

Letter of Comment No: 50
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Financial Accounting Standards Board
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**RE: Accounting Changes and Error Corrections –a replacement of APB
Opinion No. 20 and FASB Statement No. 3
File Reference No. 1200-400**

Ms. Bielstein:

Citigroup is pleased to have the opportunity to provide comments on the Board's Exposure Draft, *Proposed Statement of Financial Accounting Standards, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3 (the "ED")*. Citigroup broadly supports the principle of convergence between US and international accounting standards. However, in Citigroup's opinion, the international standard for reporting changes in accounting principles would not improve financial reporting over current US generally accepted accounting principles for two fundamental reasons: *inoperability in the current standard setting environment* and *prohibitively high implementation costs*. We further note that the IAS guidance in this area – unlike other convergence matters – has not been "battle-tested." There is no certainty that it will prove operational.

We believe the proposed approach is not operational and will be confusing to analysts without achieving improved financial statement transparency. Moreover, despite the differences in language (retrospective vs. prior period adjustment), this proposal equates changes in accounting principles to a correction of an error. Essentially the same accounting treatment is accorded to both, thus implying that previous accounting standards were in error. As such, we oppose the Board's proposal to change the accounting and reporting of changes in accounting principles in order to conform methods of adopting accounting standards to the IASB Standard.

Inoperability

All constituents must present three years of data in their financial statements, and public companies must present five years of financial data in the MD&A (with some presenting historical information for as many as ten years). With every FSP and EITF issuance (in addition to every standard, interpretation, and any other pronouncement issuance), constituents would be forced to restate their financials, hypothetically every quarter, in order to comply with the proposed guidance in this ED. Restating that many years of financial data that often for multi-billion-dollar, global companies with any degree of accuracy would not only prove to be an overwhelming burden for corporate reporting departments, but would unquestionably confuse the users of those financial statements. The notion of comparability would become an afterthought as users would have essentially reissued financial statements almost every quarter.

Companies are loathe to use the “impracticability exception” provided in the ED as it implies laziness or inadequate accounting records. This exception, in actuality, does not provide constituents an “impracticability exception” as there would be negative consequences to its usage.

The analyst reports which users rely upon as a primary source of information have already been written to reflect a company’s performance at those earlier points in time and will not be rewritten to reflect these accounting changes. Furthermore, it is likely that such frequent restatements would only rarely result in material changes in all earlier years presented.

Some supporters of the proposed statement have argued that the Board could simply make exceptions to its general rule when appropriate. If the Board uses this power regularly, the proposed statement is useless. If the Board does not exercise this power, then costs to preparers will be prohibitive.

Implementation Costs

Considering the rapid pace at which accounting guidance is issued, users may find a diminishing level of “return” with each restatement, while preparers will bear an increasingly burdensome cost. For example, consider the changes to FAS 133 and FIN 46 that have occurred as users and the Board dealt with implementation issues. Therefore, we take exception to the language in paragraph A22 which states, “the Board believes that the benefits of more comparable information for comparative financial statements will outweigh any effort that would be required on the part of preparers.” We believe the Board should consider Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Information*, which discusses cost effectiveness in great detail. There is a balance which must be achieved between producing information which is relevant and the costs associated with its production.

Proposed Alternative

We support a prospective adoption methodology along with reporting the cumulative effect of the change in accounting at the date of adoption of a new standard. We believe this would present an economically sensible solution to this issue. Under this approach, the impact of implementing a new accounting standard would be seen clearly in the period it actually takes place. We support the other convergence proposals in this ED relating to reporting a correction of an error, a change in accounting estimate, a change in reporting entity, and reporting and disclosure of accounting changes in interim financial statements. We also support the proposed treatment for changes in methods of calculating depreciation, amortization, and depletion.

If you have any questions or require more information, we would be pleased to discuss our comments with you in more detail.

Very truly yours,

Robert Traficanti
Vice President and Deputy Controller