences between the proposals in the Staff Draft and the DP.

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13. We received responses to our questionnaire from 14 of the 30 companies that actively participated in the DP field test. The following paragraphs summarize their questionnaire responses.
14. The DP follow up group did not view the Staff Draft as an improvement over the Discussion Paper. This group expressed a concern that the changes incorporated into the Staff Draft did not reduce complexity, increase operationality, or reduce the overall cost of implementing the proposed reporting model.
15. Disaggregation by nature remains an issue with this group. Many in this group see additional disaggregation as an improvement to the financial statements and agreed that the general disaggregation principle is an improvement in establishing a mindset in which to approach the presentation of information in the financial statements. However, most think that disaggregation based on economic characteristics as proposed in the Staff Draft will lead to too much disaggregation in the financial statements.
16. Most of the participants in this group believed that from an application standpoint, the operating, investing and debt categories were appropriately defined. However, they did not believe that the application of these definitions will enhance the comparability of financial statement information between entities. This is why the group preferred the management approach to classification of assets and liabilities proposed in the Discussion Paper.
17. This group was nearly evenly split when asked whether the segment note provides the appropriate context for an additional level of disaggregation. Most of the respondents appear to agree that the relationship between income and expense items in the segment note is more important than the relationship of income and expense items to the functions identified on the statement of comprehensive income.
18. The majority of respondents in this group did not believe the revised direct method statement of cash flows (SCF) would be more operational or less costly to implement.

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Private entity field test including bank lending analysts reviews

19. Ten nonpublic U.S. entities recast their financial statements, answered a questionnaire, and provided feedback regarding operationality of the proposed model. The non-recast and recast statements were sent to the Risk Management Association¹ to be evaluated by credit lenders using a standardized risk assessment process. Each participating lender assessed either the non-recast or the recast statements of a company, but not both. The results of the lender assessment were not available at the time this agenda paper was written.
20. Eight participants in this group completed the post-recasting questionnaire. The preliminary results are broadly in line with the views expressed by the DP follow-up group. The majority of participants in this group felt that the recast financial statements communicated the company's financial results either the same as or worse (due to information overload) than the non-recast statements.

Financial service entity field test

21. About 15 financial services entities (banks and credit unions) are recasting two years of financial statements using the Staff Draft. Those financial services entities also will answer a questionnaire and provide feedback regarding operationality of the proposed model. (Insurance companies were the only financial services entities that participated in the field test on the proposals in the October 2008 DP). We are still waiting for results from this group.
22. Initial indications are that this group also has operational issues regarding the direct method SCF and that some of the guidance in the Staff Draft may need to be more robust to be applied consistently by financial services entities.

Other outreach

Preparers

23. We have been meeting with companies and representative groups (at their request) to discuss their views on the Staff Draft. Like the field visits, these meetings have focused on cash flow information, by-nature disaggregation, and the disclosures of analyses of changes and remeasurements. Some companies

¹ The Risk Management Association (RMA), a U.S. member-driven professional association, helps banking and nonbanking institutions identify and manage the impacts of credit risk, operational risk, and market risk on their businesses and customers.

provided us with cost estimates and others provided us with their views on ways to modify the proposals to be less costly to implement.

Auditors

24. We met with each of the Big 4 public accounting firms. The firms stated that select aspects and objectives of the project will benefit users, but they stated that the cost to preparers will significantly outweigh the benefits. Further, they did not support the timeline of the project (when the goal was to issue an exposure draft and final standard in 2011).
25. The firms expressed concern over disclosure overload, and the level of proposed disaggregation on the face of the financial statements which they believe could cause confusion and detract from the presentation of more meaningful information.
26. The firms indicated that their clients and the accounting profession are currently focusing on other significant proposed accounting projects such as revenue recognition, leasing and accounting for financial instruments. The firms believe that the FSP project should be deferred because it addresses presentation, which should follow the other projects underway which impact the accounting treatment of transactions.
27. Two audit firms felt very strongly that the boards should first complete a project to address what components are to be included in other comprehensive income. All of the audit firms questioned the timing of the financial statement presentation project as it relates to the disclosure framework project.
28. The firms noted that many of their clients are currently struggling with meeting existing reporting deadlines, including SEC filing and XBRL reporting requirements. They are concerned that the incremental reporting requirements proposed in the Staff Draft will cause additional delays in the financial closing and reporting process.

Others

29. We held informal meetings with a small group of users in London and in New York City to discuss the information content of a direct method SCF.

30. The IASB team also met with analysts of Japanese manufacturing companies and an analyst from a Japanese bank. In November, the staff will meet with a variety of users across Europe as part of FSP outreach activities planned by the European Financial Reporting Advisory Group (EFRAG).

Discussion questions—outreach activities

1. Do WG members have any questions about the outreach activities to date?
2. Do WG members have anything to add to what has been presented in this paper or discussed at the meeting?