

September 30, 2010

Mr. Russell G. Golden  
Technical Director  
Financial Accounting Standards Board  
Norwalk, CT 06856-5116

**Re: File Reference No. 1790-100, Proposed Accounting Standards Update,  
“Comprehensive Income (Topic 220)”**

Dear Mr. Golden:

The Financial Instruments Reporting and Convergence Alliance (“FIRCA”) is a coalition of several trade organizations – American Council of Life Insurers, Council of Federal Home Loan Banks, Group of North American Insurance Enterprises, Mortgage Bankers Association, Property Casualty Insurance Association of America, The Real Estate Roundtable and The U.S. Chamber of Commerce – representing all sectors of the economy and areas of the financial services arena. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally. FIRCA welcomes the opportunity to comment on the Financial Accounting Standards Board (“FASB”) exposure draft on Comprehensive Income (Topic 220) (the “Proposal”).

FIRCA supports the FASB’s objective of high quality financial reporting. Further, we support the necessity of the FASB and the International Accounting Standards Board (“IASB”) working together on completing their major projects to improve U.S. Generally Accepted Accounting Principles (“GAAP”) and International Financial Reporting Standards (“IFRS”).

FIRCA has significant concerns about this Proposal to replace the income statement and the current options for reporting comprehensive income with one continuous statement of comprehensive income. We cannot support this Proposal because it does not promote convergence, adds complexity to financial reporting, and represents a fundamental shift in financial reporting without any benefit. Accordingly, we urge the FASB to withdraw the Proposal. FIRCA’s specific concerns are addressed below.

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### *Conceptual Concerns*

Consistent with the overarching premise of the FASB that financial reporting should reflect an entity's business model; the income statement is a long-standing and important focus for investors and other financial statement users in assessing operating performance. Companies have exercised the options available in GAAP for presenting a separate statement of other comprehensive income (OCI) or the components of OCI in a statement of changes in equity precisely because OCI does not reflect their business model or strategies for managing their assets, liabilities, and operating activities. Thus, mandating one continuous statement of comprehensive income undermines an essential premise of financial reporting.

In proposing one continuous statement of comprehensive income, the FASB appears to be taking a giant step in the direction of eliminating the concept of net income – a concept that represents a cornerstone of the conceptual framework and one that is built into the fabric of GAAP. While articulated as a “technical” change in form to eliminate OCI presentation alternatives, which the FASB has concluded will not have significant costs, this Proposal actually represents a sea-change in the conceptual underpinnings of financial reporting and it has profound implications – the costs of which the FASB has not considered.

### *Convergence*

The FASB acknowledges that an important rationale for this Proposal is that the FASB and IASB, although in agreement on how items of comprehensive income should be reported, cannot necessarily agree on the types of items to be reported in OCI and the requirements for reclassifying those items into net income. So, instead of resolving their differences, the FASB proposes to do away with the income statement and replace it with a statement of comprehensive income. However, the inability of the FASB and IASB to resolve their differences can hardly be used as a credible basis for proposing such a sea-change in financial reporting.

FIRCA has previously expressed concern over the IASB and FASB taking separate approaches to the same issue as illustrated by the FASB's Proposed Accounting Standards Update on *Accounting for Financial Instruments (Topic 825)* and *Revisions to the Accounting for Derivative Instruments and Hedging Activities (Topic 815)* and the

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IASB's corresponding Exposure Drafts on *Financial Instruments: Amortised Cost and Impairment* and *Financial Liabilities: Classification and Measurement, Fair Value Option* ("Financial Instruments Proposals").<sup>1</sup> The inability of the FASB and IASB to agree on types of items to be reported in OCI and the requirements for reclassifying (recycling) those items into net income play-out in these Financial Instruments Proposals. FIRCA has encouraged the FASB and IASB to resolve their differences before re-exposing their proposals for public comment.

Also from the standpoint of convergence, FIRCA notes that the IASB's corresponding proposal on *Presentation of Items of Other Comprehensive Income (Proposed Amendments to LAS 1)* does not mandate use of the title "statement of comprehensive income."<sup>2</sup> Further, because of the FASB's and IASB's differing views on reclassification, the IASB's proposal would require the presentation of OCI in two sections ("items never reclassified subsequently to profit or loss" and "items that may be reclassified subsequently to profit or loss"), while the FASB would require companies to display reclassification adjustments for each component of OCI in both net income and OCI.

In sum, consistent with FIRCA's comments on the Financial Instruments Proposals, this Proposal promotes divergence rather than convergence. FIRCA believes that FASB and IASB need to get their efforts in alignment before moving into the public comment and discussion phase.

### *Complexity*

The FASB argues that one continuous statement of comprehensive income, which would have two parts – net income and other comprehensive income (OCI) – with the components and totals shown for each, would somehow reduce financial reporting complexity. Further, the FASB argues for a change now in contemplation of future standard-setting pronouncements, whether by the FASB or IASB, that will increase the volume and complexity of items reported in OCI. But this argument only reinforces our concerns. To the extent that complexity is "self-induced" because of

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<sup>1</sup> For example, see the August 31, 2010 letter from FIRCA to Mr. Russell Golden on *Accounting for Financial Instruments (Topic 825) and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Topic 815)*.

<sup>2</sup> Instead, the IASB is proposing that companies could choose as a title either "statement of profit or loss and other comprehensive income" or "statement of comprehensive income."

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the inability of the FASB and IASB to resolve their differences, it cannot be a basis for supporting such a fundamental change.

Moreover, subsuming the income statement into one continuous statement of comprehensive income would only add unnecessary complexity to financial statement presentation. It would detract from the readability and the understandability of the basic financial statements.

*Additional Comments*

FIRCA also notes that the FASB is making this Proposal to garner support from certain investor representatives not to object to the FASB's proposals related to financial instruments. Specifically, the Proposal states that some users of financial statements told the FASB that they would not object to reporting certain changes in fair value of financial instruments in OCI (as opposed to requiring all changes in fair value to be reported in net income) as long as the FASB requires that the components of both net income and OCI be reported together in one statement of comprehensive income (BC 12). FIRCA appreciates the transparency provided by acknowledging that this Proposal represents a *quid pro quo*, but this basis for the FASB's conclusion hardly provides a reasonable justification for making a sea-change in financial reporting. In addition, it seems unhelpful to the cause of convergence and the clarity and quality of financial statement presentation.

Further, the FASB and IASB are engaged in a joint project on financial statement presentation, and it appears that the FASB and IASB will be proposing significant changes in financial statement presentation as part of that project. Any proposed changes in the presentation of net income and OCI need to be considered in the context of the proposed changes in financial statement presentation overall. Thus, from this standpoint, this Proposal is premature, which likewise supports its withdrawal.

*Concluding Remarks*

In conclusion, for the foregoing reasons FIRCA cannot support this Proposal and we urge the FASB to withdraw it.

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As always, FIRCA is willing to discuss these issues with FASB and assist in the development of accounting standards that benefit all users of financial statements.

Sincerely,

American Council of Life Insurers  
Council of Federal Home Loan Banks  
Group of North American Insurance Enterprises  
Mortgage Banker Association  
Property Casualty Insurance Association of America  
The Real Estate Roundtable  
U.S. Chamber of Commerce