



January 31, 2011

Ms. Susan Cospers
Technical Director
File Reference No. 1890-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1890-100

Dear Ms. Cospers:

Capital One Financial Corporation (“Capital One”) is one of the largest financial institutions in the United States, with over \$197 billion in assets. Our common stock is listed on the New York Stock Exchange under the symbol COF. We focus on consumer and commercial lending and deposit taking. Aside from being one of the top five credit card issuers in the U.S., we also rank among the top ten largest banks in the nation based on both loans and deposits. As of December 31, 2010, we had \$126 billion in loans and \$122 billion in deposits. Of those loans, 49% relate to our credit card business, while 51% relate to our consumer and commercial banking businesses. We also have 26 thousand full-time equivalent employees.

We appreciate the opportunity to provide comments on the Discussion Paper, *Effective Dates and Transition Methods* (the “Discussion Paper”), recently issued by the Financial Accounting Standards Board (the “FASB”). We applaud the FASB for soliciting input from stakeholders about the time and effort that will be involved in adapting to several anticipated new accounting and reporting standards and when those standards should become effective. We recognize that the FASB is considering a number of targeted improvements to U.S. generally accepted accounting principles (“US GAAP”), so it is imperative to help stakeholders manage the pace and cost of changes to financial reporting.

Since the Discussion Paper was issued in October 2010, the FASB has begun redeliberations on a number of the projects that are the subject of the Discussion Paper. We have been monitoring the FASB’s activities, and where relevant, our responses below will indicate how our understanding of the FASB’s recent decisions will impact our expectations of the time and costs required to implement such changes, as compared to the requirements that were proposed in each respective Exposure Draft. We will also highlight some of our own views and their potential for reducing the time and costs of implementation while still providing decision-useful information to the users of our financial statements. As a diversified financial institution, we feel that the following projects are likely to have the most significant impact on our financial statements: accounting for financial instruments, revenue recognition, leases, and financial statement presentation. Accordingly, our response to the Discussion Paper will primarily focus on the potential impacts of those four projects.

Responses to Questions for Respondents

Question 1: Please describe the entity (or the individual) responding to this Discussion Paper. For example:

- a. Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.**
- b. If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.**
- c. If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public companies, private entities, or both.**
- d. If you are an investor, creditor, or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.**
- e. Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).**

While we are primarily a preparer of financial statements, we are deeply concerned with the needs of the users of our financial statements. In addition, our views are informed by the fact that we act in the capacity of an investor and a creditor in the ordinary course of business. We primarily prepare financial information in accordance with U.S. GAAP; however, we do report separate financial information in accordance with IFRSs for certain foreign operations.

As one of the largest financial institutions in the U.S., we will be greatly affected by any changes to the accounting for financial instruments, which comprise nearly every aspect of our business. The financial statement presentation project also stands to have a significant impact on our financial statements. It is unclear to us at this time how we could separate our financial statements into categories as proposed in the July 2010 Staff Draft of an Exposure Draft on Financial Statement Presentation (the "Staff Draft"). We also understand that certain preparers participated in testing of the proposals in the Staff Draft, which yielded some critical issues for financial institutions that must be resolved in future deliberations.

We have substantial minimum lease commitments primarily related to our bank branches. We also have a growing lessor business that could be greatly impacted by the proposals for lessor accounting. We continue to monitor the revenue recognition project because we have a number of fee arrangements for which it is unclear whether they would be scoped into the project on accounting for financial instruments or the project on revenue recognition.

Question 2: Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

- a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each new standard?**
- b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?**

The proposals in the Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (“FI ED”) are estimated to require three to five years’ worth of time and tens of millions of dollars to implement prospectively, plus an increase of millions of dollars of ongoing costs each year thereafter. Additional time would be required for retrospective application, likely in the range of an additional year of time to implement for each additional year required to be presented on a retrospective basis. The types of costs we would expect to incur include, but are not limited to, the following:

- Training personnel and educating the users of our financial statements on the changes to the accounting guidance, as well as their impact on our financial statements
- Hiring additional employees and consultants, both for the initial implementation and on an ongoing basis
- Changing systems or designing entirely new ones
- Adapting internal controls that comply with Sarbanes-Oxley requirements

It seems, however, that the FASB has recently changed its course on a number of the proposals that were exposed in the FI ED. At the January 25, 2011 meeting, the FASB decided that a business activity approach should be used and that financial assets that an entity manages for the collection of contractual cash flows through a lending or customer finance activity should be measured at amortized cost. We are highly supportive of this decision and we applaud the FASB for responding to constituent feedback, including ours. We also note that this decision, if it stands, will greatly reduce the amount of time and expense that would be required to implement any changes to the current accounting related to classification and measurement of financial instruments. Any minor changes to classification and measurement could likely be implemented within one year.

We understand that the FASB soon intends to issue for comment a supplementary document related to the accounting for credit impairments of loans and other financial assets managed in an open portfolio (Model 4A as described by the FASB). While we do not agree with every aspect of Model 4A, we do believe it is an improvement over the impairment model that was presented in the FI ED. We will provide specific responses to Model 4A after the supplemental document is issued, but we believe at this stage that Model 4A could take up to three years and several million dollars to implement. We prefer the model that we proposed in our comment letter on the FI ED, dated September 1, 2010, and we believe that such a model could be implemented with relative ease.

We do not expect to make significant changes to our operations in response to the revisions to the accounting for derivative instruments and hedging activities, as proposed in the FI ED. Those revisions could likely be implemented relatively quickly without incurring significant costs.

Although the financial statement presentation project has not yet resulted in the issuance of a Proposed Accounting Standards Update, we believe that this project has the potential to significantly affect our financial reporting process. Depending upon the requirements of any final guidance, we estimate that changes to our financial statement presentation may require two to three years' worth of time and tens of millions of dollars to implement prospectively. Additional time would be required for retrospective application, likely in the range of an additional year of time to implement for each additional year required to be presented on a retrospective basis.

Changes to lease accounting would likely require at least a year to implement. We would need to train personnel, hire additional full-time employees to provide the information required on an ongoing basis, and make significant changes to our lease accounting systems. The implementation would likely cost a few million dollars.

Finally, we note that the revenue recognition project may require one to two years' worth of time and a few million dollars to implement prospectively. Additional time would be required for retrospective application.

Question 3: Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

As exposed, the proposals in the FI ED and Proposed Accounting Standards Update, *Leases* ("Lease ED") could cause a proliferation of book-tax differences that would be onerous to track on an ongoing basis. All of the standards have the potential to create additional differences between US GAAP and regulatory reporting requirements. We urge the FASB to work together with regulators and tax authorities as deliberations continue on each of the projects that are the subject of the Discussion Paper in order to reduce such differences.

Question 4: In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

For the benefit of the users of our financial statements, we recognize that retrospective application (modified or limited in the case of some specific requirements) is generally the appropriate transition method for any new requirements. This is the only method that will allow users to understand the changes to our financial statements and to compare them across multiple periods.

However, we believe that retrospective application will take longer to implement and cost more than prospective application. We urge the FASB to carefully consider a cost-benefit analysis of requiring retrospective application for each new standard.

Question 5: In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).**
- b. Under a single date approach, what should the mandatory effective date be and why?**
- c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.**
- d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.**

We prefer the sequential approach because entities will be able to better manage the implementation across resources. In addition, users will be better able to understand the impact of each individual accounting change rather than being confused by a complete overhaul of the financial statements at one time.

However, we believe that all standards related to financial instruments should be grouped together as they are inherently interdependent. In other words, the same effective date should be required for the following projects: accounting for financial instruments, other comprehensive income, fair value measurement, netting financial instruments, and financial instruments with characteristics of equity. Also, these standards should become effective at the same time as any final standard on financial statement presentation. As a financial institution, it would be extremely difficult to plan for or implement any changes to the accounting for all types of financial instruments without understanding how they will ultimately be presented in the financial statements. Because the remaining projects in the Discussion Paper (i.e. revenue recognition, leases, or consolidation) are less dependent upon one another, we are less concerned about the grouping of those standards and believe that they could be implemented in any sequential order before or after the standards related to financial instruments.

Under a single date approach, we believe the earliest mandatory effective date would need to be for financial periods ending in 2015 in order to allow several years for implementation after the issuance of final guidance. One of the advantages of this approach is that we might be able to realize efficiencies across multiple systems changes rather than implementing multiple sets of changes. However, we believe that resources across the entire accounting profession would be stretched extremely thin during the period of implementation, since all entities will be simultaneously adapting to many significant changes. It is important to note that the cost of implementing multiple standards at one time may actually be greater than the sum of the costs of implementing each individual standard in sequence.

Question 6: Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

We would not object to the FASB giving companies the option of adopting some or all of the new standards before their mandatory effective date. Such an option may provide management with the ability to implement the accounting changes under consideration in the most efficient manner. However, this would result in a temporary lack of comparability across entities. If the FASB does give companies the option of adopting some or all of the new standards before their mandatory effective date, we still believe that all standards related to financial instruments should be required to be adopted in conjunction with one another.

Question 7: For which standards, if any, should the Board provide particular types of entities a delayed effective date? How long should such a delay be and to which entities should it apply? What should be the primary advantages and disadvantages of the delay to each class of stakeholders (financial statement preparers, financial statement users, and auditors)? Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

Ideally, the effective date for any new guidance should be the same for all types of entities. In the past, the FASB has provided delays for various requirements to entities based upon the size of the entity, the industry in which it operates, or the activities in which it engages. We believe that even if the FASB decides to provide particular types of entities a delayed effective date for a particular standard, the effective date and transition method should at least be consistent across all entities within the same industry. Having the ability to compare financial statements across entities is essential in our capacity as an investor.

Question 8: Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

To the extent that new guidance will result in significant changes to both US GAAP and IFRSs, then we believe that the FASB and IASB should require the same effective dates and transition methods for their comparable standards. However, if the standards are not converged, or if the impact of any new guidance has an insignificant impact on US GAAP and a significant impact on IFRSs (or vice versa), then we believe it would be acceptable for the FASB and IASB to require different effective dates and transition methods for their respective standards.

Question 9: How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

As stated in our response to Question 7, we believe that the effective dates and transition methods should be consistent across all entities within the same industry, regardless of whether the entities are public or private.

Concluding Comments

In paragraph 12 of the Discussion Paper, the Board asks respondents to answer the questions without regard to the possibility of International Financial Reporting Standards (“IFRSs”) being incorporated into the U.S. reporting system. While our comment letter complies with this request, it is important to note that our views are inherently affected by the U.S. Securities and Exchange Commission’s (“SEC”) ongoing evaluation of whether and how to incorporate IFRSs into the U.S. financial reporting system. The SEC’s decision in that regard will have a tremendous impact on the pace and costs of changes to financial reporting, and therefore must be considered in determining the effective dates and transition methods of newly issued standards. However, we urge the FASB and the IASB to continue to work together to converge the requirements of any newly issued standards. Doing so will lessen the impact of the SEC’s decision, as well as the concerns of U.S. stakeholders who otherwise might have to adapt to two sets of changes to financial reporting.

In addition to continuing convergence efforts with the IASB, we urge the FASB to work together with the SEC and other regulators as it continues deliberations on the projects that are the subject of the Discussion Paper. Any changes to US GAAP will have myriad impacts on regulatory reporting, tax reporting, auditing, etc. While this Discussion Paper is a good first step at soliciting input from those regulators, their views should be taken into account throughout the course of deliberations for each individual project. To that effect, we encourage the FASB to conduct additional outreach activities and to hold additional public roundtables to discuss the implementation of each respective project as the FASB reaffirms or amends previous tentative decisions.

If you have any questions about our comments, please contact Pam Koch at (804) 284-0152.

Sincerely,

A handwritten signature in black ink, appearing to read "Susan McFarland". The signature is fluid and cursive, with a large initial "S" and "M".

Susan McFarland
Executive Vice President and Controller