

Letter of Comment No: 93
File Reference: EITF03-1A

October 28, 2004

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

Re: Proposed FASB Staff Position, EITF Issue 03-1-a, Implementing 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 Mr. Smith:

The South Financial Group, Inc. appreciates the opportunity to comment on the proposed Staff Position that was issued on September 15, 2004 by the Financial Accounting Standards Board (FSP 03-1-a). The South Financial Group, Inc. is a financial services company headquartered in Greenville, South Carolina with approximately \$13.7 billion in total assets. The Company operates two subsidiary banks, Carolina First Bank and Mercantile Bank, which conduct operations in Florida, North Carolina and South Carolina.

Our concerns with respect to the proposed Staff Position center on our belief that requiring an "intent to hold" for AFS securities is inconsistent with the definition of an AFS security. Rather, the focus should be on an entity's "ability to hold" AFS securities to maturity. In addition, securities held in the available for sale ("AFS") portfolio should not be subject to write-downs for changes in market values that are due exclusively to changes in interest rates. The Company also takes the position that defining "minor impairment" as an impairment of 5% or less is arbitrary and fails to consider the range of factors that have a bearing on the valuation of debt securities.

With respect to the first point, we believe that losses on AFS securities that arise solely from increases in interest rates and/or sector spreads should not be realized due to changes in "intent." Securities in the AFS portfolio are a critical element of a financial institution's interest rate risk management process. Limits on an entity's ability to manage its AFS portfolio without requiring an other-than-temporary impairment write-down on securities that have declined in value due to increases in interest rates and/or credit spreads do not recognize the discretion that institutions must maintain in order to manage their overall interest rate risk exposure. Financial institutions need the flexibility to sell securities classified as AFS without risking write-downs of other securities in the AFS portfolio. Placing such restrictions on AFS securities is inconsistent with existing generally accepted accounting principles ("GAAP") and fails to take into account a fundamental reason for establishing an AFS portfolio. We believe that a more sound approach would be to give greater weight to an entity's "ability" to hold such securities to recovery as opposed to an approach that focuses too much on "intent."

In addition, we believe that debt securities held in the AFS portfolio should not be written down for changes in market values that are due solely to increases in interest rates and/or credit spreads. Requiring other-than-temporary impairment write-downs for such securities does not take into account that such securities will recover their value if held to maturity. AFS classification is one of the most controllable vehicles for financial institutions to manage overall balance sheet positions. As such, financial institutions generally have discretion as to which AFS securities may or may not be sold in response to liquidity or interest rate risk management activities. Write-downs of securities that are never realized would result in the need for institutions to adjust the effective yield on such securities and recognize artificially high revenue as these market value adjustments are accreted over the remaining term to maturity. We believe that declines in value of debt securities due exclusively to increases in interest rates and/or credit spreads should not, in and of itself, trigger the need for an other-than-temporary impairment write-down.

Our final comment relates to the definition of "minor impairment" as an impairment of 5% or less. Imposing a strict quantitative threshold fails to recognize that there are many varieties of debt securities, each with their own price volatility. The volatility of debt security prices is influenced by such things as the coupon rate, term to maturity, credit spreads and embedded prepayment options. A 5% change in one security may be likely to reverse itself in a short period while a 5% change in another security may not be expected to reverse itself for a period of months or years. In this instance the impairment in both securities would be considered minor when, in fact, the value of the second security may not recover for an extended period of time. Imposing a strict quantitative threshold is too narrow and mechanical and would result in auditors and financial statement preparers focusing on the percentage alone instead of looking at all the facts and circumstances of a given impairment evaluation.

We appreciate the FASB's involvement with EITF 03-01 and the consideration of input from its constituents. The issues surrounding EITF 03-01 and the related Staff Position are hindering liquidity in the financial markets as practices of purchasing and selling securities are being suspended for lack of consistent interpretations and guidance. In our opinion, there should be greater focus on "ability to hold" as opposed to "intent to hold" when evaluating AFS securities for other-than-temporary impairment due to increases in interest rates and/or credit spreads. In addition, securities held in the available for sale ("AFS") portfolio should not be subject to write-downs for changes in market values that are due exclusively to changes in interest rates and defining "minor impairment" as an impairment of 5% or less is arbitrary and fails to consider the range of factors that have a bearing on the valuation of debt securities.

Again, we appreciate the opportunity to comment on this proposed Staff Position. Thank you for considering our positions. If you would like to discuss this letter in more detail, please contact me at 864-241-1557.

Sincerely,



Roy D. Jones
Director of Money Markets
The South Financial Group