



October 22, 2010

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 1820-100

Capital One Financial Corporation (“Capital One” or the “Company”) is a diversified financial services company with \$197 billion in assets that offers a broad spectrum of banking products and financial services to consumers, small businesses, and commercial clients. We appreciate the opportunity to provide comments on the Proposed Accounting Standards Update, Revenue Recognition (Topic 605), *Revenue from Contracts with Customers* (the “Proposed Update”), recently issued by the Financial Accounting Standards Board (the “FASB”).

Capital One agrees with the objective of the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. However, we have the following concerns:

- As we noted in our comment letter addressing another FASB Proposed Accounting Standards Update, Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815), *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the “FI ED”), it is unclear to us whether certain fee-based revenue of financial institutions would fall within the scope of this Proposed Update or the FI ED. Examples of these fees are credit card-related fees such as interchange, over-limit, past due, and foreign exchange fees.
- We believe that the principles pertaining to customer loyalty programs introduce unnecessary costs and complexity.
- We are concerned that the Proposed Update may not contain all of the necessary principles to adequately address the propriety of gain or loss recognition in sales of non-financial assets (for example, Other Real Estate Owned (“OREO”) assets).

#### *Scope of Exposure Drafts*

The FI ED contains a definition for loan origination fees that is largely consistent with the definition that exists under current U.S. GAAP. However, the current FASB Accounting Standards Codification<sup>TM</sup> (the “Codification”) contains a significant amount of specific guidance pertaining to the recognition of certain fees associated with financial instruments within the financial services industry such as credit card-related fees. By not releasing a “black-line” version of the FI ED to clearly illustrate how the FI ED supersedes and amends the Codification, it is not clear how to evaluate the proposed treatment of these fees. If such fees are viewed as loan origination fees, and thus within the scope of the FI ED, these fees would be recognized over the life of the loan as an adjustment to yield. If such fees are viewed as within the scope of the Proposed Update, they would need to be evaluated as separate performance obligations/options and transaction price allocations would need to be performed to determine the amount and timing of revenue recognition. Consequently, the timing of the recognition of these fees would be significantly impacted by whether an entity concludes that they are within the scope of the FI ED

or the Proposed Update. We note that both approaches may introduce additional costs and complexity to the recognition of these fees.

We understand that convergence with IFRS will generally result in a more principles-based approach to standard setting, but we are concerned that diversity in practice will result without the introduction of additional clarifying guidance. We believe that this diversity in practice will be exacerbated by the need to conclude upon the treatment of these fees well in advance of adoption so as to make the necessary infrastructure changes to account for these fees. Consequently, we request that the final versions of the Proposed Update and the FIE D contain additional principles, clear demonstration of the changes to U.S. GAAP, and illustrative examples of the application of the guidance to these fees.

#### *Customer Loyalty Programs*

We record the costs of providing goods and services under our customer loyalty programs primarily as a reduction to interchange income as our customers earn the rights to the rewards. Our costs are readily identifiable and we provide transparency on this net treatment to our users via disclosure in the notes to our financial statements. Under the Proposed Update, our customer loyalty programs would generate separate performance obligations. The Proposed Update requires the measurement of the fair value of each performance obligation and the allocation of a portion of the related revenue (i.e., interchange income) to that performance obligation. This revenue must then be deferred until the performance obligation is satisfied (i.e., the customer redeems the rewards). We would still recognize the costs of providing goods and services as our customers earn the rights to the rewards as we do today. The need to perform such a high volume of potentially subjective fair value measurements and monitor revenue deferrals for a large number of new performance obligations will be onerous while only resulting in timing differences in the recognition of net interchange income. Accordingly, this approach would not provide incremental information to the benefit of our users that would justify the additional costs and complexity to our administration of these programs.

#### *Non-financial Asset Sales*

We believe that there are considerations germane to sales of non-financial assets that are not fully addressed by the principles in the Proposed Update. For example, an assessment of the seller's continuing involvement is an important consideration in assessing whether that entity should recognize a gain or loss on a sale. Specific to sales of OREO assets, we note that it would be possible to recognize a gain or loss on a sale that would not qualify for full profit recognition under Accounting Standards Codification Subtopic 360-20, Property, Plant and Equipment – Real Estate Sales (“ASC 360-20”). We question whether general revenue recognition guidance should be applied to such specialized transactions outside of the scope of an entity's normal revenue generating activities. Rather, we would prefer to see transactions within the scope of ASC 360-20 removed from the scope of the Proposed Update so that specialized accounting guidance continues to exist that reflects the unique economics of these transactions.

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

Sincerely,



Susan McFarland  
Executive Vice President and Controller