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November 23, 2011

Ms. Leslie Seidman  
Chairman, Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. 2011-240**

*Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*

Dear Ms. Seidman,

CFA Institute<sup>1</sup>, in consultation with its Corporate Disclosure Policy Council (“CDPC”)<sup>2</sup>, appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“Board”) Exposure Draft, *Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (the “Exposure Draft”).

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets, and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

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<sup>1</sup> With offices in Charlottesville, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 107,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 137 countries, of whom nearly 96,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 58 countries and territories.

<sup>2</sup> The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

***Summary of Our Position***

We do not support the Exposure Draft because it is likely to obscure information that is essential to understanding how the other comprehensive income (OCI) “recycling system” delays the recognition of economic events on reported net income and subsequently reports those events piecemeal, often in a period of management’s choosing (e.g. the sale of available-for-sale securities). As long as companies report economic effects in OCI when they occur rather than in net income (because they do not wish to report the volatility inherent in their operations), there must be clear reporting of how these effects wind their way through the financial reporting system. Only with full transparency do financial statement users have any hope of understanding the economic events themselves and how the use of OCI results in reported income that excludes current period events but includes events from prior periods. The Exposure Draft would be a significant step backwards in providing much needed transparency. The remainder of this letter explains our disagreement in greater detail. We also believe that the Exposure Draft presents the issue in a manner that obscures the proposed change, and the very short comment period also makes it unlikely that investors will understand and respond in a timely fashion.

***Deferral or Reversal of Decision to Present Reclassification Adjustments by Component on the Face of Statement of Comprehensive Income?***

We believe that FASB press release announcing the proposal to “defer” the reclassification presentation requirement, and the language in the Exposure Draft, do not faithfully characterize the proposals in the Exposure Draft. A “deferral” would imply a requirement to postpone until a later date the implementation of certain provisions of ASU 2011-05. Review of the proposed changes articulated in the Exposure Draft indicates that ASU 2011-05 Paragraph 220-10-45-17 will be superseded by the Exposure Draft version of Paragraph 220-10-45-17. The Exposure Draft version of this paragraph is substantively the version of this paragraph which preceded ASU 2011-5. Said differently, the replacement of this paragraph is effectively a reversal of the Board’s earlier decision in ASU 2011-05 to present the reclassification adjustments on the face of the statement of comprehensive income by component of net income and other comprehensive income. Substantively, the Board is reverting to the pre-ASU 2011-05 version of this paragraph. We believe characterizing this action as a “deferral” rather than a “reversal”, with intent to reconsider, is not faithfully representing to the investor community the nature of the Board’s actions. Those who may have read the press release, but have not read the Exposure Draft in its totality, may not have focused on the issue, believing the issue at hand was only one of timing.

The language surrounding the Board’s action implies that the Board simply took the decision in order to allow time for companies to prepare the information, not to re-deliberate whether such reclassification adjustments should be presented by component of net income and other comprehensive income on the face of the financial statements. The Exposure Draft seems to suggest that the Board believes the cost of providing the information may exceed the usefulness of the information to investors. We would assert that until investors are provided with the information – something they have requested since the inception of the use of OCI – such an analysis and conclusion cannot be evaluated or supported.

***Transparent Presentation of “Recycled” Items is Essential to Effective Financial Statement Analysis***

In our September 30, 2010 letter regarding the Proposed Accounting Standards Update (ASU), *Comprehensive Income (Topic 220), Statement of Comprehensive Income* – which ultimately led to the issuance of ASU 2011-05, *Presentation of Comprehensive Income* – CFA Institute strongly supported the Board’s proposal to require the display of reclassification adjustments (i.e. recycled items) by component in both net income and other comprehensive income in the statement of comprehensive income.

Our support for this aspect of the proposal was despite our overall opposition to recycling of items between net income and other comprehensive income. Our historical opposition to recycling stems from the difficulties that investors face in:

- Assigning economic meaning to gains or losses that occur during one period – and are included in equity – but are only recognized in the income statement in one or more subsequent periods; and
- Understanding why some items are recycled and others are not – as is the case for certain items included in accumulated other comprehensive income under IFRS. This difference in treatment further exacerbates the inability to accord economic meaning to items that have been recycled from those that have not.

Accumulated other comprehensive income is a device whereby the accounting effects of economic events are reported in equity rather than net income based on the (dubious, in our view) argument that reporting volatility in net income “confuses” investors. The consequence of this accounting contrivance is that net income excludes the impact of (some) current period events but includes (recycles) some portion of prior period events. Recycling is often at management’s discretion, such as when available-for-sale securities are sold.

In general, we believe that few investors fully understand the origination and reclassification (recycling) of items into and out of accumulated other comprehensive income because of the lack of transparency regarding recycled items. Accordingly, our view was – and still is – that a single statement should include both the origination of the items included in accumulated other comprehensive income and their recycling from accumulated other comprehensive income (i.e. presented through the display of the components of other comprehensive income and their reclassification) into net income. Including both origination and recycling on one statement would substantially increase investor understanding of the economic meaning and substance of the transactions.

Moving the reclassification adjustments to the notes has the effect of removing key elements of the “puzzle.” Further, not displaying the reclassification adjustments by component of net income or other comprehensive income has the effect of removing the usefulness of the information. Without transparency as to when, how and where the items are recycled, their economic meaning cannot be fully evaluated and assessed.

The simplest example of the benefits of such transparency is a financial intermediary with large investments in marketable securities. From an analytic perspective, the only meaningful statistic is the total return by portfolio segment in comparison to a benchmark index. When a portion of

the unrealized gains and losses is reported in OCI, considerable effort is required to compute the total return.<sup>3</sup>

Still further, the Board's consideration of the possible use of OCI to mitigate the income statement volatility of current value measurements of liabilities in the Insurance Contracts Project raises questions regarding how those effects will be recycled into income. Without transparent presentation of these recycled components of the discount rate accretion in net income, investors will be unable to estimate the valuation implications of these economic events. The Insurance Contracts Project also illustrates that the expanded use of OCI only makes this issue of transparency as to recycled items more important.

***CFA Institute Does Not Support “Reversal” of the Requirement, But We Would Support Allowing Adoption of ASU 2011-05 Paragraph 220-10-45-17 One Year Later Than Presently Required***

We are unsupportive of the Board's change as proposed in the Exposure Draft. As the use of OCI is generally seen as a concession to preparers, we are not sympathetic to the view that maintaining information on the flows into and out of OCI is overly burdensome. The simple response to this claim of excessive cost is to require immediate reporting of the accounting effects of economic events – as it is the use of OCI that creates the complexity and cost. Nonetheless, as we have stated publicly, we would not object to the deferral of the requirements to present the reclassifications adjustments by component on the face of the financial statements, for a reasonable period of time – possibly one year – if companies truly need more time to prepare the information; however, we do not support reversal or re-deliberation of the decision to require detailed reporting of the effects of recycled elements of OCI in net income.

It is our belief that the importance of the requirement to present reclassification adjustments by component of net income or other comprehensive income on the face of the statement of comprehensive income is sufficiently explained in paragraph BC6 of the ED as follows:

*Some stakeholders, primarily users of financial statement, indicated the requirement will clarify the effect of reclassifications on net income. Those stakeholders also noted that this presentation will make transparent any earnings from the strategic selling of appreciated financial instruments previously reported in other comprehensive income.*

It is our view that the reasons stated by the Board in paragraph BC11 are not sufficient justification for reversing the implementation of the requirement, given the importance of the needed transparency of the reclassifications to investors. In particular we disagree with the claim by those who oppose the reclassifications that the additional information will clutter the financial statements. The argument that the financial markets cannot assimilate complex data is often made, but never supported by any evidence.

We believe that detailed reporting of these reclassifications provides needed transparency. In our view, presenting the reclassifications out of accumulated other comprehensive income and other comprehensive income into the components of net income for all periods presented will enable

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<sup>3</sup> See, for example, the analysis of Chubb in White, Sondhi, and Fried: *The Analysis and Use of Financial Statements (Third Edition)*, pages 462-465.

users to avoid double counting the effects of these recycled items. We also do not believe that the alternative of presenting the information in the notes is effective. Footnote data, we believe, is less reliable as it receives less attention from both preparers and auditors. Equal prominence needs to be accorded to the presentation of items in other comprehensive income and net income. Not displaying the components, or presenting the information in the notes to the financial statements, has the effect of obscuring information that affords users an understanding of the flows between these two components of comprehensive income. In addition, we would note that, like other standards, the requirement to display the reclassified amounts would not apply to immaterial items. Accordingly, the argument that the income statement would be “cluttered” with immaterial items is not compelling, in our view.

We also would highlight that, given the attention given to quarterly results by companies and their management when communicating with the user community, any decision not to require equivalent presentation of the information in the interim financial statements would be detrimental to investor understanding. Investors cannot wait until year-end to understand how interim earnings were impacted by the recycling process.

***Why Is This Issue A Surprise?***

The emergence of this issue vividly demonstrates that the information necessary to prepare an informed analysis of the consequences of these recycling adjustments has not heretofore been presented effectively in the notes to the financial statements. Said differently, this is not something which should have gone unnoticed before now. The inability of preparers to present the classification adjustments by component is exactly what users have struggled with when attempting to analyze the financial statements without such information.

We want to highlight that the identification of this issue by the preparer community at this late date illustrates why we have opposed the use of accumulated other comprehensive income and recycling from the outset. This information gap has impeded analysis, and understanding, of the consequences of the use of, and recycling from, other comprehensive income since its inception. Rather than reverse the requirement, the Board should focus on whether OCI makes the financial statements more or less representationally faithful.

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Thank you again for the opportunity to comment on the Exposure Draft. If you or your staff have questions or seek further elaboration of our views, please contact either Matthew Waldron, CPA, by phone at +1.212.705.1733, or by e-mail at [matthew.waldron@cfainstitute.org](mailto:matthew.waldron@cfainstitute.org) or Sandra J. Peters, CPA, CFA by phone at +1.212.754.8350 or by email at [sandra.peters@cfainstitute.org](mailto:sandra.peters@cfainstitute.org).

Sincerely,

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