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Letter of Comment No: 174  
File Reference: EITF03-1A

Via email

Mr. Robert H. Herz  
Chairman, Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
rherz@fasb.org

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

Dear Bob:

Wells Fargo & Company (Wells Fargo) is a diversified financial services company with over \$420 billion in assets providing banking, insurance, investments, mortgage and consumer finance services. We appreciate the opportunity to express our views on the Proposed FASB Staff Position No. EITF Issue 03-1a ("Proposed FSP"), *Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"*. Our response below addresses the specific questions on which the FASB has requested comment.

**Question 3(a): If an interest-rate-impaired and/or sector-spread-impaired security for which the investor previously had asserted its ability and intent to hold to a forecasted recovery is expected to be sold prior to recovery, when is the impairment considered other than temporary?**

We believe EITF 03-1 represents a significant modification to existing GAAP on this issue. Existing GAAP literature, EITF Topic D-44 - *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value* (EITF D-44), requires that other-than-temporary impairment be recognized in earnings in the period in which the decision to sell is made and when the entity does not expect the fair value of the security to recover prior to the expected time of sale. EITF D-44 also states that an entity's decision to sell a security is only one of the circumstances that need be considered in determining when an other-than-temporary impairment exists. This current guidance ensures a qualitative facts and circumstances approach is used by a company to assess whether impairment should be taken.



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Similarly, Question 47 of FASB Special Report, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities*, also indicates that an enterprise should recognize other-than-temporary impairment when it decides to sell a specific available-for-sale debt security at a loss in the period in which the “decision to sell” is made. **We see no need to change existing GAAP on this issue.**

The requirement in EITF 03-1 that an investor make an assertion that it will hold the security for a period of time sufficient for a forecasted recovery in fair value, which may mean until maturity, directly contradicts the stated intent in Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (Statement 115), to permit investors to hold securities in an available-for-sale category for an unspecified period of time. In addition, the LOCOM method was specifically rejected in Statement 115 but is now being proposed in EITF 03-1 without consideration to the adverse consequences this causes to the liquidity and asset/liability management of financial services firms. Finally, having to make the assertion that an investor will hold the security until forecasted recovery also fundamentally changes the loss recognition paradigm established in Staff Accounting Bulletin No. 59. SAB 59 indicates that there are numerous factors to be considered, either individually or in combination, in an other-than-temporary evaluation of a marketable security. One of the factors listed 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.” We do not believe that this sole factor should be determinative of impairment. Certainly, if the holder does not have the intent and ability to retain the investment until anticipated recovery, a write down should be recorded. However, other factors, such as the severity of the market decline and the duration needed for a market recovery, also need to be considered. EITF 03-1 does not adequately address these factors.

**Question 3(b): If an interest-rate-impaired and/or sector-spread-impaired security for which the investor previously has asserted its ability and intent to hold to a forecasted recovery is expected to be sold prior to recovery, are there circumstances for such a change in ability or intent that would not necessarily call into question the investor’s ability or intent to hold other securities to recovery?**

We strongly disagree with any proposal to inject a “tainting” concept for debt securities designated as available for sale into the accounting standards. This concept is not compatible with the realities of investment portfolio management and how companies constantly reposition their assets and liabilities to take advantage of market volatilities, sector spreads, credit changes and market dynamics. The introduction of a tainting event into the available-for-sale debt security portfolio will create an unproductive “papering of the file” process and will lead to companies taking sub-economical action to avoid adverse accounting consequences. This result would truly be the “accounting tail wagging the dog.”

EITF 03-1 introduces the concept of unexpected and significant changes in liquidity needs, increases in interest rates, and increases in sector spreads as circumstances that would not call into question an investor’s ability or intent to hold other securities to recovery. We believe it would be virtually impossible for a financial services firm to demonstrate that an increase in interest rates, sector spreads, or in liquidity needs was unexpected and significant.



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Statement 115 indicates that a debt security should not be classified as held-to-maturity (and therefore should be classified as either available-for-sale or trading) if the security would be available to be sold in certain normal asset/liability risk management situations. The examples in paragraph 9 of Statement 115 include common business situations where an investor may be required to sell securities such as in response to: changes in market interest rates and related changes in the security's prepayment risk; changes in the availability of and the yield on alternative investments; changes in funding sources and terms; and changes in foreign currency risk. These ongoing risk management activities are simple examples for selling available-for-sale securities that need to be considered in order to be flexible to both internal and external developments impacting a company's active risk mitigation strategies.

### **Issues 1 and 2 – Minor impairments**

In addition to the questions asked within the Proposed FSP, the FASB staff have invited comments on two additional issues, specifically *Issue 1 – Minor Impairments* and *Issue 2 – Limiting the Notion of Minor Impairments to Debt Securities Evaluated for Impairment Pursuant to Paragraph 16 of Issue 03-1*. In its request for comment on *Issue 1*, the FASB staff has indicated that some Board members prefer that the guidance not provide a “bright-line” test. We fully support and agree that financial statement preparers and auditors will be able to apply the notion of minor impairment without a bright-line test. A bright-line test may lead to investors simply looking at percentage impairment versus looking at the facts and circumstance of the investment when determining if impairment is temporary. Additionally, defining impairment with a bright-line test embodies assumptions about the volatility of the applicable interest rate without consideration for the facts and circumstances of the duration of the investment.

In its request for comment on *Issue 2*, the FASB staff stated that some Board members support expanding the notion of “minor impairments” to all investments analyzed under EITF 03-1 because they acknowledge that normal price volatility may eliminate impairment. As the severity of impairments is a fundamental element of the impairment analysis performed on both equity and debt securities, the understanding that price volatility in equities could easily eliminate any minor losses, and the fact that history has proven to have shown consistent growth in equity securities, we agree and support the Board's contemplated expansion of applying the “minor impairment” analysis to both debt and equity investments covered within paragraphs 10-15 of EITF 03-1.

We encourage the FASB to allow sufficient time to interpret and adopt the final implementation guidance given the complexities involved in the proposed guidance. The costs of “rapid” implementation far outweigh the benefits that could be derived by investors. EITF 03-1 and the Proposed FSP represent changes in current practice and existing GAAP that will require development of new business policies and modifications of supporting investment systems. Additionally, the guidance will require institutions and their public accountants to work through the interpretations to ensure they are consistently applying the new guidance.

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We appreciate the opportunity to comment on the issues relating to Proposed FSP EITF 03-1-a. If you have any questions, please contact me at (415) 222-3119.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy  
Executive Vice President & Controller  
Wells Fargo Bank, NA

CC: Lawrence Smith, Chairman, Emerging Issues Task Force