



AMERICAN ACADEMY *of* ACTUARIES

April 14, 2009

Financial Accounting Standards Board (FASB)
Attn: Technical Director, File Reference No. 1630-100
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

Re: *Preliminary Views on Financial Statement Presentation*

The Financial Reporting Committee of the American Academy of Actuaries¹ appreciates this opportunity to comment on the Discussion Paper. In general, we view the proposed presentation format as a welcome addition that should enable clearer communication of financial results to multiple audiences. We applaud the depth of thought that is evident in both the proposal and the discussion points that are presented.

The actuarial profession has a strong background in managing risk in a financial context, and it is from this point of view that we make the comments below. Our comments are presented as responses to several of the numbered questions in the Discussion Paper.

Question 1: Would the **objectives of financial statement presentation** proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity’s financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

Comment: The discussion of disaggregation mentions the objective of conveying the risk and uncertainty of future cash flows. While disaggregation can help convey the relative magnitude of certain vs. uncertain cash flows, the financial statements alone are not likely to be sufficient to convey the degree of uncertainty of some items such as the insurance liabilities of an insurance company. We suggest that some disclosure might be required in the notes to the financial

¹ The American Academy of Actuaries (“Academy”) is a 16,000-member professional association whose mission is to assist public policymakers by providing objective expertise and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States. Academy members are highly trained practitioners in mathematical and statistical approaches to quantifying risk, practicing in the insurance industry as well as the broader financial services industry.

The Academy’s Financial Reporting Committee (“Committee”) is comprised of representatives from across the spectrum of actuarial practice, primarily including life insurance, property/casualty insurance, health insurance, and pensions. Committee members apply their skills to analysis of public policy relating to company financial statements, taking into account different perspectives from the various roles that actuaries may play, including those of preparer, auditor’s expert, and user.

statements in cases where uncertainty is significant, perhaps in the form of a description of potential material adverse deviations from expected results.

In connection with disaggregation, we also note that certain measurement bases include an explicit margin for risk. When items are disaggregated, the sum of the risk margin in each disaggregated item may be greater than the appropriate risk margin in the aggregate total because each item taken separately is more uncertain than the sum. This connection between the measurement basis and the level of aggregation needs careful consideration, and the effects of aggregation or disaggregation may need to be explained in the notes to the financial statements in cases where it is significant.

Question 2: Would the **separation of business activities from financing activities** provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

Comment: We agree that this separation can be useful. However, as mentioned in the discussion, this separation can sometimes not be clear and could lead to a lack of comparability. For example, certain financial contracts are a regular part of operations for financial institutions. In this context, we suggest that the legal priority of claims may be a basis on which to separate financing activities from operating activities, because customers typically have first claim priority over financing counterparties. This can help distinguish, for example, a liability for time deposits (a business activity) from a liability for corporate bonds issued (a financing activity), when each is an obligation to pay a fixed amount at a fixed future date.

Question 4: In the proposed presentation model, an entity would present its **discontinued operations** in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

Comment: We favor presentation of discontinued operations in a separate section. This can provide decision-useful information especially in situations where the discontinued operations involve long term contracts that would otherwise dilute or color the view of current operations for a very long time.

Question 7: Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have **more than one reportable segment** for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

Comment: In some but not all cases assets and liabilities should be classified at the segment level. This generally allows more faithful representation of differences in the way assets and liabilities are used in different segments. This may add complexity to analysis at the entity level,

but any such complexity is a reflection of the business itself, not caused by the reporting framework.

We note, however, that the discussion assumes that assets and liabilities will be split by reportable segment, and question 7 is directed at classification within a segment. Current practice in segment reporting is often limited to items of gain and loss and does not involve the reporting of assets and liabilities by segment. We suggest that the change in presentation format should not require that assets and liabilities always be reported at the reportable segment level, as in some cases this is not consistent with the way a company is managed. In such cases, any allocation could cause confusion or even mislead readers of the financial statements.

Certain assets and liabilities that are used across multiple segments should be shown at the entity level, while any allocable revenue or expense related to them should be shown at the segment level. An example of this is the net asset or liability associated with a US pension plan that covers employees in all segments, and which by law is the responsibility of the entire entity. While a US pension plan's current period cost should be shown at the segment level, the net asset or liability should be shown at the entity level.

Question 9: Are the **business section** and the **operating and investing categories** within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

Comment: Yes. It is important to allow flexibility, so that if an activity is not clearly separable as an investing activity, then it can be classified as an operating activity. We agree with the discussion of financial institutions, where much investing activity takes place as a normal part of operations and should be included in the operating category.

Question 11: Paragraph 3.2 proposes that an entity should present a **classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

(a) What types of entities would you expect **not** to present a classified statement of financial position? Why?

(b) Should there be more guidance for distinguishing which entities should present a **statement of financial position in order of liquidity**? If so, what additional guidance is needed?

Comment: For insurance company liabilities, neither concept (short term vs. long term or order of liquidity) is often meaningful. Whether an insurance claim will occur in the short term or the long term is often part of the insurance risk. With regard to liquidity, some insurance contracts can be, but rarely are, exchangeable for cash on demand. Life insurance contracts are subject to this if they contain cash value provisions. Such liabilities are not easily classified by term or degree of liquidity due to the uncertain timing of cash withdrawals. Guidance may be needed regarding the presentation of such liabilities. We suggest that categorization by the type or nature of risk involved might be a better approach to insurance company liabilities.

Question 13: Paragraph 3.19 proposes that an entity should present its similar **assets and liabilities that are measured on different bases** on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

Comment: Separation by valuation basis is vitally important for long term assets and liabilities. The differences between fair value and amortized cost bases can be large. If there is no requirement that long term assets and liabilities be on the same basis, then highlighting differences in the financial statements (rather than just the notes) is important and decision-useful.

We also note that disaggregation by type or degree of risk and uncertainty can provide information that is just as useful as separation by measurement basis. When the valuation of an item in the statement of financial position is highly uncertain, the measurement basis can be less important than an understanding of the degree of uncertainty.

Question 16: Paragraphs 3.42–3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses **by their function, by their nature, or both** if doing so will enhance the usefulness of the information in predicting the entity’s future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

Comment: The degree of risk and uncertainty involved in the estimated value shown in the statement of comprehensive income should be recognized as part of the “nature” of the item. Therefore, items with different risk characteristics should be disaggregated. In the context of the statement of comprehensive income, such risk and uncertainty can arise when changes to accrual amounts, rather than cash flows, are uncertain.

We referred to this same issue in our response to question 13, which was in the context of the statement of financial position rather than the statement of comprehensive income. We note the importance of using a consistent approach to disaggregation across the various financial statements, particularly when the disaggregation reflects significantly different risk characteristics of different parts of the business.

Question 25: Should the boards consider other **alternative reconciliation formats** for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10-B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

Comment: We note that these reconciliations show changes in fair value upon remeasurement, and such changes can be based on changes in valuation assumptions, especially for items whose

fair value is a level 3 estimate. Such estimates often involve many assumptions, change to any one of which may significantly affect earnings. We suggest that significant changes in valuation assumptions that affect earnings through regular remeasurements be discussed in the notes to the financial statements, because there can be multiple reasons for a change upon remeasurement that appears as a single figure in the financial statement.

Thank you for the opportunity for allowing us to comment on this Discussion Paper. Please do not hesitate to contact us if we can be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Rowen B. Bell", with a horizontal line underneath.

Rowen B. Bell
Chairperson, Financial Reporting Committee
American Academy of Actuaries