



Letter of Comment No: 183
File Reference: EITF03-1A

October 29, 2004

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

Re: FASB Staff Proposed Position Issue 03-1-a, Implementation of Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments"

Dear Mr. Smith:

ABN AMRO in North America (ABN AMRO) is a provider of diversified financial services including commercial, investment and retail/consumer banking; brokerage and trust services; and investment management. As both a user and an issuer of financial statements, ABN AMRO is pleased to present our views regarding the FASB's proposed implementation guidance for paragraph 16 of Emerging Issues Task Force Issue 03-1 (EITF 03-1) related to debt securities that are impaired solely because of interest rate and/or sector spread increases (the Proposal).

Accounting for investment securities is a critical area of concern for all banking organizations, and ABN AMRO applauds the FASB's efforts to address the confusion surrounding application of EITF 03-1.

EITF 03-1 and the Proposal deviate from current guidance as they (1) move the assessment of temporary impairments due to interest rate movements from an "intent to sell" model to an "intent to hold" model; and (2) focus on broad market fluctuations, which have typically been viewed as temporary, as an indication of other-than-temporary impairments.

Statement 115 provided an available-for-sale investment category and expressly eliminated the lower-of-cost-or-market (LOCOM) model used in accounting for certain investments prior to the adoption of Statement 115. Appendix A within Statement 115 states that the available-for-sale category "eliminates the unevenhandedness of LOCOM, which recognizes the net diminution in value of securities but not the net appreciation in value." In our view, EITF Topic D-44 bridged the gap between the available-for-sale accounting rules and recognition of unrealized losses through current period earnings when a sale was intended for specifically identified securities after the balance sheet date. The proposed guidance shifts from an "intent to sell" model to an

“intent to hold” model, effectively reintroducing the LOCOM accounting model for securities portfolios. We find this reintroduction of LOCOM inconsistent with the intent of Statement 115.

Historically, analysis of other than temporary impairments focused on objective criteria such as credit and liquidity deterioration. Credit-related and liquidity-related factors are driven by events affecting an issuer of a security, which directly impact the recoverability of a security’s value. Conversely, broad market movements caused by volatility experienced in interest and foreign currency exchange rates tend to be short-term in nature, provided the security was not acquired at historical market peaks or valleys. Further, a focus on interest rate movements alone as the sole cause of decline in fair value of a debt security could lead to conclusions that are fundamentally divergent from actual facts and circumstances. For instance, a U.S. Treasury security could be deemed other-than-temporarily impaired based upon general market movements which do not decrease the realizable value of the security. Focus on broad market movements should not replace a sound analysis based upon all facts and circumstances impacting individual security holdings.

ABN AMRO is also concerned with the movement of focus away from objective facts and circumstances to broad market fluctuations as this is in direct conflict with International Accounting Standard (IAS) 39 (version effective January 1, 2005). IAS 39 specifically outlines “a decline in the fair value of an investment in a debt instrument that results from an increase in the risk-free interest rate” as an example where a decline in fair value of a financial asset below its cost or amortized cost is not necessarily evidence of impairment. Additionally, IAS 39 focuses on objective evidence through observable data, for example, (1) significant financial difficulty of the issuer or obligor; (2) a breach of contract, such as a default or delinquency in interest or principal payments; or (3) a situation where it is probable that the borrower will enter bankruptcy or other financial reorganization. Conversely, the proposed guidance moves away from objective and verifiable factors and, with that, moves further away from convergence with Internal Financial Reporting Standards (IFRS). As a foreign registrant, ABN AMRO continues to be concerned with changes in guidance that create additional differences between US GAAP and IFRS.

Concept of *Minor Impairments*

ABN AMRO encourages the FASB to reconsider a bright line definition of *minor impairment*. The establishment of an arbitrary, pre-defined threshold (the Proposal indicated 5%) would not encourage a robust quantitative and qualitative analysis of whether a security’s impairment is other-than-temporary. In our view, an assessment of whether an other-than-temporary impairment exists should be based upon the specific facts and circumstances of the individual security and should consider principally objective criteria pertaining to that instrument. Market based factors should consider the type of security; market volatility, historical market behavior and duration of current market conditions.

For example, consider broad market impacts on interest rates from March 2004 to June 2004. Changes in interest rates from March 2004 to June 2004 impacted yields of both 10-year U.S. Treasury securities (increased yield 23.5%) and 1-year U.S. Treasury securities (increased yield 78.2%). These yield changes imply volatility in even risk-free market interest rates. When coupled with duration, price volatility in this 3 month period for 10-year securities ranged as high as 7%. Duration has a significant impact on price: 30 year securities experienced larger percentage price variations during this period while 1 year securities experienced far smaller percentage price variations. In our view, each of these movements is merely temporary. Without a robust analysis of all facts and circumstances, inappropriate conclusions could be reached regarding whether an impairment is other-than-temporary.

Further, establishing a "bright-line" definition for what constitutes a *minor impairment* creates an arbitrary threshold, which moves to a "rules-based" approach in standard setting. As a foreign registrant, ABN AMRO favors a principles based approach as more consistent with IFRS, enhancing the potential for convergence.

Consideration of Transition Provisions

The Proposal did not discuss transition provisions. We are concerned that the difficulties in implementing this new model are not well understood and may require more process and system modifications than anticipated. Accordingly, if EITF 03-1 and the Proposal are adopted as written, ABN AMRO respectfully requests the FASB to ensure adequate time is allotted for implementation and adoption of the extensive requirements of the proposed guidance.

The proposed modifications to current technical guidance and practice will preclude companies from assessing impairments on a broad classification basis. For example, past analyses included segmenting investment portfolios by security type, industry segment, and credit rating/status. This focus on objective indicators provided for broader assessments on the potential for impairment within each portfolio. While ABN AMRO supports the concept of assessing the potential for other-than-temporary impairment at an individual security level, such an assessment is by its nature more labor intensive than the current model. Under the proposed guidance, each individual security will need to be assessed for an "intent to hold" assertion to support any securities where a temporary impairment is not recognized through current earnings. The implementation of the proposed guidance will require an added level of detail for companies to assert its intentions to hold securities and must be made on a security by security basis requiring intensive effort, including system modifications, to ensure the hundreds, or even thousands, of securities are managed individually.

Further, ABN AMRO actively hedges a significant portion of its available-for-sale portfolio for interest rate risk. As a result of those hedging strategies, each security within the hedged portfolios is subject to fair value basis adjustments. Systemically, these adjustments are tracked not in the securities subsystem, but in a separate database. These components are merged in

aggregate for financial reporting and merged manually when security positions are sold. The Proposal would require reporting of the merged components at a security level, rather than in the aggregate, for each reporting period. With a portfolio of several hundred AA-rated debt securities, this is an analysis requirement not contemplated in any current protocols and prone to operational error. Ideally, this reporting requirement should be automated to mitigate error, requiring system modifications and related lead time.

Given these operational concerns ABN AMRO recommends an effective date of no earlier than March 31, 2005, and would welcome a more reasonable, extended implementation period.

Lastly, ABN AMRO suggests the FASB consider an open period during transition, consistent with past transition provisions provided during the issuance of other guidance (i.e., Statement 133), where companies may transfer securities between Statement 115 available-for-sale and trading investment categories. Although Statement 115 indicates that transfers of securities from available-for-sale to trading should be rare, such a provision would allow companies to respond to the changes in current guidance and reconfigure their portfolios.

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ABN AMRO encourages the FASB to reaffirm the "intent to sell" model of EITF Topic D-44 and reinforce the concept of a robust analysis of all facts and circumstances impacting an individual security.

We appreciate your consideration of our comments on the Proposal and welcome the opportunity to further discuss this matter with the FASB board members and their staff. Should you have any questions or comments, please contact me at (312) 904-1221.

Very truly yours,



Karen Ingwersen
Senior Vice President
Manager of Financial Policy