

CHEVY CHASE BANK

Chevy Chase Bank
7501 Wisconsin Avenue
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April 9, 2004

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 60
File Reference: 1200-400
Date Received: 4/15/04

Re: Proposed FAS – Accounting Changes and Error Corrections (File Reference 1200-400)

Dear Ms. Bielstein:

Chevy Chase Bank appreciates the opportunity to comment on the proposed FAS – Accounting Changes and Error Corrections. Chevy Chase Bank is the largest full-service bank headquartered in the Washington, DC metropolitan area and has total assets of \$12 billion. We understand that the FASB's intention is to enhance the comparability of financial statements across reporting periods. However, we do not believe that the retrospective application of financial accounting standards will enhance comparability. We further believe that the cost of retrospective application of new accounting standards will be significant and will not create substantial benefits to investors and users of financial statements.

We believe that APB 20 presents well-reasoned arguments to not retrospectively apply new accounting standards. Arguments in APB 20 against retrospective application of new accounting standards include (a) dilution of public confidence caused by frequent reissuances of financial statements, (b) the considerable effort required to restate prior period financial information (assuming that data is available) and (c) the lack of data, or the fact that data may be incomplete, will require that issuers make assumptions that may result in different answers from what those answers would have been had the newly adopted principle been used in prior periods.

Additional factors underlying our conclusion include:

- The implementation of financial standards to potentially four prior periods (for SEC registrants) will be substantially hindered by a lack of necessary information and will create inconsistencies across companies.
- Financial statement revisions will impact debt covenants, regulatory capital for banks and increase related costs.
- Multiple versions of financial statements in the public domain will create confusion for investors and other financial statement users.
- Sometimes accounting standards change business practices, so applying standards to the past may not create comparable financial statements.
- Re-auditing costs could be substantial, particularly for entities that have changed auditors.

Ms. Suzanne Bielstein
April 9, 2004
Page Two

We also have two comments regarding effective dates. First, effective dates for standards issued after the change to guidance regarding the application of new accounting standards will need to be longer-dated than current practice to allow sufficient time for application of those new standards to prior period financial statements. Second, the proposal discusses two different effective dates for this standard, which needs to be clarified.

The exposure draft states that the reason for issuing this proposal is to achieve more comparability in cross-border financial reporting. In comparing the FASB's exposure draft to International Accounting Standard (IAS) 8 exposure draft, *Accounting Policies, Changes in Accounting Estimates and Errors*, the two drafts are inconsistent in the area of cost and effort required for retrospective application.

Lack of Necessary Information

The implementation of financial standards to potentially four prior periods will be hindered by a lack of necessary information. For SEC registrants, financial standards would need to be applied to the five periods presented in annual filings. Depending on the level of complexity, the quality of the retrospective application may be questionable. Information required to accurately apply the new standard may no longer be available. Personnel changes, and their effect on transactional knowledge, will further hinder the process. The degree of interpretation necessary to implement new standards will also play a role in the results of the retrospective application.

Companies may determine that it is impossible to retrospectively apply new standards. Comparability among different issuers will not be enhanced because each company will come to different conclusions regarding whether it is possible to apply the effects of a change in accounting principle retrospectively. Some may find that they have available the information required to apply the standard, while others may find that they do not have the necessary information. The inconsistent application from company to company will create more investor bewilderment.

Regulatory Capital and Debt Covenants

Revised financial statements will impact regulatory capital ratios and debt covenants. Compliance with bank regulatory standards requires banks to actively manage the balance sheet. Retrospective application of new accounting standards will affect the banking industry more than most industries. Bank regulators will need to grant phase in periods or modify their standards to account for any significant accounting changes. Without modifications to risk based capital standards, some banks will be under capitalized in prior periods as a result of retrospective application.

Ms. Suzanne Bielstein
April 9, 2004
Page Three

For example, consider the impact to banks if under the new FAS 140 guidelines, loan participations are determined not to be sales. The result with retrospective application would be the consolidation of these assets in prior periods. This consolidation would significantly impact bank capital ratios and could result in a bank being deemed to be less than well capitalized. In the event that financial statements are revised, banks would need to revise regulatory filings, which is a burdensome process. Failure to meet minimum regulatory capital requirements will result in increased costs, some of which would be retroactively billed. Costs could include, but may not be limited to, FDIC insurance premiums, regulatory assessments, and the costs related to preparation of capital restoration plans.

Debt covenants of all borrowers would also be affected by this proposal. Generally, when financial statements are changed, debt covenants are recalculated. Companies that were in compliance with debt covenants in the past may no longer be in compliance due to the retrospective application of new standards. Compliance issues could result in higher costs, technical defaults or debt being called.

Which are the Most Current Statements?

Given the amount of information available online, created by many different sources, how are investors going to keep track of which is the latest version? While some investors use company-produced information, many investors prepare their own analyses or rely on information others have produced. Updating and restating information will be a costly proposition for investors and investor services. Investor services will need to revise prior year numbers each time a retrospective application occurs. Based on the current flow of accounting changes, investor services may find it necessary to update their prior period information quarterly. Additional resources and system changes will be necessary for investors to track the substantial number of changes.

Auditors

Retrospective application will affect auditors in several ways. First, they will need to audit the retrospective application of a new standard for all the years affected. Secondly, if they were not the auditors for the five-year period, the new auditors will need to audit not only the retrospective application, but all of the reported information for all or some of the years not previously audited by them. This process will be both time-consuming and costly. Depending on the quality of the prior auditors' work, the availability of the workpapers of that prior auditor and the new accounting firm's interpretation of GAAP, the re-audit could result in a restatement that is unrelated to the adoption of a new accounting standard.

Business Practices

At times, transactions are modified to ensure an accounting treatment consistent with the economics of the transaction. The implementation of most accounting standards requires management interpretation. Some accounting standards result in changes to business practices, including how transactions are structured and in some cases whether transactions even occur. The retrospective application of standards may create unusual results that may not reflect the economics of the transactions.

For example, if FAS 133 required retrospective application, most derivatives would not qualify as hedges because hedge documentation was not in place before the effective date of the standard. As a result, all derivatives would be marked to market through earnings for all years before the effective date. This accounting would not provide meaningful results and would just increase earnings volatility, in addition to confusing users of financial information. Moreover, if such a change did not result in a significant impact to reported net income or equity, investors and other users of financial statements would wonder why the change had been made and, potentially, could ignore the new financial statements as not relevant. In that event, we wonder what purpose would be served by the retrospective application.

Implementation Timelines

If this proposal is issued, the transition periods and effective dates of future standards will need to be extended to allow sufficient time for analysis and implementation of the new standard to the current period and previous periods. Effective dates within six months of the standard issuance date, as is the current practice, will create substantial implementation stress and operational risk. Depending on the level of complexity of the new standard and the availability of necessary information, the quality of the retrospective application may be questionable. Without sufficient time, standards may not be implemented properly or may be implemented inconsistently. Moreover, as mentioned above, the prior periods may need to be re-audited. The more periods that need to be re-audited, the more time will be required to implement a new standard.

Effective Date

Two effective dates are discussed in the proposal. The first is in paragraph 28 and states that the provisions would be effective for accounting changes adopted in fiscal years beginning after December 15, 2004. The second is in paragraph A19 and states that this will be effective for accounting changes made after December 15, 2004.

Ms. Suzanne Bielstein
April 9, 2004
Page Five

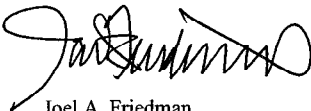
For a calendar year company, the transition in paragraph 28 would apply to years beginning January 1, 2005 and the transition in paragraph A19 would apply to financial statements as of December 31, 2004 (including the retrospective application to all years presented). For a non-calendar year company, the result is more extreme. Consider, for example, a company with a September 30 fiscal year end. The paragraph 28 would require adoption as of October 1, 2005 and paragraph A19 would require adoption for interim statements issued December 31, 2004.

Inconsistency with IAS 8

In comparing the FASB's exposure draft and International Accounting Standard (IAS) 8 exposure draft, *Accounting Policies, Changes in Accounting Estimates and Errors*, the two drafts are inconsistent with regard to cost and effort required for retrospective application. Under paragraph 13 of IAS 8, if the restatement of information would require undue cost or effort, the prior period need not be restated. The FASB's exposure draft does not provide a like provision related to undue cost or effort. As a result of this difference, entities that are required to follow United States of America Generally Accepted Accounting Principles (US GAAP) would be required to retrospectively restate regardless of the cost and entities that follow International Accounting Standards (IAS) could determine that the application created undue costs or effort, thus not applying the standard on a retrospective basis. The FASB's exposure draft does not create a convergence between US GAAP and IAS. Faced with an expensive retrospective application, entities following US GAAP and IAS would not have the same accounting.

If you have any questions or would like to discuss any of the comments above, please contact me at (240) 497-7050 or Joanne Collins at (240) 497-7042.

Sincerely,



Joel A. Friedman
Senior Vice President and Controller

cc: Joanne Collins