

The Association for Accountants and Financial Professionals in Business

July 15, 2010

Mr. Robert Herz, Chairman Financial Accounting Standards Board 401 Meritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Sir David Tweedie, Chairman International Accounting Standards Board 30 Canon Street London EC 4M 6XH United Kingdom

Re: Exposure Draft on Comprehensive Income

Dear Sirs:

The Financial Reporting Committee ("FRC") of the Institute of Management Accountants ("IMA") is writing to share its views on the Financial Accounting Standards Board's (FASB) and International Accounting Standards Board's (IASB) Exposure Draft on Comprehensive Income (the "ED"). .

FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

We are not supportive of the conclusions reached in the ED. We do not believe the ED will result in an improvement to the quality or transparency of financial reporting. We believe any perceived shortcoming in the reporting of Other Comprehensive Income (OCI) has been caused not by the manner or geography of its reporting, but by the lack of any clear articulation of the concept behind other comprehensive income. We also believe that the single statement of comprehensive income proposed by the ED will generate confusion by financial statement users. The following paragraphs and the supplemental answers to certain of the questions raised in the ED provide further perspective for our views.

10 Paragon Drive Suite 1 Montvale, NJ 07645 www.imanet.org

The Boards' primary stated objectives of the ED are to 1) present all non-owners changes in equity in one statement, 2) maintain a clear distinction and clarity between profit and loss and other components of comprehensive income and items that could ultimately impact both, and 3) eliminate the current optionality in the manner in which comprehensive income is presented (in either a separate statement or as part of the Statement of Stockholders' Equity). Relative to items 1 and 2, we believe information provided by the current financial reporting model meets these objectives. Both US GAAP and IFRS contain a requirement to present comprehensive income, in either a separate statement or as part of the Statement of Stockholders' Equity (US GAAP only), and in both cases, items of profit and loss are clearly distinguished from OCI components and from changes in equity from transactions with owners. Further, we are not aware of any pattern of questions to companies from financial statement users about the items included in OCI. Thus, we believe item 3 (to promote consistency in the presentation of comprehensive income by removing the current optionality in the presentation in favor of combining comprehensive income with the primary income statement) is the only stated objective of the Boards that is not being met in the current financial reporting model. If the intent was merely to eliminate the potential for inconsistent presentation of comprehensive income, we believe the boards could easily accomplish this by selecting one of the two current alternatives either require its placement within the Statement of Stockholders' Equity (where it is currently presented by a significant majority of current financial statement preparers), or as a separate standalone statement that begins with Net Income, and presents the OCI components to arrive at total comprehensive income. Either of these two alternatives could be executed without any significant compliance effort on the part of companies.

Just as important, we do not believe the proposed presentation of a combined statement of comprehensive income will further the cause of transparent financial reporting, primarily because it would de-emphasize what we strongly believe to be the more important measure to financial statement users – Net Income.

In assessing the merits of this ED, we believe one must first address a few fundamental questions. What is the objective or key user benefit derived from the comprehensive income measure? What is the objective or key user benefit derived from the Net Income measure? Which of these two measures is of primary importance to most users?

We believe OCI is largely irrelevant as a measure of income. OCI seems to have evolved over time to include other non-owner transactions that, for one reason or another, did not seem appropriate to include in net income - rather that in each case the Boards have presumably required OCI treatment because the item was not viewed as a relevant or indicative component of sustainable income or performance. Supporting that view, we believe that neither fixed income nor equity investors use items in OCI in measures of income or performance. In fact, it is our understanding that users tend to view OCI items as "random walk" and not indicative of sustainable performance. While information about items included in OCI does represent valuable information to investors, we believe this benefit is more "supplemental" in nature. To the extent used by investors in their analysis, they accept cumulative OCI amounts as necessary to appropriately measure a company's financial position, and in some limited instances (i.e., actuarial impacts of defined benefit plans) to provide some perspective on items which could impact the company's longer term performance. This is perhaps best illustrated through the use of a simple example. Consider a commercial operating company that holds a pool of "held for sale" marketable securities. Some may argue that the change in fair value of those marketable securities is surely income or loss, and can't be characterized as "random walk." However, if one were to value the commercial operating company, we suspect they would do so as follows. First, they would value the operating company, in many cases by multiplying a measure of net income or adjusted cash flows by a multiple or through a discounted cash flow analysis. Then they would add the current fair value of the marketable securities. We do not believe they would apply a multiple to the current period gain or loss on the securities or project those future gains or losses into a discounted cash flow analysis in placing a value on the company.

We clearly view the Net Income measure as the more important ongoing operating metric used by management and investors to assess the current and ongoing performance of a company (how well the company is managing its short term operations, and converting inputs and resources into products or services that generate ongoing returns to the entity and its investors). While we would acknowledge that net income is not the only, or even the most important operating metric used by all investors (for example, at rating agencies, net income is used in only a portion of the most important metrics, and among equity analysts, some combination of revenue, gross margin, operating income, EBIT, adjusted EBIT, and EBITDA are used as key performance metrics), net income does serve as the base or starting point for metrics used by virtually all investors.

Based on this, we believe the net Income measure is clearly the most important and relevant measure to users of financial statements. We believe that the Boards' proposal is putting "noise" at the bottom of a performance measurement statement, which is unhelpful at best, and possibly distracting as well. Accordingly, we believe the Income Statement should continue to be a stand-alone statement. Any proposed change that de-emphasizes that measure – in particular by including it as a subtotal within a broader statement of comprehensive income – will only serve to divert focus from the measure. In the end, this could confuse investors. We do not believe the requirement to only provide a per share amount for net earnings will alleviate this potential confusion.

To the extent the Boards decide to move forward with a proposal that would eliminate the diversity in practice, we believe the better approach would be to either 1) require the statement to be presented as part of the Statement of Stockholders' Equity (which represents the predominant practice and would thus be least disruptive), or to require a separate Statement of Comprehensive Income, which begins with net income (from a stand-alone income statement) and then includes the other components of OCI.

We believe that the Boards at some point should more holistically address the concept of OCI. Rather than the historical haphazard, item-by-item approach to including items in OCI, they should consider developing principles for what goes into OCI versus net income and what types of items that are initially recognized in OCI should eventually be "recycled" to net income. Such a project would not change our views expressed in this letter. However, it may provide clarity and a framework for evaluating future projects that involve fair value and other measurement basis changes that are not indicative of operating performance.

The following pages include our perspective on specific questions included in the ED.

Should you have any questions please do not hesitate to call me at 212-484-8112.

Sincerely,

Allan Cohen

Chair, Financial Reporting Committee Institute of Management Accountants

Shan Cohen

Responses to the Questions Posed in the FASB Exposure Draft

Question 1

Do you agree that requiring a continuous statement of comprehensive income will improve the comparability, transparency, and understandability of financial statements such as relationships between changes in the statement of financial position, the components of other comprehensive income, and the components of net income in each period? If not, why not, and what changes would you suggest to the amendments in this proposed Update?

For the reasons stated above in the body of the letter, we do not believe a continuous statement of comprehensive income will improve the comparability, transparency, and understandability of financial statements.

Question 2

Do you agree that the option should continue to report the tax effect for each component of other comprehensive income either in the statement of comprehensive income or in the notes to the financial statements?

We agree with retaining the option. It is important to provide the tax implications of the OCI items. Whether it is placed in the actual statement or in the notes is inconsequential.

Question 3

Do you believe that a requirement to display reclassification adjustments for each component of other comprehensive income in both net income and other comprehensive income in the statement of comprehensive income would improve the understandability and comparability of financial statements?

Subject to our views that OCI should be required either within the Stockholders' Equity Statement or a separate Statement of Comprehensive Income (apart from a separate Income Statement), we agree with the requirement to display the impacts of reclassification adjustments for the various components of OCI for both the income statement and statement of comprehensive income. In addition, we are generally supportive of the concept of "recycling," whereby items initially included in OCI would eventually be reflected in the Income Statement (for example, the ultimate realization of unrealized fair value adjustments, the various pension adjustments such as prior service cost and actuarial gains/losses, etc.). Consistent with our view that the Income Statement is the most important statement utilized by management and users to assess the performance of a company, we believe many of the items currently included in OCI eventually impact results and should ultimately be reflected in that statement. We do not agree with the view that all items initially reflected in an element of OCI should never run through the Income Statement.

However, we believe the reclassifications could be better displayed in footnotes to the financial statements. The requirement to include all reclassifications in both the income statement and OCI will add significant clutter to the primary financial statement. Including these items within the footnotes will still permit easy access users.

Question 4

What costs, if any, will a reporting entity incur as a result of the proposed changes?

We do not foresee significant costs in complying with the ED, as the information is currently being reported by companies.

Question 5

The Board plans to align the proposed effective date of the amendments in this proposed Update with the effective date of the amendments in the proposed Update on financial instruments. Are there any significant operational issues that the Board needs to understand to determine the appropriate effective date for the amendments in this proposed Update?

We agree with the Board's plan to align the proposed effective dates of this ED and the proposed update on Financial Instruments. Because the proposed update on Financial Instruments would result in and require the ability to determine reclassification adjustments for several new categories of financial instruments (loans, etc), and the ED would require these reclassification adjustments to be shown in both the traditional earnings section and the other comprehensive income section of the Statement of Comprehensive Income, it would seem appropriate to coordinate the requirements and implementation of the two projects simultaneously

Question 6

The amendments in this proposed Update would not change the guidance on the calculation and display of earnings per share. Do you believe that the Board should change the guidance on earnings per share? If so, what changes would you recommend and why?

We agree with the proposed approach. We do not believe the Boards should change the current guidance on calculating/displaying earnings per share. Consistent with our view expressed above that the Income Statement is the most important statement utilized by management and users to assess the performance of a company, we believe that the only relevant per share measure is earnings per share based on the current definition of net income.

Responses to the Questions Posed in the IASB Exposure Draft

Question 1

The Board proposes to change the title of the statement of comprehensive income to "Statement of profit or loss and other comprehensive income" when referred to in IFRSs and its other publications Do you agree? Why or why not? What alternative do you propose?

For the reasons stated above in the body of the letter, we do not believe a continuous statement of comprehensive income will improve the comparability, transparency, and understandability of financial statements. Accordingly, we do not agree with the proposal to change the title of the underlying statement.

Question 2

The proposals would require entities to present a statement of profit or loss and other comprehensive income with two sections-profit or loss and items of other comprehensive income. The Board believes this will provide more consistency in presentation and make financial statements more comparable. Do you agree? Why or why not? What alternative do you propose?

See Response to Question 1 above, as well as our response to Question 1 of the FASB ED.

Questions 3 and 4

The exposure draft proposes to require entities to present items of other comprehensive income (OCI) that will be reclassified to profit or loss (recycled) in subsequent periods upon derecognition separately from items of OCI that will not be reclassified to profit or loss. Do you support this approach? Why or why not? What alternative do you propose, and why?

The exposure draft also proposes to require that income tax on items presented in OCI should be allocated between items that might be subsequently reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss, if the items in OCI are presented before tax. Do you support this proposal? Why or why not? What alternative do you propose and why?

We do not have strong views on whether entities should present separately those OCI items (or their related tax impacts) that might subsequently be reclassified to profit or loss upon derecognition from those that will not.

Question 5

In the Board's assessment:

- (a) The main benefits of the proposals are:
 - (i) presenting all non-owner changes in equity in the same statement.
 - (ii) improving comparability by eliminating options currently in IAS 1.
 - (iii) maintaining a clear distinction between profit or loss and items of other comprehensive income.
 - (iv) improving clarity of items presented in OCI by requiring them to be classified into items that might be reclassified subsequently to profit or loss and items that will not be reclassified subsequently to profit or loss.
- (b) The costs of the proposals should be minimal because in applying the existing version of IAS 1, entities must have all the information required to apply the proposed amendments.

Do you agree with the Board's assessment? Why or why not?

- (a) As discussed in the body of our letter, we believe current reporting requirements adequately meet the objectives of items ii and iii, and we do not agree there are benefits from item i.

 (b) We do not foresee significant costs in complying with the ED, as the information is currently being
- reported by companies