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Director, TA&I - FSP Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: Comments on Proposed FSP EITF Issue 03-1-a



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Dear Director:

We are writing in response to your invitation to comment on the Proposed FASB Staff Position No. EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("Proposal").

KeyCorp ("Key"), headquartered in Cleveland, Ohio, is a bank-based financial services company that, at September 30, 2004, had assets of approximately \$88 billion. Financial institutions like Key hold fixed-income debt securities for several reasons, one of the most important among them being the flexibility they provide for asset and liability management purposes. As a result, Key is very interested in issues concerning the potential impairment of these securities.

Key takes pride in providing detailed and comprehensive financial information to the investment community, and supports standards and interpretations that clearly result in accurate and useful information that can improve investor understanding and allow for more informed decisions.

Sufficient Accounting Guidance Exists

Key believes sufficient accounting guidance already exists regarding the identification and measurement of other-than-temporary impairments under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115") and Staff Accounting Bulletin No. 59, Accounting for Noncurrent Marketable Equity Securities ("SAB 59") as revised by SAB 103. This guidance has been effective for years and is readily understood in the marketplace. Paragraphs 10 through 20 of EITF 03-1 do not provide any new accounting guidance regarding other-than-temporary impairments. Because they are redundant with existing guidance, FASB's intent in regard to these paragraphs is the source of significant confusion and debate in the preparer and auditor communities. Therefore, Key recommends that the FASB discontinue any further interpretation of this issue and eliminate the above-referenced guidance from EITF 03-1. However, it is our belief that the disclosure requirements prescribed by EITF 03-1 provide readers of financial statements with clear and useful information regarding investment activities and recommend that paragraphs 21 and 22 remain in effect.

Reporting Requirements

Sufficient information related to unrealized losses on securities is already available to users of financial statements as a result of the new reporting requirements under EITF 03-1. These new provisions require a

tabular display of all securities in a continuous unrealized loss position for less than 12 months and greater than 12 months. In addition, a narrative is required that provides sufficient information to allow financial statement users to understand the quantitative disclosures as well as the information that the owner of the securities considered in reaching the conclusion that the impairments are not other than temporary. The following information is detailed in EITF 03-1 for inclusion in the disclosure narrative:

- 1. The nature of the investment(s)
- 2. The cause(s) of the impairment(s)
- 3. The number of investment positions that are in an unrealized loss position
- 4. The severity and duration of the impairment(s)
- 5. Other evidence considered by the investor in reaching its conclusion that the investment is not other-than-temporarily impaired.

This listing is comprehensive enough to enable financial statement readers to make informed decisions about the related securities. The disclosure provisions of SFAS 115, SAB 59 and EITF 03-1 provide sufficient transparency in the financial statements.

Minor Impairments

Key agrees with the conceptual idea of a minor impairment relating to normal interest rate and/or sector spread volatility, but does not believe that a quantitative bright-line measurement should be devised to define these fluctuations.

The Board, as well as the SEC, has stated that issuance of objectives-oriented standards is preferred to the current rules-based guidance that requires scope exceptions, scope exemptions and treatment alternatives. In an article entitled, "On the Road to an Objectives-Oriented Accounting System", published in the August 31, 2004 issue of the FASB report, one of the characteristics of an objectives-oriented standard is that it avoids the "use of percentage tests ("bright-lines") that allow financial engineers to achieve technical compliance with the standard while evading the intent of the standard". The establishment of a quantitative threshold that defines minor impairment would deviate from the Board's ultimate goal of developing these standards.

The determination as to whether a movement in the fair value of securities below cost is minor should be made by management and justified to the preparer's auditors. Furthermore, the determination of whether a change in value of a security or portfolio of securities is minor should not be viewed in isolation but rather in the context of the company as a whole.

Sale of AFS Securities Should Not Taint the Entire AFS Portfolio

The Proposal in paragraph 16 states "Although not presumptive, a pattern of selling investments prior to the forecasted recovery of fair value may call into question the investor's intent." Key understands the Task Force's reasoning for including the preceding language in EITF 03-1. After the run-up in certain industry stocks during the 1990s and the subsequent decimation of those markets, it is reasonable to believe that financial statement preparers holding those securities could have deferred the recognition of significant losses on AFS securities in shareholders' equity until such time as the losses could be "covered" by other positive impacts to earnings. In this example, the sale of a security at a time when the loss could be disguised certainly calls into question an owner's ability and intent to hold the remaining securities and should require a write-down of the remaining portfolio.

Financial institutions utilize securities classified as AFS as an extremely important resource in implementing their asset/liability management strategies. Decisions to buy and sell securities are predicated on decisions made by Asset and Liability Committee members after thorough analysis and discussions of market, business and economic data. If financial institutions could forecast all of these factors at any point-in-time and determine their impact on business operations, then an assertion regarding the ability and intent to hold each individual security within (for example) a multi-billion dollar AFS portfolio until recovery might be a reasonable expectation. However, the future is not certain and business factors can and do change; requiring flexibility in the intent of management and its responses to these conditions. Balance sheet strategy and management intent would need to be reviewed in light of such changes. In certain situations, the result may be the sale of securities in an unrealized loss position that, prior to the most recent analysis, were effective in mitigating market risks inherent within the balance sheet.

Requiring institutions to assert which securities with unrealized losses would be held until a forecasted recovery and which would be sold (requiring impairment write-down) based on circumstances that may or may not occur in the future is a futile task that provides no additional benefit to a company or to the users of financial statements. And yet, this segregation of portfolios is the most likely course of action that will be taken by financial institutions to isolate securities to avoid tainting entire portfolios with an attendant significant loss in flexibility in managing interest rate risk.

The decision to sell one or more AFS securities with an unrealized loss subsequent to the owner's assertion that it has the ability and intent to hold until a forecasted price recovery should not necessarily and automatically taint the entire portfolio. If such securities are sold, the owner could be required to fully disclose the rationale for selling the securities in the context of its asset/liability management strategy. Furthermore, the owner of the securities portfolio is already required to justify the reason(s) why the remainder of the portfolio, if in an unrealized loss position, is not impaired other than temporarily.

Effective Date

Key strongly suggests that the effective date of any final EITF 03-1 guidance be delayed until 2005 or beyond. As this accounting guidance is currently being discussed, it is believed that it may require the development and maintenance of new processes and documentation for securities within a company's AFS securities portfolio. With Section 404 of the Sarbanes-Oxley Act of 2002 becoming effective on December 31, 2004, this date would not be an appropriate time to require companies to initiate new processes and documentation that would have to be tested and reviewed in accordance with the 404 requirements. Therefore, the effective date of any additional guidance in this area should be delayed to allow financial statement preparers time to properly evaluate and implement it.

Key supports the Board's goal of providing the investment community with detailed and comprehensive financial information regarding securities. However, Key does not believe that the provisions in paragraphs 10 through 20 of EITF 03-1 further the accomplishment of this goal.

We hope these comments are useful and positively influence the final guidance. We welcome the opportunity to discuss this issue in more detail. Please feel free to contact Chuck Maimbourg, Director of Accounting Policy & Research at 216-689-4082 or me at 216-689-3564.

Sincerely,

Lee Irving
Executive Vice President
and Chief Accounting Officer