

FASB  
Director@Fasb.org

Re: Statement of Comprehensive Income File 1790-100  
By: Dr. Joseph S. Maresca CPA, CISA

Colleagues,

I thank you for the opportunity to critique this Statement.  
Details follow:

#### Background

---

The issuance describes the requisite disclosure of Comprehensive Income and components of Other Comprehensive Income (OCI) pp. 37-40

Comprehensive Income is disclosed as follows:

- (a) below the components of net income in the Statement of Comprehensive Income
- (b) in a separate Statement of Other Comprehensive Income beginning with Total Net Income
- (c) in a Statement of Changes in Equity

IFRS allows (a) and (b) above. **All components of Comprehensive Income are to be presented in one Statement of Comprehensive Income.** BC4

There were concerns of voluminousness and excess complexity for the determination of Comprehensive Income with respect to the Accounting for Pensions. There are new requirements for a Continuous Statement of Comprehensive Income. Due to proposed amendments for accounting for financial instruments, there are requirements for certain changes in the value of financial instruments to be reported in Other Comprehensive Income. The reason for this is greater transparency, consistency and comparability. In addition, the computation of financial ratios is easier. pp. 38

Most respondents agree to retain the existing requirements for allocation and presenting income taxes in the Statement of Comprehensive Income. The subtotal of Before and After taxes is critical. **The separate tax information or disclosure for Discontinued Operations and Other Comprehensive Income is useful.**

In BC9, the FASB decided that the entity within the scope of 220 must report each component of Comprehensive Income in a continuous Statement of Comprehensive Income. **Also, the FASB eliminated alternative formats for presenting Comprehensive Income.**

Accumulated Other Comprehensive Income OCI (LOSS) involving cumulative changes in Net Gain/Loss from cash flow hedges are to be shown with the effect net of tax.

815 30 50 -2 Disclosures for Accumulated Other Comprehensive Income disclosures

consist of:

- (a) Beginning and Ending Accumulated Derivative Instrument (Gain/Loss)
- (b) net changes in the current period for hedging transactions
- (c) the net amount of reclassification to earnings.

#### Critique

The requirement that all components of Comprehensive Income are to be presented in a single Statement of Comprehensive Income will facilitate uniformity, comparability and consistency.

The Accounting for Pensions can be problematic as concerns the actuarial determination for future obligations because the underlying assumptions are subject to change due to the vagaries of life expectancy, retirement age, population increases and many other factors like changed contractual requirements. Sometimes, there is a need to protect plan participants from outright mis-management.  
( Note: 1)

Derivative contracts can involve hedge accounting. When contracts are selected for hedge accounting, these contracts are still required to be marked to market. The unrealized gain or loss will be reported through other comprehensive income (a part of stockholder's equity), instead of the income statement. The gain or loss is not reflected on the income statement until the underlying hedged transaction is complete.

In reality, for commodity producers, this income statement effect may not happen immediately. Since this will first change the value of the commodity or component, it will not truly affect the income statement until the sale of the commodity is consummated. Formally, the following documentation and testing are required to qualify for hedge accounting:

***“At inception of the hedge, there is formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged transaction, the nature of the risk being hedged, and how the hedging instrument's effectiveness in hedging the exposure to the hedged transaction's variability in cash flows attributable to the hedged risk will be assessed.”***  
***(Statements of Financial Accounting Standards 133, paragraph 28).***

The hedge ineffectiveness can be thought of as a time when the derivative is not perfectly correlated with the fair value (or variable cash flow) changes of the hedged item. Any material ineffectiveness should be reflected in earnings at that time.

Derivatives are subject to counterparty risk. What happens if expectations change; such that, the counterparty risk is greater than the legal counsels and expert witnesses anticipated? Then, the beginning and ending Accumulated Derivative Instrument (gain/loss) may have unanticipated and less predictable components.

Note 1:

The United States District Court, Middle District Tenn. made some very important observations on strengthening corporate governance. These recommendations have very important ramifications **for all corporate entities**. The details of the case and the recommendations are listed below:

***Columbia/HCA Derivative Litigation*** (McCall v. Scott)

Court: United States District Court, Middle District of Tennessee

Case Number: 97-cv-838

Judge: Hon. Thomas A. Higgins

Case Contacts: Max W. Berger, Avi Josefson

This is a derivative action filed on behalf of Columbia/HCA Healthcare Corporation (now known as HCA Inc.) against certain former senior executives and current and former members of HCA's Board of Directors seeking to cause HCA to reform its corporate governance processes, and to hold the defendants responsible for directing or enabling HCA to commit the largest healthcare fraud in U.S. history. The firm represents the New York State Common Retirement Fund, the California Public Employees' Retirement System ("CalPERS"), the New York City Pension Funds, the New York State Teachers' Retirement System and the Los Angeles County Employees' Retirement Association ("LACERA").

Although the district court initially dismissed the action, the United States Court of Appeals for the Sixth Circuit reversed that dismissal and upheld the complaint in substantial part, and remanded the case back to the district court.

On February 4, 2003, New York State Comptroller, the sole trustee of the New York State Common Retirement Fund, announced that the parties had agreed in principle to settle the action, subject to approval of the district court. As part of the settlement, HCA will adopt a **corporate governance plan** that goes well beyond the requirements both of the Sarbanes-Oxley Act and of the rules that the New York Stock Exchange has proposed to the SEC, and also enhances the corporate governance structure presently in place at HCA. HCA also will receive \$14 million. Under the sweeping governance plan, the HCA Board of Directors will be substantially independent, and will have increased power and responsibility to oversee fair and accurate financial reporting.

Some of the more **significant provisions** are:

o **Two-thirds of the Board of Directors must be independent.**

In addition to not having been employed by the Corporation in the last five years, an independent director must not have performed any significant consulting work for HCA within the last five years. Independent Directors may retain legal counsel and other consultants to advise them.

The entire Board, or appropriate committees consisting entirely of independent

directors, will monitor internal control and corporate compliance.

- o **HCA's Audit Committee will be comprised solely of independent directors** and have at least two members with accounting or financial experience. The Audit Committee must also meet with management and the external auditors prior to the filing of each annual report and quarterly report.
- o **The external auditing firm must be rotated every seven years** unless the Audit Committee affirmatively determines that rotation is not in the Company's best interests. This determination must be made every three years.
- o **Candidates for election or re-election to the Company's Board are restricted in the number of other company boards on which may serve.**
- o **Specific internal control and corporate compliance responsibilities,** including specific procedures in the event the Board becomes aware of any material departure from corporate compliance programs or internal control programs, or of material violations of established corporate policies or legal and regulatory requirements.
- o **Shareholders must be given the opportunity to vote on the issuance of any equity compensation to any executive who, at the time of such issuance, is one of the Company's five highest paid executives,** unless the equity compensation is issued pursuant to a plan previously approved by the Company's shareholders.
- o **Heightened Core Competencies, which must be considered in connection with election and the re-election of directors.**

There is no waiting period for the implementation of the enhanced provisions; they become effective immediately upon the Effective Date of the settlement.

In granting final approval of the settlement on June 3, 2003, the Honorable Senior Judge Thomas A. Higgins of the District Court said that the settlement "confers an exceptional benefit upon the company and the shareholders by way of the corporate governance plan."