


**FINANCIAL
CORPORATION**

October 27, 2004

Letter of Comment No: 207
File Reference: EITF03-1A

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Chairman
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Financial Accounting Standards Board
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Re: FSP EITF Issue 03-1-b

Gentlemen:

Due to significant uncertainty and concern regarding this statement, SCBT Financial Corporation ("SCBT") supports the FASB's decision to delay all of EITF 03-1 and reconsider its conclusions and guidance. SCBT is a \$1.3 billion bank holding company that is dedicated to sound business practices and to superior service to our South Carolina customers and communities. We appreciate the opportunity to comment on this issue and the serious implications for the commercial banking industry and others involved in debt and equity securities investing activities.

We recognize the value in providing guidance in this matter in the interest of clarifying accounting issues and improving consistency of application and reporting. We do not, however, agree with certain positions taken in 03-1 that challenge commonly held interpretations of the proper accounting treatment for available-for-sale securities. SFAS No. 115 created three securities classifications – trading, available-for-sale ("AFS") and held-to-maturity ("HTM") – based in large part on the institution's intentions with regard to holding and disposing of its securities. Issue 03-1 appears to deny the ability to dispose of AFS securities, even on a limited or infrequent basis, without the risk of "tainting" the entire AFS portfolio due to bringing into question the holder's intent to hold these securities to maturity. Assuming an AFS portfolio with current market values below carrying values, this would result in a potentially significant impairment adjustment to AFS securities with a corresponding charge through the income

statement. The result would be ongoing earnings volatility that would not, in our view, be a proper reflection of the institution's current or future earnings potential for this portion of its portfolio.

SFAS No. 115 provides criteria for determining trading and HTM securities classifications. AFS securities are those not classified as trading or HTM. In paragraph 79 in the "Background Information and Basis for Conclusions" section of the statement, the Board reiterates its decision that investments not being held to maturity should be reported at fair value. The statement continues: "However, because of concerns about the potential volatility that would result from the fair value changes of only some assets, and no liabilities, in earnings, the Board determined that the unrealized holding gains and losses for available-for-sale securities should be excluded from earnings."

Financial institutions designate securities as AFS based upon the intent and ability to hold the securities to maturity – certainly a clear distinction from the criteria for placing certain other securities in the trading classification. We do not believe that the intent to hold to maturity should taint the entire AFS portfolio when a small number and amount of these securities are sold, for example, to meet funding needs or in response to regulatory or tax changes. Paragraph 82 of SFAS 115 recognizes that there are valid reasons for limited disposals of AFS securities: "Additionally, the available-for-sale category will include debt securities that are being held for an unspecified period of time, such as those that the enterprise would consider selling to meet liquidity needs or as part of an enterprise's risk management program."

The FASB has asked for comments regarding whether the concept of "minor impairment" should be applied to securities analyzed for impairment under EITF 03-1 or whether a more quantitative approach would be preferable. The difficulty with the first option is the inability of a banking enterprise to implement such a qualitative measure with any reasonable degree of comparability with its industry peers. On the other hand, the establishment of a "bright line" quantitative parameter, such as a 5% price change, would be arbitrary and, in our opinion, not commensurate with the objectives of AFS investing.

These objectives may involve an initial intent to hold-to-maturity that may later be altered, as the FASB has recognized, in light of liquidity needs or risk management issues. It is our recommendation that "minor impairment" language not be applied to AFS securities judged to be within the normal interest rate cycle as determined with reference to historical cyclical price changes and that such securities be exempted from declaration of ability and intent. We believe that both qualitative and quantitative measures, as currently discussed, are too restrictive and do not reflect the realities of managing an AFS securities portfolio. Investment managers require more flexibility in designating types of securities that are available for liquidity and interest rate risk management purposes than the guidance currently suggests.

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We conclude that the positions taken in EITF 03-1 are not consistent with the provisions of SFAS 115. They may, in fact, be interpreted as an attempt to eliminate the AFS classification, or at the very least, unduly restrict a portfolio manager's ability to effectively react to changes in liquidity needs and normal interest rate movements. As noted, such directives would result in earnings volatility. They would further cause potential disruption in the securities trading markets. In effect, an unfortunate accounting directive could interfere with otherwise sound business decisions regarding the holding and disposition of AFS securities.

We recommend that EITF 03-1 be revised to provide support for the AFS securities category as promulgated by SFAS No. 115. We believe that the guidance should recognize that sales from this category, while relatively few and infrequent, might from time to time be consummated for sound business reasons without tainting the entire portfolio (with the aforementioned earnings volatility and other undesirable effects).

Thank you again for this opportunity to express our views on this most important matter. We hope that you will accept our recommendations. Please call or otherwise contact us, if you have any questions or issues for discussion.

Very truly yours,


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Executive Vice President and
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