



January 31, 2011

Ms. Leslie Seidman  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-05116

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC 4M 6XH  
United Kingdom

**Re: File Reference No. 1890-100, Discussion Paper, *Effective Dates and Transition Methods***

Dear Ms. Seidman and Sir David:

The Clearing House Association L.L.C. (“The Clearing House”),<sup>1</sup> an association of major commercial banks, appreciates the opportunity to comment on the above-referenced Discussion Paper (“DP”).

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<sup>1</sup> Established in 1853, The Clearing House is the nation’s oldest banking association and payments company. It is owned by the world’s largest commercial banks, which collectively employ 1.4 million people in the United States and hold more than half of all U.S. deposits. The Clearing House Association is a nonpartisan advocacy organization representing – through regulatory comment letters, amicus briefs and white papers – the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer and check-image payments made in the U.S. See The Clearing House’s web page at [www.theclearinghouse.org](http://www.theclearinghouse.org).

## Executive Summary

The Clearing House supports the efforts of the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB") (collectively, the "Boards") to improve the quality and comparability of financial statements. We note that the proposals under consideration by the Boards are extensive and wide-ranging and will require, in many instances, substantial changes to financial reporting.

In our experience, such changes are always best implemented in a systematic manner. Due to the extensive nature of the proposed changes, a significant period of time must be allowed for their implementation. Entities will need to find and train personnel, make processes changes and revise controls to implement the proposed accounting standards. And, importantly, it will take time for software vendors to develop the systems that must be implemented to accommodate several proposed accounting changes. We believe these changes warrant a longer implementation period than the typical implementation period. To illustrate this point, when Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* was finalized by the FASB, the FASB eventually provided for a two-and-a-half year implementation period. Yet, even after the effective date, it took several years for third-party vendors to develop software programs for the new standard, due to its considerable complexity. We believe that the proposals regarding the accounting for financial instruments and leasing could have similar far-reaching effects on our members, and with this in mind, we strongly urge the Boards to provide for a sufficient amount of time to implement these standards.

In summary, The Clearing House:

*recommends* that all standards have the same effective date, but with the option to early adopt any or all standards;

*recommends* that the Boards adopt a prospective transitional approach for new standards, given the significant additional costs associated with providing retrospective information; however, if the Boards decide to require retrospective adoption, we recommend a limited approach; for example, applying the new standards only to transactions still in existence at the date of adoption, with the cumulative effect of the change in accounting principles shown in stockholders' equity, or requiring, at most, one year of comparative financial statements;

*recommends* that if a single date approach is adopted, the Boards provide for approximately a five-year transition period, with an additional year for each year that is required to be presented on a retrospective basis; and

*recommends* that the Financial Statement Presentation project be deleted from the Boards' agendas before any major new standards are required to be implemented, so that

companies can proceed with the assurance that there will be stability in financial reporting for some meaningful period of time after the implementation of these standards.

Our responses to the Boards' specific questions follow.

*Q1. 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).*

The Clearing House is owned by the world's largest commercial banks, which collectively employ 1.4 million people in the United States and hold more than half of all U.S. deposits. Member institutions prepare financial statements in accordance with U.S. GAAP as well as IFRS and are registered on a number of major exchanges throughout the world. In addition, our members are users of financial statements in their capacity as investors and lenders to other institutions.

Many of the proposed new standards will have a sweeping impact on the commercial banking industry, and we have submitted separate comment letters on many of these proposals to explain their significance to our members in more detail. In particular, the proposals that affect the accounting for and presentation of financial instruments and leasing

could potentially have far-reaching impacts on our members as these standards will affect the majority of their business transactions.

*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?*

Although the response to this question will necessarily vary according to each proposal and will ultimately depend upon the final standards, we believe that, on average, it will require our members approximately five years to prepare for and implement the standards listed in the DP on a prospective basis. While it may be possible to implement individual standards in less time, the adoption of more than one standard at the same time creates significant constraints on existing resources from both a systems and personnel perspective, thereby requiring the need for additional time. The majority of time and expenses are generally incurred in developing, testing, and implementing computer systems and systems of internal controls; training personnel; and educating investors and other users of financial statements. Depending upon the ultimate scope and complexity of the final standards, additional time could be required. In addition, for those standards that are required to be implemented on a retrospective basis, most of our members would need one additional year of implementation time for each year that retrospective presentation is required. This is so that firms can cost-effectively accumulate the data needed to produce comparative information and ensure a correct and complete implementation.

*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?*

We note that the implementation of new standards always involves an evaluation of the impacts on current and anticipated future business activities as well as the potential impacts on regulatory and tax reporting requirements. A significant amount of time is frequently required to evaluate and prepare for these impacts. For example, certain of the exposure drafts, such as those relating to the Accounting for Financial Instruments and Leasing, have the potential to create numerous book-tax differences which will need to be tracked and reported, thereby requiring additional implementation time. In addition, in the event that the Boards require a retrospective approach to adoption and regulators decide to adopt a conforming retrospective

approach to implementation for regulatory filings, significant additional costs and implementation time will be required.

With respect to the proposals impacting the accounting for financial instruments, we believe that the regulatory impact of these new standards should be identified before these new standards are issued in final form, in order to provide for the smoothest possible implementation and transition period. In this regard, we encourage the Boards to work with the banking regulators as they re-evaluate and potentially modify the Exposure Drafts outstanding, so that all relevant regulatory impacts are identified before the final standards are issued. We believe this would be an effective use of time for all parties concerned, and The Clearing House would be pleased to assist in that process.

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

As discussed in our responses above, we recommend that the Boards adopt a prospective implementation approach to the new standards due to the significant costs associated with retrospective implementation. Should the Boards decide otherwise, we recommend a limited approach, for example, applying the new standards only to transactions still in existence at the date of adoption, with the cumulative effect of the change in accounting principles shown in stockholders' equity, or requiring, at most, one year of comparative financial statements.

*Q5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:*

*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).*

Certain of our members prefer a single date approach, whereas others prefer a modified sequential approach. (The modified sequential approach is described in the response to question 5.c. below, whereby all standards relating to the accounting for financial instruments are implemented as of the same date.) In this regard, we see advantages and disadvantages to both approaches. With respect to a single date approach, the primary advantage is the ability to determine the interrelationships among the various new standards and their combined impact on business activities and other reporting requirements and to plan accordingly, so that changes made in one area in response to one standard are not required to be changed again to

comply with another standard. The single date approach is obviously a massive effort and will require a significant investment of time and resources. The sequential approach conceivably will require a smaller team that can be redeployed over time, yet runs the risk noted above of requiring changes in areas that have been recently changed. Given the diversity of views, we recommend that the Boards adopt the alternative espoused in our response to question 5.d. below.

*Under a single date approach, what should the mandatory effective date be and why?*

For most of our members approximately five years would be necessary to prepare for the single date approach, plus an additional year for each year that is required to be presented on a retrospective basis.

*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.*

As an overall matter, we note that the Financial Statement Presentation project is interrelated with many of the other projects on the Boards' agendas. Therefore, we recommend that the Boards formally remove this project from their agendas at this time, so that companies can proceed with the implementation of the other standards with some assurance that there will be stability in financial reporting for some meaningful period of time after the implementation of the other standards.

We believe that all the standards that impact the accounting for financial instruments are by definition interrelated and should therefore be finalized at the same time and have the same effective date. This includes Accounting for Financial Instruments, Fair Value Measurement, Offsetting Financial Assets and Financial Liabilities, Financial Instruments with Characteristics of Equity and any other projects (e.g., IASB's Consolidation Project) that are added to the agenda that impact the accounting for or presentation and disclosure of financial instruments. After that, we recommend that the standards on Consolidation of Investment Companies, Revenue Recognition, Leasing, and Insurance Contracts be finalized and implemented.

*Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.*

Another approach that we believe is both viable and preferable is to provide for a single date approach with the option of early adoption of any of the individual standards. We believe this provides for the maximum amount of flexibility so that companies that wish to adopt the single date approach may do so, and companies that wish to adopt some form of a sequential approach may also do so. We are aware that this approach may be criticized in that it may

impair comparability among companies and/or industries. However, it is our experience that many industries typically follow the same practices with respect to early adoption of standards, such that if a “market leader” early-adopts a standard, other companies in that industry will tend to do so as well. The potential, temporary loss of comparability among companies can also be addressed in the disclosures regarding the impact on the financial statements of new accounting standards that have not yet been adopted.<sup>2</sup> Accordingly, we recommend that the Boards adopt this alternative approach.

*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)?*

Please see our response to question 5(d) above.

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

We believe that the FASB and the IASB should require the same effective dates for all new standards. In addition, we believe that it is important that the Boards issue converged standards, in order to ease the eventual adoption of IFRS by the U.S. if and when such adoption is required. Finally, we urge the Boards not to sacrifice the development of high quality standards merely to meet a self-imposed deadline for the completion of these projects.

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Thank you for considering the comments provided in this letter. If you have any questions or are in need of any further information, please contact me at (212) 613-9883 (email: [david.wagner@theclearinghouse.org](mailto:david.wagner@theclearinghouse.org)) or Gail Haas at (212) 612-9233 (email: [gail.haas@theclearinghouse.org](mailto:gail.haas@theclearinghouse.org))

Sincerely yours,



David Wagner  
Senior Vice President,  
Financial and Tax Affairs

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<sup>2</sup> In this regard, we note those disclosures pursuant to the SEC’s Staff Accounting Bulletin (SAB) 74.

cc: Ms. Sue Bielstein  
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*Financial Accounting Standards Board*

Ms. Kristin Bauer  
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