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9 September 2003

Sir David Tweedie
Chair of the International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: *IASB Comprehensive Income Project*

Dear Sir David:

The Global Financial Reporting Advocacy Committee (GFRAC) of the Association for Investment Management and Research (AIMR)[1] respectfully wishes to express our views regarding the current IASB project to address comprehensive income. We hope the Board will find our comments helpful when deliberating the issues and drafting a proposed standard for reporting comprehensive income.

According to the Project Updates located on the IASB's Web page, this project's main focus is the development of a single statement of comprehensive income. For more than a decade, AIMR has supported a comprehensive income approach that records all recognized changes in assets and liabilities in a single statement without "recycling." The following excerpts from the 1993 AIMR report – *Financial Reporting in the 1990s and Beyond* – summarizes AIMR's position:

> *We consider income to include all of an enterprise's wealth changes except those engendered from transactions with its owners. We have profound misgivings about the increasing number of wealth changes that elude disclosure on the income statement. Yet individual items may be interpreted differently.* ***That calls for a display of comprehensive income that allows components of different character to be seen and evaluated separately*** [Emphasis added], p.63.
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> ***Financial statement users need in one place all the data reporting an enterprise's economic activity****, which they then may sort out to suit their own purposes. The resulting income statement format needs codification of its structure to ensure that like items are classified similarly by different companies. Only then will analysts be able with increased confidence to make many of the comparisons so vital to their work* [Emphasis added], p. 64.

[1]With headquarters in Charlottesville, VA and regional offices in Hong Kong and London, the Association for Investment Management and Research® is a non-profit professional association of more than 65,500 financial analysts, portfolio managers, and other investment professionals in 116 countries of which 50,607 are holders of the Chartered Financial Analyst® (CFA®) designation. AIMR's membership also includes 127 Member Societies and Chapters in 46 countries.

Financial analysts continue to place heavy emphasis on the income statement in their work to evaluate a company for investment. We believe a comprehensive approach facilitates the evaluation of an enterprise. It highlights the underlying business risks and exposure to those risks by reporting all the changes in asset and liability values in one place. Currently, much effort is required to locate and evaluate all of the income items that can have a bearing on their forecasts of the future and the valuation of the firm.

Therefore, we support the IASB's tentative decision, taken at its June meeting, that changes in assets and liabilities should be recognized in a single statement. We realize that this will result in a change in the measurement of net income and eliminate the current practice of "recycling." Recycling refers to the current practice of recording changes in the value of some assets and liabilities directly in equity until some future event occurs whereupon the previously recorded gain or loss is removed from equity, reported in the income statement, and returned to equity as retained earnings.

Recycling Unrealized Gains and Losses

We support the Board's June decision to eliminate recycling of gains and losses that have been previously recognized and reported through equity rather than the income statement. We believe all changes in valuations or re-measurements should flow directly through comprehensive income to preserve the concept of "clean surplus" in the balance sheet. We believe that changes in valuations and re-measurements should be reflected in the reporting period in which they are identified or have occurred. This treatment results in a fairer representation of the economic activities for the period. Otherwise, recycling previous unrealized amounts as realized gains or losses distorts the amount associated with that particular reporting period.

In particular, we have long held that unrealized valuation changes in marketable securities that are accounted for as "available for sale" should be recorded in income and not directly in equity. To do otherwise, would create an artificial distinction between net income and comprehensive income based on when management chooses to engage in a sale.

However, we believe that valuation and remeasurement changes are different in character from gains and losses arising from transactions, such as, corporate operating activities. That is why we believe that "such gains and losses should be included in comprehensive income but displayed in such a manner so that they may be evaluated on their own (*Financial Reporting in the 1990s and Beyond, page 63-64)."* Consequently, we support the IASB's tentative decision to present comprehensive income in a columnar format.

Support for a Columnar Presentation of Comprehensive Income

We recognize that changes in the net assets of a company from transactions with other than shareholders comprise numerous components of differing quality. Some are routine and/or repetitive, others are not; some are the result of a company's main or "core" business; others are not; some are the result of accounting conventions while some are the result of real economic events. Therefore, we prefer and strongly support the IASB's current proposal to present comprehensive income detail for a given reporting period in three columns:

(1) A total column,

(2) A profit before re-measurements column and

(3) A re-measurements column, representing the adjustments to the carrying values of assets and liabilities.

This approach best distinguishes between the activities of an enterprise and the effects that changes in market conditions or assumptions have on the current values of a firm's assets and liabilities. Furthermore, this columnar approach allows users to identify and better understand the changes in balance sheet items from one period to the next. Analysts are better able to identify trends in key performance drivers and to project expected future cash flows of the enterprise. All of these are needed to determine the enterprise's value.

Nature vs. Function Presentation

We disagree with the Board's tentative decision to allow reporting of comprehensive income items either by nature or function. Instead, we strongly support a standardized approach to reporting comprehensive income in that information should be displayed by nature and that functional display would be more appropriate for segment reporting.

As previously stated to IASB staff, users of financial statements prefer presentation by *nature* rather than by function for several reasons. Presentation by nature facilitates the comparison between enterprises, which cannot be readily done with a functional presentation because the allocation of costs to functions is somewhat arbitrary. Also, we believe that the display by nature better articulates the changes in the balance sheet and provides a more direct link to the activities noted in the cash flow statements.

Furthermore, there is no accounting guidance for grouping expenses by functions such as cost of goods sold, research and development, or other function-related groupings of expenses. Moreover, a functional grouping in itself is more aggregated information, which needs to be broken down to fully understand the *nature* of the amount and what causes it to increase or decrease. Macro economic data that is used for forecasting is more easily related to the cost by nature such as labor, materials, etc.

Although we prefer *by nature* presentation for comprehensive income, we do believe there is value derived from seeing items grouped by function in segment reporting. The functional reporting of income and expense items is more aligned with segment reporting because business segments may require different functions, or groupings of items, to explain the activities. Therefore, we would like to see reporting by nature required in the statement of comprehensive income and reporting by function encouraged in the segment reporting disclosures.

Net Income Subtotal

We do not believe that subtotals in the statement of comprehensive income are desirable. What is important to us is that all changes in the net assets of the enterprise from transactions with other than with shareholders be presented in one statement and that changes from remeasurement be distinguished from changes that are not from remeasurement. Generally today, users of financial statements start with the reported net income and make changes to it. These adjustments often are for items relating to changes in asset valuations, "one-time" or "nonrecurring" items, and amounts calculated using other data provided in the notes to the financial statements. The emphasis placed on such items varies among users of financial statements and the purposes of the analysis.

After analysis and adjustment analysts use the result to extrapolate into the future. GAAP net income is not used for investment decisions today without analysis and adjustment. We do not believe that the IASB should or can draw a line somewhere on the statement of comprehensive income that will satisfy the needs of all financial statement users and be used for investment decisions in the future without similar analysis and adjustment.

Benchmark Earnings and EPS

We realize that the database providers and media are especially interested in having an amount or statistic, such as net income or earnings per share (EPS), that they can use to collect for databases or produce headlines. This information attracts the attention and interest of analysts and the general public. However, we do not believe that any one number conveys all of the relevant information necessary to make an investment decision. Therefore, we are strongly opposed to placing such importance and reliance on one item of financial information, such as net income or EPS. This view is affirmed in recent AIMR surveys, which indicate that analysts and portfolio managements consider the key financial statements and note disclosures to be very important. (Please refer to the survey results discussed below.)

Currently, our tentative view is that *total comprehensive income* is a suitable benchmark for reconciliation with any other performance figures which might be calculated, and an acceptable starting point for analysis and evaluation of an enterprises' performance. In addition, if other totals for benchmark earnings and EPS are reported by the media, as may in any case occur, they should be standardized to avoid confusion and misleading information. We plan to discuss both issues further, taking account of the fact that some items in the matrix may be more appropriately included than others when calculating EPS and a price/earnings ratio

AIMR Surveys[2] on Corporate Disclosure and Corporate Communication

The results of the survey indicate that investment professionals – analysts and portfolio managers – require complete sets of financial statements, including note disclosures and other management analysis to properly assess and evaluate the performance of any enterprise. The following provides the mean response by each survey for the key financial statements, note disclosures, and corporate earnings releases.

Importance of Information Sources

Considering the companies you usually follow, use the five-point rating scale (1 = not important to 5 = extremely important) to rate each of the following information sources for its importance to your analysis. (The amounts reflect the mean response for both surveys combined.)

Information Source	***Importance of the Information Source*** **(n = 1,882)**
Cash Flow Statement	4.6
Balance Sheet or Statement of Financial Position	4.5
Income Statement	4.5
Footnote disclosures to the financial statements	4.5
News releases about earnings and other financial information	4.1
Operating and Financial Review or MD&A of a company performance and financial condition	4.1
Statement of Shareholders' Equity	3.2

Note: The responses were consistent across the regions identified in the survey: Australia/New Zealand; Canada; Continental Europe; Hong Kong; Japan; Other Asia; United Kingdom; and United States.

[2] AIMR retained Fleishman-Hillard Knowledge Solutions to survey membership to identify the key perceptions of information sources and types of factors that are most important when analyzing companies. In June 2003, AIMR conducted two Web-based email surveys of its membership. The membership was divided into two groups, one for each survey: 772 respondents replied to the Corporate Disclosure Survey and 1050 respondents replied to the Corporate Communication Survey. Both surveys had the same questions from 1 to 5. In particular, question 5 sought opinions about the importance, quality, and change in quality over the past three years of certain financial statement information.

Clearly, the survey results indicate that analysts do not rely solely on one piece of information, such as earnings or EPS. They require a holistic approach to information, which is contained in the primary financial statements, note disclosures, and other supplemental information.

Fleishman-Hillard is currently analyzing and evaluating the survey results and a report will be issued indicating the results along with an assessment those results. This report is expected later this month and will be available on AIMR's web site at - http://www.aimr.org/pressroom/surveys.html.

Closing Remarks

The GFRAC appreciates the opportunity to provide its views for the Board's consideration while deliberating and drafting the proposed standard for reporting comprehensive income. We urge the Board to continue its efforts to promulgate a standard for comprehensive income as soon as possible.

We strongly support the Board's current views regarding the matrix/columnar format for display of components of comprehensive income and that changes in carrying values of assets and liabilities (or unrealized gains or losses) included comprehensive income for prior reporting periods should not be recycled upon the realization of gains or losses. However, we urge the Board to reconsider its current decision to allow the display of information by nature, function, or mixed presentation.

If you have any questions or require further elaboration of our views, please do not hesitate to contact Georgene Palacky at 1.434.951.5334 or georgene.palacky@aimr.org.

Sincerely,

/s/ Patricia A. McConnell

Patricia A. McConnell, CPA
Chair, Global Financial Reporting Advocacy Committee

/s/ Georgene B. Palacky

Georgene B. Palacky, CPA
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