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Letter of Comment No: 31
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September 28, 2004

Mr. Lawrence Smith

Director of Technical Application and Implementation Activities

Financial Accounting Standards Board

401 Merriti 7

P.O. Box 5116

Norwalk, Connecticut 06856-5116

Re: Proposed FASB Staff Position No. EITF Issue 83-1-b. Effective Date of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed FASB Staff Position ETF Issue 03-1-b (the "Proposed FSP"), Effective Date of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." We commend the FASB for its efforts in responding quickly to constituent concerns in this regard.

We have the following comments and observations for your consideration.

Because of the confusion in the marketplace concerning the application of EITF 03-1 to investment grade debt securities that are impaired solely because of interest rate and/or sector spread increases, we agree that there should be a delay in the application of paragraph 16 to provide the Board with time to address this issue.

Although we support the proposed delay, we found the words in paragraph 2 of the Proposed FSP to be unclear with respect to which aspects of accounting for impaired debt securities would be delayed by delaying the implementation of paragraph 16. We observe that Staff Accounting Bulletin Topic 5M, "Other Than Temporary Impalment of Certain Debt and Equity Securities" (SAB 59) which is incorporated into the FASB's guidance on Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115), provides that an indicator of whether an impairment is other-than-temporary is the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Comment letters have argued that under SAB 59 if the length of time and the extent to which the market value has been less than cost is minor, then the assertion in paragraph 16 of ability and intent to hold an investment until a forecasted recovery of fair value up to (or beyond) the cost of the investment, which in certain cases may mean until maturity, does not need to be made.



If the Board believes that delaying the effective date of paragraph 16 of ETF 03-1 results in entities applying SAB 59, including its numerous indicators, in third quarter financial statements, this should be made more explicit in the FSP. The FSP also should note that application of SAB 59 would still require a company to assert its ability and intent to hold an impaired debt security for a period of time sufficient to allow for any anticipated recovery in market value unless the impairment is of minor severity and duration. Because these interpretations would involve guidance issued by the staff of the U.S. Securities and Exchange Commission (SEC), we strongly recommend that the FASB work with the SEC staff to consider and clarify whether the delay in effectiveness of paragraph 16 of EITF 03-1 will resolve constituent concerns surrounding the need to represent an intent and ability to hold impaired debt securities until forecasted recovery.

If the Board intends that companies continue to apply existing practices to investment grade debt securities, such as U.S. treasury securities, that are impaired solely because of interest rate and/or sector spread increases, then instead of delaying the effective date of the application of paragraph 16 of EITF 03-1, we believe the FSP should be revised to delay the recognition criteria (paragraph 19) for debt securities that are impaired solely because of interest rate and/or sector spread increases, unless there has been a decision to sell the security. This guidance would appear to be consistent with current practice, as evidenced by the comment letters on EITF 03-1, under which companies do not consider treasury securities or other debt securities to be other than temporarily impaired when the impairment is due solely to interest rate and/or sector spread increases. This would not, however, affect the need for companies to follow EITF 03-1 for (1) credit impairments, (2) securities for which there is an intention to sell (EITF Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value"), and (3) securities described in paragraph 10 of EITF 03-1.

Additionally, many companies adopting EITF 03-1 this quarter have contractual provisions that may inhibit their ability to assert their intention to hold impaired securities to recovery. For example, companies may have hired outside investment advisors with whom contracts exist that do not allow the company to make assertions on individual securities. Others have developed portfolio management techniques that procedurally create complexities around making individual security assertions. Adoption of additional guidance on an accounting pronouncement is unusual and, we believe should be one of the rare instances a transfer to the trading category is allowed under paragraph 15 of SFAS 115. If such a transfer is not allowed, companies will be required to use lower of cost or market accounting, recognizing all unrealized losses in the income statement without unrealized gains being treated similarly. The FASB should make it explicit that a one-time transfer to trading from the available for sale category would be permissible in the period of adoption of EITF 03-1.

We appreciate the opportunity to express our views on the Proposed FSP. If you have any questions regarding our comments, please contact Donald Doran (973-236-7214) or Woody Wallace (646-471-2850).

Sincerely,

PricewaterhouseGoopers LLP