

Letter of Comment No:

File Reference: FSPAAGINVA
Date Received:

September 16, 2005

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

Re: File Reference FSP AAG INV-a, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide

Dear Mr. Smith:

Standish Mellon Asset Management (Standish) appreciates the opportunity to respond to the FASB Staff Position (FSP) referenced above. We support the FSP as clarifying accounting treatment for collective funds, and we are encouraged by the progress that has been made to define accounting and reporting requirements for stable value funds.

Standish has been active in the deliberations of the Stable Value Investment Association and we support the comments they are submitting. We are making additional comments and recommendations attached to provide emphasis and/or perspective to those issues that are especially critical to our stable value business. Standish manages or sub-advises over \$11 billion in stable value assets, covering 842 plans and over 540,000 participants. Included in these amounts are five collective funds totaling aver \$2.5 billion in assets. As fiduciaries under the Employee Retirement Income Security Act of 1974, we have a responsibility to assure that each plan's stable value investments are reported accurately, in order that administrators are able to accurately report participant level balances.

Our comments are intended to assure the consistent application of FASB's intent and to help avoid any unanticipated adverse consequences. Our comments are attached to this letter.

Thank you for this opportunity to comment on the FSP. If you have any questions regarding the attached, please contact me at (415) 399-4498.

Sincerely,

Robert A. McCormish Executive Vice President

Standish Mellon Asset Management

Attachment

Attachment

Benefit-Responsiveness

We recommend that paragraph 7(b), which defines fully benefit-responsive contracts, be revised to reflect the practical realities of the market. Events jeopardizing contract value accounting should be identified as those which have a material impact on the likelihood of realizing full contract value. Our rationale is based on historical experience with these types of circumstances. For example, we have experienced a credit downgrade of a contract issuer, which was not a default and which had no impact on the ability of that issuer to satisfy the terms of the contract. In such an instance, where contract value accounting continues to be the most relevant value, it should be permitted. If an issuer defaults, or is likely to default, on contract obligations, fair value is appropriate. Maintaining the less specific language currently in this section may cause an over-reaction by reducing the value of a contract, to the detriment of participants who withdraw while an artificially lower value of the contract is reflected in their account balances. Fiduciaries should continue to be charged with the responsibility of determining whether such a material event has occurred or is likely to occur.

Sensitivity Analysis

We believe the requirement for two sensitivity analyses in paragraph 11(e) provides little value to current or prospective investors in a stable value fund. Most stable value funds are managed with a cash, or highly liquid, buffer fund used to pay participant benefits and transfers without requiring withdrawals from longer-term investments. In addition, the interest and maturity payments from existing fixed maturity contracts supply additional funds if needed, as do the ongoing contributions of continuing participants. Finally, there are strategies used in the market to provide short-term liquidity needs, such as the duration-neutral restructuring of exiting traditional GIC contracts. This strategy accelerates the maturity of a portion of the contract, while deferring the maturity of the remainder of the contract.

In most collective funds, withdrawals for employer-initiated events may be deferred by the fund sponsor for up to twelve months, allowing a more gradual accumulation of the required liquidity and further protecting continuing participants.

The net result of these strategies is to override the impact of interest rate changes, and continuing participants are largely insulated from any impact of withdrawals, regardless of the current level of interest rates. Therefore, any sensitivity analysis that projects changes in interest crediting rates would be misleading, perhaps inducing investors to make decisions that may not be in their best long-term interest. Certainly the potential objective of providing comparability between funds is significantly compromised.

Grandfathering Non-Defined Contribution Assets

We are especially sensitive to the potential impact of driving defined benefit assets out of a fund in an unorganized fashion. If non-defined contribution plan assets must be withdrawn for the fund to qualify for contract value accounting, such a withdrawal could have negative economic consequences on the remaining defined contribution plan participants invested in the fund.

We recommend that existing non-defined contribution assets be grandfathered at their current level of assets, except for reinvestment of interest. This provision would impact very few collective funds, but would avoid the possibility of imposing any adverse impact on defined contribution plan participants.