

Letter of Comment No: 222  
File Reference: EITF03-1A

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October 29, 2004

Mr. Lawrence Smith  
Director and Chairman of the Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CN 06856  
[comments@fdic.gov](mailto:comments@fdic.gov)

Re: Proposed FASB Staff Position, EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

Dear Mr. Smith:

The Nebraska Bankers Association (NBA) appreciates the opportunity to comment on the proposed Staff Position, issued on September 15, 2004, by the Financial Accounting Standards Board (FSP 03-1-a). The NBA is a trade association representing 257 of the 259 commercial banks and 9 of the 16 savings and loans in the state of Nebraska.

The FASB has delayed the effective date of this rule to allow for additional constituent input. We certainly appreciate the action taken by the FASB in delaying the effective date and taking more time to consider the views of the banking industry on this issue of importance.

A number of our members and their accounting firms have suggested that the FASB proposal and its resulting impact will create a number of problems for financial institutions asset/liability management. We do not believe that debt securities classified as available-for-sale (AFS) should be written down for changes in market values that are due solely to increases in interest rates. Such a requirement would result in increased income and capital volatility. We also believe that requiring an "intent-to-hold" in AFS is inconsistent with AFS and that the focus should rather be on "ability to hold."

We further believe that the proposal will hinder banks' ability to practice prudent investment portfolio management. Banks need the flexibility to sell securities classified as AFS at a profit or loss without risking write-down of other securities in the AFS portfolio. The accounting risk of write-down should not restrict otherwise appropriate decisions to sell. Current GAAP includes the AFS classification to allow the necessary flexibility to manage interest rate risk.

Finally, losses on AFS securities should be recognized when a decision is made to sell securities and/or when securities are permanently impaired. Banking regulators do not include unrealized gains in calculating regulatory capital. The AFS portfolio is a management tool, and capital is not impacted until management makes a decision to sell securities.

The FASB has also requested comment on whether a minor fluctuation in interest rates, such as 5 percent of cost, should be defined in the final rules. In this regard, we feel that a definition of 5 percent or less is too low, and does not provide sufficient flexibility for banks to manage risk and liquidity. Interest rates can move quickly - both up and down, and could result in more than a 5 percent movement in a given interest rate cycle. A bright-line rule, such as an absolute 5 percent of cost approach, is too narrow and too mechanical. In our opinion, more focus should be placed on better defining "other-than-temporary" with respect to losses as a result of all of the facts and circumstances, rather than being limited to changes in interest rates. The impairment model should allow the evaluation of recoverability of AFS securities. Bank management may have the intent and ability to hold an investment for a period of time that is sufficient for a forecasted recovery in value at or above the cost of the investment. Evidence supporting this forecasted recovery should be permitted as part of the impairment assessment.

In conclusion, for the forgoing reasons, while we believe the FASB proposal is a step in the right direction, much more work is needed. We appreciate the opportunity to comment on this proposal and thank you for considering our views. If you would like to discuss this letter in further detail please feel free to contact me.

Sincerely,



George Beattie  
President  
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