



Letter of Comment No: 47
File Reference: EITF03-1
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September 29, 2004

Mr. Lawrence W. Smith
Director-Technical Application and Implementation Activities and EITF Chair
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position No. EITF Issue 03-1-b

Dear Mr. Smith:

U.S. Bancorp, the sixth largest bank in the United States with over \$190 billion in total assets, appreciates the opportunity to comment on the Proposed FASB Staff Position No. EITF Issue 03-1-b.

We strongly support the decision to delay application of paragraph 16 of EITF 03-1 and we believe that the delay should be extended to equity and debt securities that can be contractually be prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost. We are appreciative of the Board's efforts to move quickly to defer the effective date of paragraph 16 until the implementation guidance for FSP 03-1-a is finalized. However, we believe the delay should be broadened to all securities subject to EITF 03-1 due to other issues that will result from promulgating this EITF without further clarification. These issues include, among others, the following:

Mortgage Securities Acquired at a Premium

Mortgage securities purchased at a premium can be contractually prepaid or otherwise settled in such a way that the investor would not recover all of its cost. There is a significant amount of confusion regarding the application of EITF 03-1 to premium securities. Example 5 of EITF Issue 03-1 describes a situation where an investor owns a mortgage security with a cost of \$111 that can be repaid at \$100, or par, if all the underlying mortgages payoff. This example demonstrates a situation where an investor potentially is not able to recover "substantially all" of its cost. At least one Big four accounting firm recently interpreted "substantially all" to be 90% of cost; whereas, Example 5 clearly indicates otherwise. We understand others are defining substantially all to be 85% of cost. An implementation delay would provide the additional time needed to clarify the "substantially all" guidance for premium securities.

Agency Issued Preferred Stocks

In addition, perpetual equity securities issued by Fannie Mae and Freddie Mac are AA rated perpetual equity securities that for federal income tax purposes qualify for the 70% dividends received deduction. Some of these hybrid securities have fixed rate dividends while others have floating rate dividends. Many of these hybrids have market prices that are below cost due to an increase in interest rates and/or sector spreads since the time of

purchase. Because these hybrid securities are similar to investments evaluated under paragraph 16, we believe that for these types of securities an entity should not be required to make an assertion regarding an entity's ability and intent to hold through a recovery due to "minor impairments". Implementation of EITF 03-1 should be delayed until the Board can consider the applicability of the proposed guidance in FSP EITF Issue 03-1-a to these securities.

Thank you for your time and consideration with respect to our views on this matter. Please contact me at (612) 303-4352 with questions or if you need additional information.

Sincerely,

Terrance R. Dolan
Executive Vice President and Controller