Louis Rauchenberger

Managing Director & Corporate Controller

January 31, 2011

Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Sir David Tweedie International Accounting Standards Board 30 Cannon Street London EC4M 6XH

Re: FASB File Reference no. 1890-100: Discussion Paper – Effective Dates and Transition Methods; and IASB File Reference: Request for Views – Effective Dates and Transition Methods

Dear Ms. Cosper and Sir David,

JPMorgan Chase & Co ("JPMorgan Chase" or "the Firm") appreciates the opportunity to comment on File Reference no. 1890-100: Discussion Paper—*Effective Dates and Transition Methods* (the "Discussion Paper") issued by the Financial Accounting Standards Board ("FASB" or the "Board") and the International Accounting Standards Board's ("IASB" or the "Board") Request for Views on the same topic.

The Firm supports the FASB's and IASB's efforts to help stakeholders manage the pace and cost of changes to financial reporting. We acknowledge the Boards' awareness of the significance of the costs incurred in implementing major accounting standard updates. To help you further understand the impact from an operational and systems perspective, the Appendix details the typical planning and implementation steps involved in implementing significant accounting changes.

Generally, we believe that the accounting proposals in scope of the Discussion Paper should be implemented through a single date approach (subject to early adoption on a standard-by-standard basis), with the Board allowing sufficient time for entities to plan for and implement such changes. However, we believe that if more discrete and targeted changes were made in the financial instruments and leasing projects (compared to the Boards' original proposals) estimated implementation times could be reduced significantly while achieving the Boards' primary objectives.

We recommend limited retrospective application for those proposed standards updates where income statement trend information is most critical, and prospective application for all other proposed standards. The significant costs likely to be incurred in a full retrospective application are unlikely to justify the benefits of three years comparative data to financial statement users.

We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. We have provided more detailed comments on the Discussion Paper in

Appendix A, in the order of the questions in the FASB Discussion Paper. If you have any questions, please contact me at 212.270.3632, or Bret Dooley at 212.648.0404.

Sincerely yours,

Louis Rauchenberger

Appendix: Detailed comments on the Discussion paper

Ouestion 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).
- JP Morgan Chase is a listed global financial services firm and one of the largest banking institutions in the United States, with operations worldwide. The Firm's businesses include investment banking, commercial and consumer lending, and asset management. The Firm currently has over \$2 trillion in assets, \$1.8 trillion in assets under management, and over 220,000 employees worldwide.

Our perspectives on financial reporting are based not only on our views as a preparer of our own financial statements under US GAAP (and IFRS for certain subsidiaries), but also as a user of financial statements. As part of extending credit to our wholesale customers and advising clients on investment strategies, we evaluate the financial statements of other companies in the same way that our investors analyze our own. Our lending and asset management activities span across virtually every industry and are global in scope, and therefore rely on financial information prepared in accordance with both US GAAP and IFRS.

We have focused our comments on the effect of the adoption of the following four projects:

- 1) Accounting for financial instruments, including netting of financial instruments;
- 2) Revenue recognition;
- 3) Leases; and
- 4) Other comprehensive income.

We have not considered the projects on Financial Statement Presentation or Financial Instruments with Characteristics of Equity as we are unable to assess the adoption efforts associated with those projects until they are further developed.

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The proposed changes to the accounting for financial instruments and for leases would have the greatest impact on the Firm due to the high volume of financial instruments and leases that the Firm transacts, and the complexity of the proposed changes. We hold more than \$600 billion of loans on our balance sheet, are involved in over 4,000 contracts as lessee and in over 175,000 contracts as lessor. As presented in the exposure drafts, these two proposals are highly complex, and represent a major overhaul in current accounting, operations and systems. The magnitude of the proposed changes and the introduction of new measurement complexities introduce significant resource costs to understand the new requirements, and to plan and create systems and process transformations. However, as we noted in our comment letters to the FASB on these projects, we believe that the primary objectives in these projects could be achieved with much more targeted improvements and at a significantly lower cost. We note that the FASB and IASB are redeliberating significant aspects of these proposals, and that the results of such redeliberations may significantly change the cost and effort associated with adopting the final standards for these projects.

The full impact of the proposed changes to the revenue recognition guidance remains unclear, as the scope and applicability of the guidance to service transactions intrinsic to financial intermediaries continues to be interpreted. As we have previously noted in our comments to the FASB on this project, we urge the Boards to conduct further outreach and field testing to ensure that the impact of the proposed guidance to financial service transactions is understood, and that unintended consequences are minimized.

The Firm believes that the FASB's proposed changes to the Statement of Comprehensive Income, as discussed in the most recent FASB Board meeting, will have a limited cost to the Firm.

- Q2. 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 the 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 Exposure Drafts on financial instruments and leases represent a major overhaul of current accounting, the implementation of which would result in a significant operational cost. To help you understand our perspective, we have summarized below the operational steps involved and type of costs typically incurred in implementing significant accounting changes as a preparer of financial statements. Ultimately, the specific time and effort needed and costs to be incurred in implementing the proposed standards will depend greatly on the final provisions of the standards, including the extent of proposed changes, and the transition methods prescribed. However, there are certain minimum steps involved when adopting significant accounting changes.

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1. Planning

Planning for significant accounting changes requires, at a minimum, the following steps:

- Detailed analysis and interpretation of the new standards, including achieving consensus on interpretations with external auditors, peers and regulators;
- Educating controllers, operational and reporting personnel;
- Re-allocating sufficient resources (financial and personnel) to plan, implement and test changes;
- Identifying the population of transactions and contracts impacted by the changes;
- Identifying internal and external vendor systems, applications and manual processes that would need to be modified or newly developed. Changes to downstream reporting systems as well as transaction systems may be required; and
- Planning system modifications for coding by internal systems developers and outside vendors as applicable.

Considering the complexities of the proposed accounting changes in the financial instruments and leasing projects, and the sequential nature of some of the steps outlined above, we estimate that the above planning stage would take approximately 12 to 18 months. However, if the final standards were to require more limited changes, we believe such targeted changes could reduce this planning stage by up to 6 to 12 months.

2. Implementation and testing

After planning procedures have been performed, the implementation stage involves the following minimum steps:

- Reprogramming the software code of internal and external systems and applications;
- Data migration—loading data required by the proposed accounting standards to the test version of the new system;
- User acceptance testing testing the changes to the systems by a broad range of users across multiple disciplines. External systems would require testing by multiple vendor clients;
- Interface testing testing the flow of the new transaction system data to downstream systems, such as systems used for regulatory reporting, legal entity maintenance, credit and market risk management, the general ledger and external reporting;
- Operation of parallel systems operating old and new accounting systems on a parallel basis in order to build comparative financial data for the retrospective transition method if applicable (see our response to Question 4 for further information);
- Dry runs Large scale accounting changes generally require two firm-wide tests of accounting results and external disclosures using live data approximating quarter or year end close requirements;
- Disclosure drafting and review Changes to disclosure requirements require drafting, and review, redrafting and approval by senior management and external auditors; and
- SOX controls and testing the documentation of SOX controls and the testing thereof is modified to take into account the additional / amended automated and manual processes that would have been implemented due to the accounting changes.

After planning has been executed, the implementation and testing phase for complex or comprehensive accounting changes is likely to take 12-24 months based on the time needed for each step and the sequential nature of some of the steps. Retrospective application of the

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proposed standards would require running parallel systems, thereby requiring one additional year of implementation time for <u>each</u> comparative period required to be presented (see our response to Question 4 for further discussion on transition provisions). However, if the final standards were to require more limited changes that would not involve new core accounting systems, we believe that the implementation and testing phase could be reduced significantly.

Implementation costs

Each of the planning and implementation steps outlined above involves significant costs, through a combination of personnel, system, and external audit resources needed to enact the initial changes, and to provide the ongoing performance monitoring of those changes.

The degree of the magnitude of the changes to accounting, measurement and disclosure determines the magnitude of the costs to preparers. The transition method selected also extensively impacts the cost to implement, with prospective application incurring the least cost, and full retrospective application considerably increasing the implementation cost. However, even relatively straightforward accounting and disclosure changes applied prospectively will involve the majority of the planning and implementation steps outlined above, and therefore incur a meaningful expense to preparers that must be weighed against the utility of the change over time to a broad range of users.

Q3. 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?

The adoption of the proposed standards represents a major overhaul of current accounting standards. As such, it is likely that their adoption will have effects on the broader financial reporting system. For example, the proposal for lease accounting is likely to increase balance sheet assets of lessees. Bank regulators may need to provide additional guidance on the capital requirements for such additional assets. Significant changes to the classification and measurement of financial instruments may also affect how certain regulatory ratios or metrics are calculated and therefore bank regulators will need time to consider such changes. In addition, tax accounting records are often based on accounting records. Therefore, to the extent that the accounting changes with no corresponding change for tax purposes, alternative or parallel accounting systems may be required.

If the FASB and IASB ultimately prescribe retrospective application of the proposed standards, it is possible that regulators would also require retrospective application in regulatory reporting. Revising regulatory reports would add meaningful costs to those outlined in our response to Ouestion 2.

To the extent that regulators determine that the extent of the accounting changes would require regulatory rulemaking, we encourage the Boards to limit the cost to preparers by coordinating the timing of the regulatory and accounting implementations.

Q4. 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

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recommended changes and their affect on the cost of adapting to the new reporting requirements.

As discussed in our response to Question 2, the transition method prescribed by each standard will significantly affect the time, effort and costs of adopting the new reporting requirements.

We believe that applying a full retrospective application for each standard would be very costly, and for certain standards may provide limited incremental useful information for financial statement users. Therefore, we believe the retrospective transition method should be used only for those standards where income statement trend information is most critical (the revenue recognition project), and prospective application should be considered for the financial instrument and leasing projects.

Applying a full retrospective application requires preparers to 1) consider then-current market conditions and inputs (some of which may be unobservable) and transaction history data that existed on date(s) in the past upon which those transactions must be recognized, measured or disclosed; and 2) determine what judgments the preparer would have made at certain dates in the past based on those histories. Certain judgments (for example, establishing the allowance for credit loss), would be very difficult to make in hindsight without bias.

Rather than retroactively applying the standards to existing transactions and contracts, adequate lead time between the issuance and effective dates would enable financial statement preparers to operate parallel transaction systems prior to the effective date of the new standard. Preparers would be able to report results under the old accounting standard while building in real-time the comparative history for reporting upon the effective date of the new accounting standard. However, running parallel systems for any period of time is an operationally burdensome and significantly costly exercise.

In lieu of a full retrospective transition for certain standards like revenue recognition, we encourage the FASB and IASB to consider whether a full three years of comparative data is necessary. Running parallel systems for three years is very costly and would necessarily delay the effective date of a final standard. We question whether the benefits of three years of comparative data to financial statement users would justify these costs, and therefore we encourage the Boards to consider a limited retrospective approach to appropriately balance the benefits and costs.

- Q5. 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

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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.

In general, we prefer a single date approach for large wholesale accounting changes, as we believe that planning, coding, testing, and reviewing changes to overlapping systems and processes only once would minimize the implementation costs of the proposals, and would simplify their communication to financial statement users. We acknowledge that a single date approach may place significant burdens on preparer resources – particularly accounting and systems personnel – who must coordinate several projects simultaneously, and some sequential ordering of internal workstreams will be necessary. However, we believe that an appropriate effective date would consider the fact that preparers will necessarily need to stagger their internal implementation processes to deal with these resource constraints.

We believe that a minimum of three years, <u>plus</u> one year for each comparative period required by the retrospective transition provisions (if any) of the final standards, between the issuance date and the effective date of the final standard is necessary, based on the implementation requirements noted in our response to Question 2 above. However, if FASB and IASB were to make more targeted changes in the financial instrument and leasing projects than originally proposed, we believe that the implementation time could be reduced significantly – perhaps by 12 to 18 months.

Q6. 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 believe that companies should have the option to adopt some or all of the standards before their mandatory effective date, for several reasons. First, we believe that early adoption by certain preparers provides significant benefits to the financial reporting community by identifying and addressing implementation issues early, as other preparers continue to work through their adoption efforts. This early identification of issues by a smaller group of preparers allows those issues to be addressed thoughtfully and thoroughly before implementation by the broader group preparers.

Second, we believe that if the accounting changes required by the final standards are appropriately targeted and represent significant improvements to financial reporting, users will benefit from the improved information and if certain preparers can be ready to make the necessary changes on an expedited basis, there is no reason to delay such improvements.

We believe that these collective benefits outweigh the cost of short term non-comparability associated with early adoption. The transition disclosure requirements in each standard are sufficient to provide financial statement users an understanding of the effects of the new standard, and such disclosures would mitigate the costs to users associated with the short period of non-comparability among companies, especially if the remaining overall changes to accounting are limited.

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Q7. 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 would 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?

We generally support consistent effective dates for all types of entities. We believe that calls for delayed implementations for certain institutions may be more broadly indicative that the benefits of the proposed changes do not outweigh the costs, and that a more targeted approach to accounting improvement may be preferable to a wholesale change. We believe that limiting the scope of the final standards to such targeted changes can meet the FASB's and IASB's primary objectives, while significantly limiting the costs to constituents of all sizes.

Q8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

We recommend that the FASB and IASB require the same effective dates and transition methods for any new comparable standards to be issued. Financial institution regulators are currently coordinating regulatory requirements on global basis, and we believe that it is important that the movement toward converged accounting standards should be similarly coordinated, given how intertwined those efforts are. However, we believe that the effective dates chosen should allow for a well-planned and systematic implementation, and the Boards should not sacrifice necessary implementation time for the sake of short term convergence.

Q9. How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

Our views are not affected by the evaluation of standards setting for private companies.