

October 26, 2004

Mr. Lawrence Smith  
Director and Chairman of the Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856

Subject: Comment letter on Proposed FASB Staff Position, EITF Issue 03-1-a, 03-1-b, and additional issues related to the Application of Paragraph 16 of EITF Issue No. 03-1

Dear Mr. Smith,

Univest Corporation of PA. (Univest) appreciates the opportunity to comment on the proposed Staff Position, issued on September 15, 2004 by the Financial Accounting Standards Board (FSP 03-1-a). Univest is a financial services holding company and parent of Univest National Bank, a \$1.7 billion bank located in southeastern Pennsylvania.

Thank you for providing an extended comment period on this issue which has such a significant impact on the financial services industry of which we are a part.

EITF 03-1, if implemented in its current form, will have a major impact on how banks manage their balance sheet positions. Banking institutions, such as Univest, serve their communities by filling customer deposit and credit needs in their markets. This is performed by using asset/liability management techniques to balance the liquidity and interest rate risks of the banks balance sheet to ensure that customer deposit and credit needs can be met safely and at a competitive rate. Since the tenor and demand for deposits and loans is largely customer driven, investment portfolio flexibility is necessary to neutralize resulting liquidity and interest rate risks in the balance sheet. The current GAAP guidance for investment accounting, FAS 115, was carefully written to protect that necessary flexibility while providing users of financial reports with all the necessary information they need to understand the financial condition of the reported institution. The requirements of EITF 03-1 that debt securities be written down for changes in market value that are due solely to an increase in interest rates provides financial report users with no additional useful information than is currently present under FAS 115 but does threaten the use of AFS securities by financial intermediaries to meet their liquidity needs. Not only would financial report users not be better served by the interpretation but, if they are shareholders, they may be disadvantaged economically since their managements may need to resort to more expensive sources of liquidity.

The FASB Staff positions that "intent and ability to hold" be designated at an individual security level and that minor impairments be considered temporary make the overall interpretation less offensive and thus are an improvement in scope but not theory. Only the ability to hold the security to recovery or maturity, not the intent to do so, should be the driving factor in determining the other-than-temporary impairment for AFS. The AFS designation, by definition under FAS 115, allows for the change in intent to hold that is necessary for financial intermediaries to function.

In my opinion, debt securities held in AFS should not be written down through income for changes in market value that are due solely to increases in interest rates unless the ability to hold them to recovery is in question. I believe this would allow the flexibility necessary for an asset/liability function to use AFS investments to safely manage their changing balance sheet positions. Asset/liability managers of financial institutions need to be able to change their intent on AFS investments as their balance sheet positions change. This is the reason why FAS 115 established an AFS designation in the first place. I believe that FAS 115 provides financial report users with adequate disclosure to make informed judgments about the market values of AFS portfolios without precluding them from being “available for sale”.

Should the writing down of debt securities, through income, due to increases in interest rates become conclusive, then a bright-line rule to establish what constitutes a minor impairment, would seem to be necessary to ensure comparability between financial reporters. I believe that the 5% level considered in the staff response to Issue 1 would be too low a threshold for establishing what is more than a minor impairment. 200 basis point moves in interest rates, at a minimum, are modeled by bank asset/liability managers, and required by bank regulators, as the normal range within which rates can be expected to change. A bond with a duration of ten years could easily go down 20% in value as the result of such anticipated rate changes. Thus it seems that a 20% change in the value of an AFS bond should still be considered a minor change in value since it is inside the normal expected range of rate changes for the industry.

In conclusion, the changes in EITF 03-1 seem to rewrite current GAAP on AFS investment accounting and present some very serious implications for the banking system and for managers and shareholders of financial institutions. We endorse the delay in implementation of Paragraph 16 of EITF 03-1 proposed in FSP Issue 03-1-b. Implementation of EITF 03-1 should be delayed past year-end 2004 in order for market participants and financial report users to more fully comprehend its impact.

Again, we appreciate the opportunity to comment on this proposal. Thank you for considering our views. If you would like to discuss this letter in more detail, please contact me at [rushp@univest.net](mailto:rushp@univest.net).

Sincerely,  
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