

September 30, 2010

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

Via email: director@fasb.org

File Reference: No. 1790-100 *Comprehensive Income (Topic 220) – Statement of Comprehensive Income*

Dear Mr. Golden:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Exposure Draft: *Comprehensive Income (Topic 220) – Statement of Comprehensive Income (ED)*. ABA represents banks of all sizes and charters and is the voice for our nation's \$13 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than \$165 million in assets. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities.

ABA strongly urges the FASB to reject the changes proposed in the ED. The proposal to require that "other comprehensive income" (OCI) be included on the income statement implies to users that "total comprehensive income" is the best measurement of income. We do not concur with this notion. If the FASB and IASB decide to move forward with the ED, it is imperative that in-depth discussions take place about the definition of "income", how the income statement is viewed and used by users of financial statements, the various components of OCI and whether the recent action by the FASB to separate "other than temporary impairment" between net income and OCI will effectively be undone by the ED.¹ We believe the changes proposed in the ED represent a major shift in the way income will be defined and viewed and we urge the FASB to drop this project. The ED should not be taken lightly, as it can result in significant and presumably unintended consequences.

The proposed continuous statement of total comprehensive income will not improve the understandability of financial statements, and will, in fact, confuse many users of financial statements. From the perspective of the majority of investors, including the vast majority of long-term investors in banks, net income is, by far, the main gauge of periodic performance. Under current GAAP, net income is appropriately based on the business model of the institution. Effectively, the current components of

¹ Significant amounts of time and resources have been devoted to the various components of OCI, including the geography of where those items should be reported. It is important that those efforts not be undone without full due process and re-examination.

OCI, which were never intended to be included in the income statement, would, under the ED, become income statement items. An example of the lack of logic in the ED is the change in fair values for financial instruments. Under Statement of Financial Accounting Standards No. 115 *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115), the accounting “penalties” for moving securities from “held to maturity” to “available for sale” (AFS) can be so severe that banks must place more in the AFS category than will actually be sold. Although banks must report the AFS category at fair value on the balance sheet, the changes in fair value are reported in OCI. This was essentially a compromise during the development of SFAS 115, with the result being that the fair value changes are appropriately excluded from net income, since bank investors understand that these fair value changes are not expected to be realized.

The ED proposes to relegate net income to a subtotal amount. Along with the separate, but related, proposal to record all loans on the statement of financial condition at fair value², this has enormous safety and soundness implications.³ At a minimum, bank investors will now be required to back out the changes to the new “bottom line” in order to arrive at their main performance measure. For less savvy readers of bank financial statements, however, such as non-institutional investors in community banks as well as many depositor/customers, the proposal will confuse them with a new metric that is less relevant to the business of banking. Banking institutions, which are uniquely subject to immediate withdrawal of funds, will need to prepare for those times in which total comprehensive income, which is affected by fair value changes, significantly differs from their reported earnings per share amounts. As a result, not only will the proposal not improve financial reporting, but it could severely diminish the public’s trust in both regulatory and financial accounting principles – an extremely disconcerting result, considering the basis of the business of banking is confidence. A lack of confidence in the whole system of accounting – without legitimate rationale – is a recipe for potential disaster.

This proposal obviously relates to the Board’s desire for more timely information of loan fair values. However, there is no compelling demand from investors in financial institutions for such information and there has been an overwhelming lack of support among those commenting on the FASB’s proposal on accounting for financial instruments (see footnote 1). Not only is there a lack of support relating to the use of fair values in the balance sheet for financial instruments that are not traded, but most of those who commented expressed additional concern about the reliability of the fair value information. Placing additional prominence on such numbers by including them in the income statement is without merit.

A recent ABA survey of banking chief financial officers across the country indicated that the vast majority of bank investors expressed no interest in the fair value of loans during the period 2007 through 2010 – a period that included the financial crisis. Further, less than 8% of investors in banks during

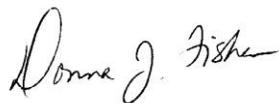
² See FASB proposal issued May 26, 2010: File Reference Number: 1810-100, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*.

³ See Basel Committee comment letter to the FASB, September 22, 2010, comment letter number 836: “The FASB proposal results in an inappropriate application of fair value measurement, for example, for lending and deposit activities and liabilities. This raises significant financial stability issues.”

2007 through 2010 expressed moderate or significant interest in the fair value of loans. Even during capital raising efforts, loan fair values are not an issue. Under the current accounting for unrealized gains and losses from debt securities, market-related unrealized gains and losses are not normally included in the bottom line numbers. Therefore, the current option to provide a statement of comprehensive income that is separate from the statement of earnings allows investors to easily focus on performance for which management is primarily responsible, while allowing for the further review of the performance (market-related) for which management is not primarily responsible. With this proposal, it appears that FASB is trying to tell these investors that they are looking at the wrong numbers. With this in mind, we urge FASB to reject the proposed changes to the options provided for presentation of the current performance statement.

Thank you for your attention to these matters and for considering our views. Please feel free to contact Mike Gullette (mgullette@aba.com; 202-663-4986) or me (dfisher@aba.com; 202-663-5318) if you would like to discuss our views.

Sincerely,

A handwritten signature in cursive script that reads "Donna J. Fisher".

Donna J. Fisher