

October 26, 2004

Letter of Comment No: 79
File Reference: EITF03-1A

Mr. Lawrence Smith, Chairman
Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5166

Re: EITF 03-1 "The Meaning of Other Than Temporary Impairment and its Application to Certain Investments"

Dear Mr. Smith,

With regard to the request for comments on the proposed FSP EITF Issue 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1," I offer the following thoughts.

General

Perhaps it is my lack of clarity on the issue but I am confused by why the Board perceives a need to drill deeper into an area that is already covered by existing accounting principles. We have guidance on "intent and ability to hold", on "other than temporary impairment", "accounting for contingencies", etc. And, throughout accounting literature we are guided by the words "need not be applied to immaterial items". A reasonable application of these principles will appropriately address the issues being raised in your FSP.

If your concern is that there is "inconsistent application in practice" of these principles, I would submit that faced with a set of facts, intelligent people will often draw different conclusions. To achieve absolute concurrence of opinion is not a reasonable goal. It is precisely for that reason that "principles based accounting" has functioned so well for so long. Once you make the move to a "regulations" based accounting paradigm, you open the Pandora's Box of excuses and exclusions. For every rule you try to tighten, a creative mind will find the exception in practice. As a practice, I do not believe you can solve all the "inconsistencies" you might wish.

You have not specifically requested comment on disclosure issues at this time but I am compelled to bring up disclosure as it relates to the "unit of account." While I agree that the "unit of account" should be the individual security, if the resulting footnote disclosure would require expansive content for each security deemed "impaired", this will create an onerous process resulting in an overly cumbersome footnote that loses value to the reader with every additional sentence. Footnote disclosures should not require individual security discussions. That standard doesn't exist for loans, legal issues, deferred compensation agreements, etc., and should not exist for securities.

Finally, my education suggests to me that accounting models are meant to reflect the economic events and transactions of a business, not force a particular action by

management that would not otherwise be prudent or in the best interests of the organization. Facts and circumstances change constantly in business. Management reacts to these changing circumstances to the best of their ability. If, for example, in a changing rate environment, management considers various bond transactions, accounting rules shouldn't force the sale of the 3% "impaired" security if the more prudent decision would be to sell the 5% "impaired" security. I believe your proposed guidance brings just such a scenario into play.

With regard to the specific issues raised in your FSP, I offer the following comments.

Issue 1. Certain debt securities are subject to price volatility as a result of interest rate movements, changes in cash flow characteristics, credit considerations, and multiple combinations of factors. Not only are these elements difficult to segregate, the measurement of the impact on price is, at best, subjective. The accounting profession routinely makes subjective judgments in the application of principles, and is equipped to continue in this manner. Any effort to establish a "bright line" of impairment suggests a degree of accuracy in measurement techniques and a clarity of relative importance of price factors that is not valid. Further, an impairment of any percent on an immaterial and totally insignificant individual security should not require a full complement of accounting adjustments, disclosures and discussion merely because it reached a "bright line". Judgment needs to prevail.

Issue 2. I do not support making distinctions between securities types for purposes of analysis and disclosure. Once distinctions are codified, practitioners adopt an "exclusionary" mode in applying the standard. Materiality and judgment are the only concepts required in judging "minor impairment". Do not attempt to define a more narrow set of rules.

Summary

Impairment is a function of multiple business events occurring separately or in combination. Accounting guidance should provide an overall objective, not a narrow set of exclusionary rules.

Thank you for requesting comment on the issues of impairment. I hope my views are worthy of your consideration.

Sincerely,

Gary P. Culyer, EVP and CFO
Dedham Institution for Savings —
55 Elm Street
Dedham, MA 02026