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1790-100
Comment Letter No. 23
233 N. Michigan Ave., Suite 2500
Chicago, IL 60601

September 24, 2010

Via e-mail: director@fasb.org

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 1790-100—Proposed Accounting Standards Update, *Statement of Comprehensive Income*

Dear Mr. Golden:

BDO USA, LLP appreciates the opportunity to offer comments on the exposure draft addressing the statement of comprehensive income (ED). We do not support issuance of the ED for two primary reasons. First, we are not supportive of the related exposure draft on financial instruments, which the Board cites as one of the main reasons a single, continuous performance statement is warranted. Second, there is no clear conceptual basis in US GAAP to differentiate when an element of an entity's financial performance should affect net income or be relegated to other comprehensive income (OCI). As a factual matter, we agree the Board's financial instruments proposal and the IASB's project on pensions would increase the volume of activity reported in OCI, but those developments are not, in our opinion, a justification for enhancing the prominence of OCI. In effect, the Board has concluded constituents ought to attach additional importance to activity in OCI, without explaining why.¹

The Board also indicates a single performance statement would improve the transparency, consistency, and comparability of the components of comprehensive income. Regarding transparency, we are not aware of user criticisms about opaque financial reporting when the activity in OCI is presented as a separate financial statement or as a component of equity, rather than on the same page as the income statement (in that light, we note one prior Board member who aptly described the options that currently exist as "the page break problem"). We believe users have ready access to the activity in OCI irrespective of where it's reported, but we suspect that mandating a single, continuous statement would detract from the prominence of net income, and therefore earnings per share (EPS)—one of the most central performance indicators currently used in practice. In the absence of principles that articulate why some items should be recorded in net income, while others

¹ In this vein, we note the Board recently proposed a measurement uncertainty analysis for certain fair value estimates based on whether potential changes in the estimate would result in a "significantly higher or lower fair value measurement" as discussed in the proposed revisions to paragraph 820-10-50-2f. For that purpose, significance would be judged with respect to total equity—not OCI—when changes in fair value are recognized *in OCI*. Unless using total equity instead of OCI as the benchmark was unintentional, it appears even the Board's most recent thinking calls into question whether amounts reported in OCI merit additional prominence.



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should not, and the relative importance of one category to the other, we do not see a compelling reason to disrupt practice on this point. Rather, we believe the Boards would need to develop a conceptual framework for the role of OCI before issues of presentation can be settled. This would include resolving differences between the FASB and IASB about "recycling" amounts from OCI into earnings.

Plainly, *consistency* varies among preparers who select different alternatives that are acceptable under US GAAP. But as we note above, it is unclear how the different approaches to reporting OCI actually erode a user's ability to *compare* similar companies.

Nevertheless, any difficulties on this narrow point could be easily addressed. Currently, the Codification permits the following three alternatives for presenting comprehensive income:

- A. One-statement approach, as illustrated in paragraph 220-10-55-7
- B. Two-statement approach, as illustrated in paragraph 220-10-55-9
- C. Statement of changes-in-equity approach, as illustrated in paragraphs 220-10-55-11 and 55-12.

The Board could eliminate either approach B or C without obscuring the existing prominence of net income and EPS, while creating more consistency in practice by reducing the number of acceptable alternatives from three to two. As noted previously, we are not aware of problems in practice that warrant standard-setting at this time. However, *if* the Board concludes change is necessary, we would recommend eliminating approach C because the remaining options of A and B would converge with current IFRS guidance. Since we believe preparers and their users will seek to preserve the prominence of net income and EPS, we would expect practice to gravitate to approach B. However, any preparers that chose a single, continuous statement could still be compared with companies that preferred keeping the two statements separate.

Our specific responses to questions posed in the ED are set out in the attached Appendix.

* * * * *

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Graul, National Director of Accounting at 312-616-4667.

Very truly yours,

A handwritten signature in blue ink that reads "BDO USA, LLP". The letters are written in a cursive, slightly slanted style.

BDO USA, LLP



APPENDIX

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?

We disagree, as discussed in our cover letter. If standard-setting is considered necessary, we suggest the Board narrow the range of options to (a) a single, continuous statement, or (b) two separate statements. This would achieve greater consistency in practice and also converge with current IFRS guidance.

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?

Yes. However, there may be practical considerations for presenting this information gross, as discussed in our response to question 3.

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?

We disagree. We are not convinced significant problems currently exist with respect to the ability of users to understand or compare financial statements as it relates to activity in OCI, including activity "recycled" through net income. We are concerned the additional line items on the single, continuous statement may be distracting rather than helpful to users.

In this context, if the Board adopts a single-statement approach, it may wish to consider the merits of presenting OCI activity gross. From a practical perspective, it would mitigate potential confusion for amounts recycled out of OCI into earnings. In other words, net tax data within OCI reclassified into a gross tax presentation to arrive at net income would be aesthetically inconsistent.

Question 4: What costs, if any, will a reporting entity incur as a result of the proposed changes?

We do not foresee significant costs associated with the proposed changes.



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?

The Board proposes a four-year partial deferral of the financial instruments ED for nonpublic entities with less than \$1 billion of assets in the consolidated statement of financial position. It is unclear how the partial deferral would interact with the OCI ED. That is, would nonpublic entities that are eligible for the financial instruments' partial deferral also defer the application of any final standard related to the statement of comprehensive income, assuming it changed their historic reporting practice?

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 do not believe the Board should change the guidance for calculating or displaying earnings per share in the context of this project.

Other Comments

- We note an apparent inconsistency between the requirement to disclose the accumulated components of OCI *in the statement of changes in equity or in the footnotes* under this ED (paragraph 220-10-45-14A, emphasis added) compared to the financial instruments ED, which states in paragraph BC 158 that "The Board decided that an entity should present separately *on the face of the statement of financial position* amounts in accumulated other comprehensive income...related to the qualifying changes in the fair value or the qualifying changes in the remeasurement amount for financial instruments for which those changes are recognized in other comprehensive income. The Board believes that requiring this presentation would provide users with information about the effects of accumulated changes in fair value and changes in the remeasurement amount on an entity's equity (emphasis added)." At a minimum, we believe the Board should clarify its intent. However, as discussed in our comments on the financial instruments ED, we do not support the newly proposed categories of measuring certain instruments at fair value with portions of the periodic change in fair value recorded in OCI, nor do we agree with the concept of the "remeasurement amount" for core deposits.
- We note the ED would require the components of accumulated OCI be disclosed in either a statement of changes in equity or in the footnotes. However, the ED provides no illustration of the presentation of accumulated OCI in the statement of changes in equity. The lack of an example may further contribute to the perception of OCI's insignificance, leading preparers to default to footnote disclosure.