

Special Report

# Financial Statement Presentation

## Is It Time for Change?

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### Related Research

- *Accounting and Financial Reporting: 2009 Global Outlook, Jan. 8, 2009.*

Further accounting research is available in the Accounting and Corporate Governance section of [www.fitchratings.com](http://www.fitchratings.com).

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### Overview

Investors and analysts have a new financial statement presentation format to ponder. A proposed overhaul of current financial statements was unveiled by standard-setters in October 2008. The currently proposed format would radically change the presentation of the balance sheet, the income statement and the cash flow statement as we know them today.

There are three broad goals underlying the proposed format change: creating a cohesive financial picture that seeks to link the three main financial statements, better breakdown ("disaggregation") of line items, and more information about the liquidity and financial flexibility of an entity. These broad objectives were in response to criticism from investors and analysts that current financial statements were too summarized and inconsistently presented.

Without question, the new financial statement presentation format would be sweeping and the ramifications would be far-reaching. Fitch believes that the proposal includes many good points, particularly a new schedule to reconcile the income statement to cash flows, that should enhance analysis. However, some of the specific proposals in the paper will need further evaluation if they are to be workable for those preparing the financial statements and helpful to those using them. There would be costs in converting from current to proposed presentation for analysts and investors, as well as for preparers, and it is still unclear whether the benefits would outweigh the costs.

### Key Changes Proposed

- Under the new proposal, the income statement, cash flow statement and balance sheet would all look different than they do today. The balance sheet (now named the "Statement of Financial Position") would be split into operating, investing and financing rather than as assets, liability and equity. The income statement (or "Statement of Comprehensive Income") and cash flow statement would separate business (operating and investing) from financing activities.
- The proposed cash flow statement would be presented using the direct method. With the direct method, an entity presents separately cash receipts and payments, unlike the indirect method, which reconciles net income, pre-tax profit or net operating income to cash flow from operations.
- A new reconciliation schedule reconciling the income to the cash flow statement would be required as a footnote disclosure. This schedule would separate cash flows, fair value remeasurements and changes in accruals.
- The proposal imposes additional disclosure around liquidity and financial flexibility by requiring companies to present information about the maturities of long-term assets and liabilities.
- Companies would be required to report expense items by function (e.g., cost of sales, selling expenses) and then by nature (e.g., labor expenses, energy costs, transport costs).

## Background

In 2001, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (the Boards) independently started work on improving the reporting and presentation of financial performance. In 2004, the Boards decided to pursue the project jointly. The work of the two Boards in the past four years culminated in the publication of a joint discussion paper (DP) on Oct. 16, 2008, which was open for public comments until April 14, 2009. The Boards are hoping to issue a final standard by 2011. This all means that changes are unlikely to be seen in public reporting before 2013.

In the meantime, the Boards will analyze the costs and benefits of their proposal, based on comments received and field tests on the project that are now being carried out by preparers and users.

The Boards noted that a new presentation standard was necessary in order to address users' criticism of how financial statements are presented today. The primary criticisms identified in the paper include the following.

- Current financial statements are not consistently presented because alternative methods of presentation are allowed. For example, current standards permit the presentation of cash flows using a direct method or an indirect method.
- Financial statements are overly aggregated, making it more difficult to reconcile how financial statements relate to each other.

In addressing these criticisms, the Boards outlined three broad objectives for financial statement presentation.

- **Portray a cohesive financial picture of an entity's activities.** The cohesiveness objective requires that the relationship between items across the financial statements is clear, consistent and complementary. Hence, the flow of information across the three main financial statements should be more understandable.
- **Disaggregate information in a way that is useful in predicting future cash flows** by segregating financial information into reasonably homogenous groups of items.
- **Present information in a way that helps users assess an entity's liquidity and financial flexibility** by presenting in the footnotes information about the maturities of contractual long-term assets and liabilities.

## The Proposed Format for Financial Statements

At the crux of the proposed new format is the requirement to subdivide all three statements — financial position, comprehensive income and cash flows — into sections and categories. A company's business activities, which include operating and investing categories, will be separated from its financing activities. In addition, income taxes, discontinued operations and equity will be presented as separate sections.

The framework for the proposal is driven by the Statement of Financial Position. The classification of assets and liabilities would dictate the way related items are classified in the statements of comprehensive income and cash flows. This is not the way many companies record their financial information today, where the income statement is often seen as the statement that first captures transaction flow.

Note also that for a financial service entity the classification of assets and liabilities among operating, investing and financing may be arbitrary and the distinction would often not present useful information.

At the crux of the proposed new format is the requirement to subdivide all three statements (financial position, comprehensive income and cash flows) into sections and categories.

The table below illustrates the proposed classification scheme for the new format.

## Proposed Classification Scheme for Financial Statements

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
<b>Business</b>	<b>Business</b>	<b>Business</b>
<ul style="list-style-type: none"> <li>• Operating assets and liabilities</li> <li>• Investing assets and liabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Operating income and expense</li> <li>• Investing income and expense</li> </ul>	<ul style="list-style-type: none"> <li>• Operating cash flows</li> <li>• Investing cash flows</li> </ul>
<b>Financing</b>	<b>Financing</b>	<b>Financing</b>
<ul style="list-style-type: none"> <li>• Financing assets</li> <li>• Financing liabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Financing income</li> <li>• Financing expense</li> </ul>	<ul style="list-style-type: none"> <li>• Financing asset cash flows</li> <li>• Financing liability cash flows</li> </ul>
<b>Income Taxes</b>	<b>Income Taxes on continuing operations (business and financing activities)</b>	<b>Income Taxes</b>
Discontinued Operations	Discontinued Operations, net of tax Other Comprehensive Income, net of tax	Discontinued Operations
<b>Equity</b>	—	<b>Equity</b>

Source: FASB.

## Management Approach to Classification

The management approach to classification is intended to enable management to present financial information in a way that is consistent with how a company deploys the assets and liabilities in its operations. Fitch is concerned that this may result in financial reporting that is less comparable than today across companies, and even from one period to another within the same company. It leaves the door open to unfettered flexibility in classifying assets and liabilities among the relevant sections and could distort key earnings numbers. The DP tries to address this by proposing additional disclosure about the classification rationale as part of the accounting policy discussion in the footnotes.

In Fitch's view, more uniform presentation in the financial statements, with management commentary and note disclosure explaining management's approach, would be an easier way for analysts and investors to compare across companies, while realizing that it is very rare to have two directly comparable companies and the limitations around this. At the very least, Fitch would like to see emphasis on more disclosure supporting accounting policy decisions around classifications than was presented in the DP. Otherwise, this may result in too much standardization (or "boilerplate" disclosure) to be helpful.

Fitch's analysis relies on the ability to compare financial results between the companies in an industry, and among companies in various industries across geographical boundaries and over multiple periods. Comparability in this context is desirable and Fitch would prefer an approach that promotes more comparability rather than less — especially for companies within the same industry. A balance has to be struck in preserving comparability while maintaining the need to have transactions and cash flows presented in a way that management thinks best explains them.

Fitch would like to see the Boards exploring areas where they can be more prescriptive about where items should be presented in the financial statements. This may be something that is better dealt with in the standards dealing with the items in question,

Fitch is concerned that the management approach to classification may result in financial reporting that is less comparable than today across companies and even from one period to another within the same company.

but guidance on where items would generally be expected to appear would aid the comparability objectives of analysts and investors and, in most cases, add clarity for preparers. For example, current presentation around pensions and leases varies from company to company for reasons that are generally not clear. Investors and preparers have different ideas about whether these constitute financing or operating even within the same business. If all companies present these in the same place in the financial statements, preparers have the flexibility in management commentary to suggest an alternative perspective, while analysts and investors can adjust consistently if they do not consider the accounting treatment appropriate for their purposes.

## Fitch's View on the Objectives of the Discussion Paper

Fitch believes that the three objectives proposed — cohesiveness, disaggregation and liquidity, and financial flexibility — should improve the usefulness of financial statements to users. However, many specific details of the broad objectives would need to be reevaluated if the changes are to be workable and helpful.

Fitch believes that the three objectives proposed (cohesiveness, disaggregation and liquidity and financial flexibility) should improve the usefulness of financial statement to users.

### Cohesiveness

The DP highlights that a cohesive set of financial statements requires entities to “Align the line items, their descriptions, and the order of presentation in the statements of financial position, comprehensive income, and cash flows.” Fitch supports cohesiveness as an objective and thinks that a principle of cohesiveness should serve to address some of the inconsistencies present in reconciling key balance sheet, income statement and cash flow items, and making flows from period to period more understandable. However, as the examples in the DP illustrate, applying this principle too rigidly in practice by hard-wiring cohesive application line by line through all financial statements would result in cumbersome, unhelpful reporting.

### Disaggregation

The paper proposes that “an entity should disaggregate information in its financial statements in a manner that makes it useful in assessing the amount, timing, and uncertainty of its future cash flows.” Fitch supports this principle but points out that too much disaggregation in the financial statements would obscure the picture for users.

In Fitch's view the presentation outlined in the paper would result in an unnecessarily high level of disaggregation stemming from each of the following:

- The more flexibility management is given in presenting its financial statements, the more vertical disaggregation will be demanded by analysts and investors in order to derive comparable data.
- Strict interpretation of the cohesiveness objective, particularly at a line item level, would also likely lead to extreme disaggregation which would not be useful.

For example, breaking out one single balance sheet item e.g. cash into operating, investing and financing for the sole purpose of achieving the cohesiveness objective is less meaningful as most analysts will simply just collapse cash into one number. Forcing disaggregation by function first and then nature will also result in the creation of cash flow information that may often not be used.

For a financial institution, it is most important to match assets on the balance sheet with the liabilities that are funding them, so the appropriate approach to disaggregation will be different to that for a corporate, which will be driven primarily by operating cash flows stemming from production and sales of goods rather than acquisition and disposals of assets.

Disaggregating key line items in the notes would be an effective way of providing more information without clogging the basic financial statements. However, there is widespread opinion (particularly in the US) that the level of audit rigor in the notes is not as robust as that applied to the face of the financial statements. Also, particularly outside the US, there is the issue of less note disclosure in interim reporting.

Disaggregation is also relevant to the debate on whether the cash flow statement should best be prepared using the direct method or the indirect method.

Disaggregation is also relevant to the debate on whether the cash flow statement should best be prepared using the direct method or the indirect method. While ideally a direct cash flow statement should give the best indication of real cash flows, Fitch is aware that this may be costly to produce for many preparers, as transactions are not generally booked starting from a cash-in/cash-out perspective. A cash flow statement prepared under the indirect method starting from operating profit, as is common practice among UK reporters, can provide analysts and investors with good information on cash flows, as long as there is a good break-down of reconciling items and large numbers do not appear in the "other" or "miscellaneous" lines.

### Liquidity and Flexibility

The DP proposes that "An entity should present information in its financial statements in a manner that helps users to assess the company's ability to meet its financial commitments as they become due and to invest in business opportunities." Specifically the proposal requires that an entity present information about the contractual maturities of its short-term and long-term assets and liabilities in the footnotes to financial statements. See a sample illustration in the table below.

### Maturity Information for Long-Term Contractual Liabilities

	2012	2013	2014	2015	2016	After 2016	Effect of Discounting	Carrying Amount
Lease Liability (Excluding Current Portion)	(50,000.00)	(50,000.00)	(50,000.00)	(50,000.00)	(50,000.00)	(60,610.00)	49,285.00	(261,325.00)
Decommissioning Obligation	—	—	—	—	—	(60,000.00)	30,360.00	(29,640.00)
Long-Term Borrowings	(102,500.00)	(102,500.00)	(102,500.00)	(102,500.00)	(102,500.00)	(1,537,500.00)	—	(2,050,000.00)

Source: FASB.

As credit analysts, an important part of Fitch's analysis involves judging the ability of debt issuers to repay their contractual obligations as they fall due. Good liquidity disclosure enhances analysts' and investors' ability to do that.

### Fitch's View on the Proposed Reconciliation Schedule

The DP also proposes that "An entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into the following components: cash received or paid other than in transactions with owners, accruals (including contractual accruals and systematic allocations such as depreciation) other than remeasurements, remeasurements that are recurring fair value changes or recurring valuation adjustments and remeasurements that are not recurring fair value changes or valuation adjustments." A sample of the headings in the proposed reconciliation schedule is illustrated in the table on page 6. See Appendix B on page 10 for a more detailed illustration.

Fitch believes that a reconciliation schedule is a good idea and it should be pursued. The columnar disaggregation embedded in the reconciliation schedule provides analysts with better information when analyzing the nature, timing and uncertainty of future cash flows. The proposed format (cash flow to comprehensive income) seems mainly

**Reconciliation of Cash Flows to Comprehensive Income**

A	B				C	D		E	F	G	
	Changes in Assets and Liabilities, Excluding Transactions With Owners										
	Not from Remeasurements					From Remeasurements					
Caption in Statement of Cash Flows	Cash Flows	Accruals, Allocations, and Other				Recurring Fair Value Changes/ Valuation Adjustments	All Other Changes			Statement of Comprehensive Income (B+C+D+E)	Caption in Statement of Comprehensive Income

Source: FASB.

geared toward non-financial firms. For financial institutions, the proposed format might be useful for some items, such as interest revenue and expense, but will otherwise be of little use because the transaction flows and analysis of asset quality, capital adequacy and liquidity are primarily balance-sheet focused.

Fitch believes that a balance-sheet-to-balance-sheet reconciliation schedule for financial institutions would provide a better approach to capturing all the necessary information.

Fitch believes that a balance-sheet-to-balance-sheet reconciliation schedule for financial institutions (see illustration on page 14 of Appendix C) would provide a better approach to capturing all the necessary information that analysts sometimes struggle to extract from financial statements today. Fitch acknowledges the additional complexity that may arise if the proposed schedule is expanded to a balance sheet reconciliation schedule, but this complexity could be tempered if the reconciliation schedule focuses on significant balance sheet items.

Indeed, also for non-financial companies, the notes to the accounts would benefit analysts and investors more if they contained full balance-sheet-to-balance-sheet reconciliations of movements in the main components of both working capital and debt, which would in many cases constitute most items on the balance sheet.

**Other Classification Issues**

**Segment Reporting**

The Boards evaluated whether diversified entities should classify their assets and liabilities at the entity level or the reportable segment level. Fitch believes that the classification of assets and liabilities, for entities with more than one reportable segment, should be done at the reportable segment level for segmental reporting purposes. Fitch would prefer to see the primary financial statements reported from a holistic perspective of the reporting entity/group. Disclosure should then be good enough to enable users to understand what adjustments have been made between segmental and primary reporting to achieve this.

Once the final format for financial statement presentation is determined, the key subheadings of the income statement and balance sheet should be mirrored in segmental reporting. Fitch does not think it would be realistic to expect preparers to provide full disclosure about cash flows at segmental level, although it would be helpful to have disclosure that enabled analysts and investors to assess from which segments most of the group’s cash inflows and outflows were coming.

In terms of financing, it is vital for credit analysts and investors to be able to understand where the main financial obligations are housed, but this is important to know in terms of legal entity rather than business segment.

## Appendix A

Illustrative financial statements using the proposed format for a manufacturing entity.

### Abbreviated Statement of Comprehensive Income

	2010	2009
<b>Business</b>		
<b>Operating</b>		
Sales—Wholesale	—	—
<b>Total Revenue</b>	—	—
<b>Cost of Goods Sold</b>		
Materials	—	—
Overhead	—	—
Pension	—	—
Loss on Obsolete and Damaged Inventory	—	—
<b>Total Cost of Goods Sold</b>	—	—
<b>Gross Profit</b>	—	—
<b>Selling Expenses</b>		
Advertising	—	—
Wages, Salaries and Benefits	—	—
<b>Total Selling Expenses</b>	—	—
<b>General and Administrative Expenses</b>		
Wages, Salaries and Benefits	—	—
Depreciation	—	—
Pension	—	—
Interest on Lease Liability	—	—
<b>Total General and Administrative Expenses</b>	—	—
<b>Income Before Other Operating Items</b>	—	—
<b>Other Operating Income (Expense)</b>		
Share of Profit of Associate A	—	—
Gain on Disposal of Property, Plant, and Equipment	—	—
Realized Gain on Cash Flow Hedge	—	—
<b>Total Other Operating Income (Expense)</b>	—	—
<b>Total Operating Income</b>	—	—
<b>Investing</b>		
Dividend Income	—	—
Realized Gain on Available-For-Sale Securities	—	—
Share of Profit of Associate B	—	—
<b>Total Investing Income</b>	—	—
<b>Total Business Income</b>	—	—
<b>Financing</b>		
Interest Income on Cash	—	—
<b>Total Financing Asset Income</b>	—	—
Interest Expense	—	—
<b>Total Financing Liabilities Expense</b>	—	—
<b>Total Net Financing Expense</b>	—	—
<b>Income from Continuing Operations Before Taxes and Other Comprehensive Income</b>	—	—
<b>Income Taxes</b>		
Income Tax Expense	—	—
<b>Net Profit from Continuing Operations</b>	—	—
<b>Discontinued Operations</b>		
Loss on Discontinued Operations	—	—
Tax Benefit	—	—
<b>Net Loss from Discontinued Operations</b>	—	—
<b>Net Profit</b>	—	—
<b>Other Comprehensive Income (After Tax)</b>		
Unrealized Gain On Available-For-Sale Securities (Investing)	—	—
Revaluation Surplus (Operating)	—	—
Foreign Currency Translation Adjust — Consolidated Subsidiary	—	—
Unrealized Gain on Cash Flow Hedge (Operating)	—	—
Foreign Currency Translation Adjust — Associate A (Operating)	—	—
<b>Total Other Comprehensive Income</b>	—	—
<b>Total Comprehensive Income</b>	—	—
Basic Earnings per Share	—	—
Diluted Earnings per Share	—	—

Source: FASB.

**Abbreviated Statement of Financial Position**

(Years Ended Dec. 31)

	2010	2009
<b>Business</b>		
<b>Operating</b>		
Accounts Receivable, Trade	—	—
Less Allowance For Doubtful Account	—	—
Accounts Receivable, Net	—	—
Inventory	—	—
Prepaid Advertising	—	—
<b>Total Short-Term Assets</b>	<b>—</b>	<b>—</b>
Property, Plant and Equipment	—	—
Less Accumulated Depreciation	—	—
Property, Plant, and Equipment, Net	—	—
Investment in Associate A	—	—
Goodwill	—	—
Other Intangible Assets	—	—
<b>Total Long-Term Assets</b>	<b>—</b>	<b>—</b>
Accounts Payable, Trade	—	—
Wages Payable	—	—
Current Portion of Lease Liability	—	—
Interest Payable on Lease Liability	—	—
<b>Total Short-Term Liabilities</b>	<b>—</b>	<b>—</b>
Lease Liability (Excluding Current Portion)	—	—
Other Long-Term Liabilities	—	—
<b>Total Long-Term Liabilities</b>	<b>—</b>	<b>—</b>
<b>Net Operating Assets</b>	<b>—</b>	<b>—</b>
<b>Investing</b>		
Available-For-Sale Financial Assets (Short-Term)	—	—
Investment in Associate B (Long-Term)	—	—
<b>Total Investing Assets</b>	<b>—</b>	<b>—</b>
<b>Net Business Assets</b>	<b>—</b>	<b>—</b>
<b>Financing</b>		
<b>Financing Assets</b>		
Cash	—	—
<b>Total Financing Assets</b>	<b>—</b>	<b>—</b>
<b>Financing Liabilities</b>		
Short-Term Borrowings	—	—
Interest Payable	—	—
<b>Total Short-Term Financing Liabilities</b>	<b>—</b>	<b>—</b>
Long-Term Borrowings	—	—
<b>Total Financing Liabilities</b>	<b>—</b>	<b>—</b>
<b>Net Financing Liabilities</b>	<b>—</b>	<b>—</b>
<b>Discontinued Operations</b>		
Assets Held for Sale	—	—
Liabilities Related to Assets Held for Sale	—	—
<b>Net Assets Held for Sale</b>	<b>—</b>	<b>—</b>
<b>Income Taxes</b>		
Short-Term	—	—
Income Taxes Payable	—	—
Long-Term	—	—
Deferred Tax Asset	—	—
<b>Net Income Tax Asset (Liability)</b>	<b>—</b>	<b>—</b>
<b>Net Assets</b>	<b>—</b>	<b>—</b>
<b>Equity</b>		
Share Capital	—	—
Retained Earnings	—	—
Accumulated Other Comprehensive Income, Net	—	—
<b>Total Equity</b>	<b>—</b>	<b>—</b>
<b>Total Short-Term Assets</b>	<b>—</b>	<b>—</b>
<b>Total Long-Term Assets</b>	<b>—</b>	<b>—</b>
<b>Total Assets</b>	<b>—</b>	<b>—</b>
<b>Total Short-Term Liabilities</b>	<b>—</b>	<b>—</b>
<b>Total Long-Term Liabilities</b>	<b>—</b>	<b>—</b>
<b>Total Liabilities</b>	<b>—</b>	<b>—</b>

Source: FASB.

Abbreviated Statement of Cash Flows

	2010	2009
<b>Business</b>		
<b>Operating</b>		
Cash Received from Wholesale Customers	—	—
Cash Received from Retail Customers	—	—
<b>Total Cash Collected from Customers</b>	—	—
<b>Cash Paid for Goods</b>		
Materials Purchases	—	—
Labor	—	—
Overhead—Transport	—	—
Pension	—	—
<b>Total Cash Paid for Goods</b>	—	—
<b>Cash Paid for Selling Activities</b>		
Advertising	—	—
Wages, Salaries, and Benefits	—	—
Other	—	—
<b>Total Cash Paid for Selling Activities</b>	—	—
<b>Cash Paid for General and Administrative Activities</b>		
Wages, Salaries, and Benefits	—	—
Contributions to Pension Plan	—	—
Capital Expenditures	—	—
Lease Payments	—	—
Research and Development	—	—
Other	—	—
<b>Total Cash Paid for General and Administrative Activities</b>	—	—
Cash Flow Before Other Operating Items	—	—
<b>Cash from Other Operating Activities</b>		
Disposal of Property, Plant, and Equipment	—	—
Investment in Associate A	—	—
Sale of Receivable	—	—
Settlement of Cash Flow Hedge	—	—
<b>Total Cash Received (Paid) for Other Operating Activities</b>	—	—
<b>Net Cash from Operating Activities</b>	—	—
<b>Investing</b>		
Purchase of Available-for-Sale Financial Assets	—	—
Sale of Available-for-Sale Financial Assets	—	—
Dividends Received	—	—
<b>Net Cash from Investing Activities</b>	—	—
<b>Net Cash from Business Activities</b>	—	—
<b>Financing</b>		
Interest Received on Cash	—	—
<b>Total Cash from Financing Assets</b>	—	—
Proceeds from Issuance of Short-Term Debt	—	—
Proceeds from Issuance of Long-Term Debt	—	—
Interest Paid	—	—
Dividends Paid	—	—
<b>Total Cash from Financing Liabilities</b>	—	—
<b>Net Cash from Financing Activities</b>	—	—
Change in Cash from Continuing Operations Before Taxes and Equity	—	—
<b>Income Taxes</b>		
Cash Taxes Paid	—	—
Change in Cash Before Discontinued Operations and Equity	—	—
<b>Discontinued Operations</b>		
Cash Paid from Discontinued Operations	—	—
<b>Net Cash from Discontinued Operations</b>	—	—
Change in Cash Before Equity	—	—
<b>Equity</b>		
Proceeds from Reissue of Treasury Stock	—	—
<b>Net Cash from Equity</b>	—	—
Effect of Foreign Exchange Rates on Cash	—	—
<b>Change in Cash</b>	—	—
<b>Beginning Cash</b>	—	—
<b>Ending Cash</b>	—	—

Source: FASB.

**Appendix B**

Illustrative reconciliation schedules of a manufacturing company and a financial services company. This schedule reconciles the statement of cash flows to the statement of comprehensive income.

**Abbreviated Reconciliation of Cash Flows to Comprehensive Income for a Manufacturing Company (I)**

(For Year Ended Dec. 31, 2009)

A	B	C	D	E	F	G
Caption in Statement of Cash Flows	Changes in Assets and Liabilities, excluding Transactions with Owners				Statement of Comprehensive Income	
	Cash Flows	Not from Remeasurements	From Remeasurements		Comprehensive Income (B+C+D+E)	Caption in Statement of Comprehensive Income
		Accruals, Allocations, and Other	Recurring Valuation Adjustments	All Other		
<b>Business</b>						<b>Business</b>
<i>Operating</i>						<i>Operating</i>
Cash Received from Wholesale Customers	—	—	—	—	—	Sales—Wholesale
Cash Received from Retail Customers	—	—	—	—	—	Sales—Retail
<b>Total Cash Collected from Customers</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Revenue</b>
Cash Paid for Goods	—	—	—	—	—	Cost of Goods Sold
Materials Purchases	—	—	—	—	—	Materials
Labor	—	—	—	—	—	Labor
Pension	—	—	—	—	—	Pension
	—	—	—	—	—	Overhead—Depreciation
Overhead — Transport	—	—	—	—	—	Overhead—Transport
	—	—	—	—	—	Change in Inventory
<b>Total Cash Paid for Goods</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Cost of Goods Sold</b>
	—	—	—	—	—	Gross Profit
Cash Paid for Selling Activities	—	—	—	—	—	Selling Expenses
Advertising	—	—	—	—	—	Advertising
Wages, Salaries, and Benefits	—	—	—	—	—	Wages, Salaries, and Benefits
	—	—	—	—	—	Bad Debt
Other	—	—	—	—	—	Other
<b>Total Cash Paid for Selling Activities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Selling Expenses</b>
Cash Paid for General and Administrative Activities	—	—	—	—	—	General and Administrative Expenses
Wages, Salaries, and Benefits	—	—	—	—	—	Wages, Salaries, and Benefits
Contributions to Pension Plan	—	—	—	—	—	Pension
Capital Expenditures	—	—	—	—	—	
	—	—	—	—	—	Depreciation
Lease Payments	—	—	—	—	—	Interest on Lease Liability
Research and Development	—	—	—	—	—	Research and Development
Other	—	—	—	—	—	Other
<b>Total Cash Paid for General and Admin. Activities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total General and Administrative Expenses</b>
<b>Cash Flow Before Other Operating Items</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Income Before Other Operating Items</b>
	—	—	—	—	—	
Cash from Other Operating Activities	—	—	—	—	—	Other Operating Income (Expense)
Disposal of Property, Plant, and Equipment	—	—	—	—	—	Gain on Disposal of PP& E
Investment in Associate A	—	—	—	—	—	Share of Profit of Associate A
Settlement of Cash Flow Hedge	—	—	—	—	—	Realized Gain on Cash Flow Hedge
Sale of Receivable	—	—	—	—	—	Loss on Sale of Receivable
<b>Total Cash Received from Other Operating Activities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Other Operating Income</b>
<b>Net Cash from Operating Activities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Operating Income</b>

Continued on next page.  
Source: FASB.

**Abbreviated Reconciliation of Cash Flows to Comprehensive Income for a Manufacturing Company (I)  
(Cont.)**

(For Year Ended Dec. 31, 2009)

A	B	C	D	E	F	G
Caption in Statement of Cash Flows	Changes in Assets and Liabilities, excluding Transactions with Owners				Statement of Comprehensive Income	
	Not from Remeasurements		From Remeasurements		Comprehensive Income (B+C+D+E)	Caption in Statement of Comprehensive Income
	Cash Flows	Accruals, Allocations, and Other	Recurring Valuation Adjustments	All Other		
<b>Investing</b>						<b>Investing</b>
Dividends Received	—	—	—	—	—	Dividend Income
Sale of Available-for-Sale Financial Assets	—	—	—	—	—	Realized Gain on AFS Financial Assets
	—	—	—	—	—	Share of Profit of Associate B
<b>Net Cash from Investing Activities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Investing Income</b>
<b>Net Cash from Business Activities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Business Income</b>
<b>Financing</b>						<b>Financing</b>
Interest Received on Cash	—	—	—	—	—	Interest Income on Cash
<b>Total Cash from Financing Assets</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Financing Assets Income</b>
Proceeds from Issue of Short-Term Debt	—	—	—	—	—	
Dividends Paid	—	—	—	—	—	
Interest Paid	—	—	—	—	—	Interest Expense
Proceeds from Issue of Long-Term Debt	—	—	—	—	—	
<b>Total Cash from Financing Liabilities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Financing Liabilities Expense</b>
<b>Net Cash from Financing Activities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Net Financing Expense</b>
<b>Change in Cash from Continuing Operations Before Taxes and Equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Profit from Continuing Operations Before Taxes and Other Comprehensive Income</b>
<b>Income Taxes</b>						<b>Income Taxes</b>
Cash Taxes Paid	—	—	—	—	—	Income Tax Expense
<b>Change in Cash Before Discontinued Operations and Equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Net Income from Continuing Operations</b>
Discontinued Operations	—	—	—	—	—	Discontinued Operations
Cash Paid from Discontinued Operations	—	—	—	—	—	Loss on Discontinued Operations
	—	—	—	—	—	Tax Benefit
<b>Net Cash from Discontinued Operations</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Net Loss from Discontinued Operations</b>
<b>Change in Cash Before Equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Net Profit</b>
	—	—	—	—	—	<b>Other Comprehensive Income (After Tax)</b>
	—	—	—	—	—	Unrealized Gain on Available-For-Sale Securities
	—	—	—	—	—	Unrealized Gain on Cash Flow Hedge
	—	—	—	—	—	Foreign Currency Translation Adj.—Consolidated Sub
	—	—	—	—	—	Foreign Currency Translation Adj.—Associate A
<b>Change in Cash Before Equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Total Other Comprehensive Income</b>
	—	—	—	—	—	<b>Total Comprehensive Income</b>

Source: FASB.

**Abbreviated Reconciliation of Cash Flows to Comprehensive Income for a Financial Services Company (II)**

(for Year Ended Dec. 31, 2009)

A	B	C	D	E	F	G	H
Caption in Statement Of Cash Flows	Not from Remeasurements Cash Flows	Accruals, Allocations, And Other	from Remeasurements Recurring Fair Value Changes	All Other	Comprehensive Income (B+C+D+E)	Caption in Statement Of Comprehensive Income	Unusual/ Infrequent
<b>Business</b>						<b>Statement Of Comprehensive Income</b>	
<i>Operating</i>						<i>Business Operating</i>	
Cash Received from Deposits, Net	—	—	—	—	—		—
Savings Deposits	—	—	—	—	—		—
Time Deposits	—	—	—	—	—		—
Non-Interest-Bearing Deposits	—	—	—	—	—		—
Interest Checking Deposits	—	—	—	—	—		—
Cash Received from Loans	—	—	—	—	—	Interest Income	—
Interest	—	—	—	—	—	Loans, Including Fees	—
Principal	—	—	—	—	—		—
Cash Interest Received from Available-for-Sale Securities	—	—	—	—	—	Available-for-Sale Securities	—
Cash Received from Trading Securities	—	—	—	—	—	Trading Securities	—
	—	—	—	—	—	Interest Expense	—
	—	—	—	—	—	Time Deposits	—
	—	—	—	—	—	Savings Deposits	—
	—	—	—	—	—	Interest Checking Deposits	—
Cash Paid for Loan Originations	—	—	—	—	—		—
Cash Paid for Advances And Loans To Banks, Net	—	—	—	—	—		—
<b>Total Cash from Lending And Deposits</b>	—	—	—	—	—	Net Interest Income	—
	—	—	—	—	—	Provision for Credit Losses	—
	—	—	—	—	—	Net Interest Income After Provision for Credit Losses	—
	—	—	—	—	—		—
Cash Received from (Paid for) Noninterest Operating Activities	—	—	—	—	—	Noninterest Operating Income (Expense)	—
Purchase Of Available-for-Sale Securities	—	—	—	—	—	Realized Gain On Available-for-Sale Securities, Net	—
Service Charges On Deposits	—	—	—	—	—	Service Charges On Deposits	—
Sale Of Loans	—	—	—	—	—	Loss On Sale Of Loans	—
Mortgage Banking Revenue	—	—	—	—	—	Mortgage Banking Revenue	—
Other Non-Deposit Fees and Commissions	—	—	—	—	—	Other Non-Deposit Fees and Commissions	—
Other Noninterest Income	—	—	—	—	—	Other Noninterest Income	—
Settlement Of Derivatives	—	—	—	—	—	Realized Gain On Derivatives	—
Wages, Salaries, And Benefits	—	—	—	—	—	Wages, Salaries, And Benefits	—
Transaction Processing Expense	—	—	—	—	—	Transaction Processing Expense	—
Investment in Affiliate A	—	—	—	—	—	Earnings in Affiliate A	—
Occupancy Expense	—	—	—	—	—	Occupancy Expense	—
Other Noninterest Expense	—	—	—	—	—	Other Noninterest Expense	—
	—	—	—	—	—	Realized Gain On Trading Securities, Net	—
	—	—	—	—	—	Depreciation Expense	—
	—	—	—	—	—	Share-Based Compensation Expense	—
	—	—	—	—	—	Amortization Of Core Deposit Intangible	—
	—	—	—	—	—	Litigation Expense	—
	—	—	—	—	—	Impairment Loss On Goodwill	—
<b>Total Cash from Noninterest Operating Activities</b>	—	—	—	—	—	Total Noninterest Operating Expense	—
<b>Net Cash from Operating Activities</b>	—	—	—	—	—	<b>Total Operating Income</b>	—
<b>Investing</b>						<b>Investing</b>	
Cash Dividends Rec'd from Inv. in Co. B	—	—	—	—	—	Fair Value Change in Inv. in Company B	—
<b>Net Cash from Investing Activities</b>	—	—	—	—	—	Dividend Income from Inv in Company B	—
<b>Net Cash from Business Activities</b>	—	—	—	—	—	<b>Total Investing Income</b>	—
	—	—	—	—	—	<b>Total Business Income</b>	—

Continued on next page.  
Source: FASB.

**Abbreviated Reconciliation of Cash Flows to Comprehensive Income for a Financial Services Company (II)  
(Cont.)**

(for Year Ended Dec. 31, 2009)

A	B	C	D	E	F	G	H
Caption in Statement of Cash Flows	Not from Remeasurements Cash Flows	Accruals, Allocations, and Other	from Remeasurements Recurring Fair Value Changes	All Other	Comprehensive Income (B+C+D+E)	Statement of Comprehensive Income Caption in Statement of Comprehensive Income	Unusual/ Infrequent
<b>Financing</b>						<b>Financing</b>	
Cash Provided for Federal Funds Sold	—	—	—	—	—	Interest Income on Federal Funds Sold	—
<b>Total Cash from Financing Assets</b>	—	—	—	—	—	<b>Total Financing Assets Income</b>	—
Proceeds from Issuance of Long-Term Debt	—	—	—	—	—		—
Cash Received from Federal Funds Purchased, Net	—	—	—	—	—	Interest Expense on Federal Funds Purchased	—
Cash Paid for Borrowings	—	—	—	—	—	Interest Expense on Long-Term Debt	—
Cash Dividends Paid	—	—	—	—	—		—
<b>Total Cash from Financing Liabilities</b>	—	—	—	—	—	<b>Total Financing Liabilities Expense</b>	—
<b>Net Cash from Financing Activities</b>	—	—	—	—	—	<b>Total Net Financing Expense</b>	—
Change in Cash Before Taxes and Equity	—	—	—	—	—	Income Before Taxes and Other Comprehensive Income	—
<b>Income Taxes</b>						<b>Income Taxes</b>	
Cash Taxes Paid	—	—	—	—	—	Income Tax Expense	—
Change in Cash Before Equity	—	—	—	—	—	Net Income	—
 						<b>Other Comprehensive Income (after tax)</b>	
	—	—	—	—	—	Foreign Currency Translation Adjust— Affiliate A	—
	—	—	—	—	—	Unrealized Gain on Available-for-Sale Securities, Net	—
	—	—	—	—	—	Unrealized Gain on Derivatives	—
	—	—	—	—	—	<b>Total Other Comprehensive Income</b>	—
<b>Cash Flows Before Equity</b>	—	—	—	—	—	<b>Total Comprehensive Income</b>	—

Source: FASB.

**Appendix C**

An illustrative example of an alternative reconciliation format. This schedule reconciles the beginning statement of financial position to the ending statement of financial position for a financial services entity. It is also referred to as the balance sheet to balance sheet reconciliation.

**Abbreviated Reconciliation of Statement of Financial Position for a Financial Services Company**

(Dec. 31, 2008–Dec. 31, 2009)

A	B	C	D	E			H	I	J	K
				Changes in Assets and Liabilities						
Caption in Statement of Financial Position	Dec. 31, 2008 Balance	Cash Flows	Caption in Statement of Cash Flows	Not from	From	All Other	Comprehensive Income (C+E+F+G)	Caption in Statement of Comprehensive Income	Non-Cash/ Non-Income	Dec. 31, 2009 Balance (B+E+F+G+J)
				Remeasurements	Remeasurements					
Business Operating Assets			Business Operating					Business Operating		
Cash	—	—	Change in Cash	—	—	—	—	—	—	—
Advances and Loans to Banks	—	—		—	—	—	—	—	—	—
Trading Securities at FV	—	—	Cash Received from Trading Securities	—	—	—	—	Interest Income on Trading Securities	—	—
				—	—	—	—	Realized Gain on Trading Securities, Net	—	—
Available-for-Sale (AFS) Securities at FV	—	—	Cash Paid for Purchase of AFS Securities	—	—	—	—	Realized Gain on AFS Securities, Net	—	—
			Cash Interest Received from AFS Securities	—	—	—	—	Interest Income on AFS Securities	—	—
				—	—	—	—	Unrealized Gain on AFS Securities	—	—
Derivatives at FV, Net	—	—	Cash Received from Settlement of Derivatives	—	—	—	—	Realized Gain on Derivatives	—	—
				—	—	—	—	Unrealized Gain on Derivatives	—	—
Loans, Net of Unearned Interest	—	—	Cash Collected from Loan Principals	—	—	—	—	—	—	—
			Cash Received from Sale of Loans	—	—	—	—	Loss on Sale of Loans	—	—
			Cash Paid for Loan Originations	—	—	—	—	—	—	—
Less Allowance for Loan Losses	—	—		—	—	—	—	Prov. for Credit Losses	—	—
Loans, Net	—	—		—	—	—	—	—	—	—
Interests Receivable on Loans	—	—	Cash Collected from Loan Interest	—	—	—	—	Interest Income—Loans, Including Fees	—	—
Premises and Equipment	—	—	Cash Paid for Equipment	—	—	—	—	—	—	—
Less Accumulated Dep.	—	—		—	—	—	—	Depreciation Expense	—	—
Premises and Equipment, Net	—	—		—	—	—	—	—	—	—
Inv. in Affiliate A	—	—	Cash Paid for Inv. in Aff. A	—	—	—	—	Earnings in Affiliate A	—	—
				—	—	—	—	Foreign Currency Translation Adj.— Affiliate A	—	—
Goodwill	—	—		—	—	—	—	Amort. of Core Deposit Intangible	—	—
Core Deposit Intangible, Net	—	—		—	—	—	—	—	—	—
<b>Total Operating Assets</b>	<b>—</b>	<b>—</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>		<b>—</b>	<b>—</b>

Note: A larger version of the table above can be obtained from [http://www.fasb.org/draft/appb\\_p105-106.pdf](http://www.fasb.org/draft/appb_p105-106.pdf). *Continued on next page.*  
Source: FASB.

**Abbreviated Reconciliation of Statement of Financial Position for a Financial Services Company (Cont.)**

(Dec. 31, 2008–Dec. 31, 2009)

A	B	C	D	E	F	G	H	I	J	K
			Changes in Assets and Liabilities							
			Not from Remeasurements		From Remeasurements		Statement of Comprehensive Income			
Caption in Statement of Financial Position	Dec. 31, 2008 Balance	Cash Flows	Caption in Statement of Cash Flows	Accruals, Allocations, and Other	Recurring FV Changes	All Other	Comprehensive Income (C+E+F+G)	Caption in Statement of Comprehensive Income	Non-Cash/Non-Income	Dec. 31, 2009 Balance (B+E+F+G+J)
<b>Liabilities</b>	—	—	Cash Received from Dep., Net	—	—	—	—	—	—	—
Non-Interest-Bearing Dep.	—	—	Non-Interest Bearing Dep.	—	—	—	—	—	—	—
Savings Deposits	—	—	Savings Deposits	—	—	—	—	—	—	—
<b>Total Deposit Liabilities</b>	—	—		—	—	—	—	—	—	—
Accrued Interest Payable	—	—		—	—	—	—	Interest Expense—Time Deposits	—	—
	—	—		—	—	—	—	Interest Exp.—Savings Deposits	—	—
	—	—		—	—	—	—	Interest Expense—Interest Checking Deposits	—	—
Wages Payable	—	—	Wages, Salaries, and Benefits Paid	—	—	—	—	Wages, Salaries, and Benefits Expense	—	—
Litigation Provision	—	—		—	—	—	—	Litigation Expense	—	—
<b>Total Operating Liabilities</b>	—	—	Cash Rec. from (Paid for):	—	—	—	—	—	—	—
	—	—	Service Charges on Deposits	—	—	—	—	Service Charges on Deposits	—	—
	—	—	Mortgage Banking Rev.	—	—	—	—	Mortgage Banking Revenue	—	—
	—	—	Occupancy Expense	—	—	—	—	Occupancy Expense	—	—
	—	—	Other Noninterest Exp.	—	—	—	—	Other Noninterest Exp.	—	—
<b>Net Operating Assets</b>	—	—	Net Cash From Op Activities	—	—	—	—	Operating Income plus OCI	—	—
<b>Investing</b>			<b>Investing</b>					<b>Investing</b>		
Inv. in Company B at FV	—	—	Cash Div. from Inv. in Co. B	—	—	—	—	FV Change in Investment in Co. B	—	—
	—	—	Net Cash from Investing Activities	—	—	—	—	Dividend Income from Co. B	—	—
<b>Total Investing Assets</b>	—	—		—	—	—	—	Investing Income	—	—
<b>Net Business Assets</b>	—	—	Net Cash From Business Activities	—	—	—	—	Total Business Income plus OCI	—	—
<b>Financing Assets</b>			<b>Financing</b>					<b>Financing</b>		
Federal Funds Sold	—	—	Cash Provided for Fed. Funds Sold	—	—	—	—	Interest Inc. on Fed. Funds Sold	—	—
<b>Total Financing Assets</b>	—	—	Net Cash From Fin Assets	—	—	—	—	Financing Asset Income	—	—
<b>Liabilities</b>										
Fed. Funds Purchased	—	—	Cash Received from Fed. Funds Purchased, Net	—	—	—	—	Interest Expense on Federal Funds Purchased	—	—
Dividends Payable	—	—	Dividends Paid	—	—	—	—	—	—	—
Long-Term Debt	—	—		—	—	—	—	Interest Expense on Long-Term Debt	—	—
	—	—	Cash Paid for Borrowings	—	—	—	—	Financing Liability Expense	—	—
<b>Total Financing Liabilities</b>	—	—	Net Cash From Financing Liabilities	—	—	—	—	Total Financing Expense	—	—
<b>Net Fin. Liabilities</b>	—	—	Net Cash from Fin. Activities	—	—	—	—		—	—
<b>Income Taxes</b>			<b>Income Taxes</b>					<b>Income Taxes</b>		
Deferred Tax Asset, Net	—	—		—	—	—	—	—	—	—
Income Taxes Payable	—	—	Cash Taxes Paid	—	—	—	—	Income Tax Expense	—	—
<b>Net Income Tax Asset</b>	—	—		—	—	—	—		—	—
<b>Net Assets</b>	—	—		—	—	—	—		—	—

Note: A larger version of the table above can be obtained from [http://www.fasb.org/draft/appb\\_p105-106.pdf](http://www.fasb.org/draft/appb_p105-106.pdf). *Continued on next page.*

Source: FASB.

**Abbreviated Reconciliation of Statement of Financial Position for a Financial Services Company (Cont.)**

(Dec. 31, 2008–Dec. 31, 2009)

A	B	C	D	E	F	G	H	I	J	K
			Changes in Assets and Liabilities							
			Not from			From			Statement of Comprehensive Income	
			Remeasurements			Remeasurements			Comprehensive	
Caption in Statement of Financial Position	Dec. 31, 2008 Balance	Cash Flows	Caption in Statement of Cash Flows	Accruals, Allocations, and Other	Recurring FV Changes	All Other	Comprehensive Income (C+E+F+G)	Caption in Statement of Comprehensive Income	Non-Cash/ Non-Income	Dec. 31, 2009 Balance (B+E+F+G+J)
<b>Equity</b>										
Common Stock	—	—	—	—	—	—	—	—	—	—
Additional Paid in Capital	—	—	Proceeds from Reissue of Treasury Stock	—	—	—	—	—	—	—
Treasury Stock	—	—	Proceeds from Reissue of Treasury Stock	—	—	—	—	—	—	—
Retained Earnings	—	—	—	—	—	—	—	—	—	—
Accumulated Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
<b>Total Equity</b>	<b>—</b>	<b>—</b>	<b>Net Cash From Equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

Note: A larger version of the table above can be obtained from [http://www.fasb.org/draft/appb\\_p105-106.pdf](http://www.fasb.org/draft/appb_p105-106.pdf).  
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