

**Principal**

**Financial  
Group**

Letter of Comment No: 152  
File Reference: EITF03-1A

October 29, 2004

Mr. Lawrence W. Smith, Director  
Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Mr. Smith:

The Principal Financial Group, Inc. ("PFG") is writing in response to the Proposed FASB Staff Position ("FSP") No. EITF Issue 03-1-a.

PFG is a publicly held financial services organization, providing retirement and investment services, life and health insurance and banking services. As of June 20, 2004, we have over \$37 billion in available-for-sale ("AFS") securities. The majority of this portfolio backs the insurance and investment product liabilities that we have sold.

Before addressing specific issues outlined in proposed FSP, we would like to respectfully request the FASB to reconsider the broader issue of the definition of "ability and intent to hold".

We understand the objective of the accounting guidance (both current and proposed) is to recognize impairment in the period in which it occurs unless you can hold it until it recovers. We support the guidance and agree it is appropriate to recognize the loss if, based on the facts and circumstances *that exist at that point in time*, it is determined that the security cannot be held until recovery. Our concern is with the permanence of the decision due to the difficulty in accurately predicting the future. It is difficult to anticipate such factors as changes in interest rates, changes in equity markets, and customer behavior. To take this a step further, while it is arguably hard to make those assessments on an entire portfolio, it is even more difficult to determine future actions on a specific asset, particularly in the case of interest rate related impairments. It is our belief that if companies are to adhere to proper risk management practices, they must be allowed to respond to facts and circumstances as they change.

There are many judgments made in the compilation of the financial results for the period. These judgments require the evaluation of the facts and circumstances of the situation ending in management's judgment on the best representation of the situation. We suggest the FASB consider modifying the definition of intent to hold by incorporating a SFAS 5, *Accounting for Contingencies*, concept. This concept will allow companies to modify

their assertion as circumstances change, similar to how companies evaluate contingencies. With contingencies, companies are continually modifying their assessment of the likelihood of a particular outcome as facts and circumstances become available. Companies that actively manage their risk exposure must do the same. To add the contingency type evaluation to the definition would remove the concern with the permanence of the decision but also require companies to recognize the loss when it is probable rather than deferring the loss until sale.

In our opinion this is a viable approach because of the transparency created by SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, and the added disclosures required by EITF 03-1. Since the unrealized gains and losses on available-for-sale securities are reported in the financials through other comprehensive income, the readers of the financials can make their evaluation of the company's investment portfolio as well as the company's overall equity position. Further, the detailed disclosures required on those securities in an unrealized loss position add insight into the condition of the portfolio.

In regards to the proposed FSP, we have two areas of concern, which we have addressed below:

**Definition of the term "minor"**

While we appreciate and support the FASB's attempt to provide some relief from the burden of documentation and/or the risk of tainting the portfolio, we believe additional guidance is necessary in defining the term "minor". Without it, we fear the audit firms will interpret "minor" to be 5% or less due to earlier FASB discussions, and we do not feel a bright-line test is appropriate. We believe the Board should add language to the FSP to clarify that the term "minor" is not intended to be a bright-line test and instead, should be based on other qualitative factors, such as security type and duration.

**Circumstances enabling an investor to sell**

Our concerns with paragraph 7 in the proposed FSP ties to our initial discussion above. Our preference is to revise the definition of ability and intent to hold, which we feel would move us closer towards a principles-based approach, putting the burden of decision-making and documentation on companies. Paragraph 7 appears to be more rule based by providing a list of situations in which sales do not call into question a company's ability and intent to hold. However, if the decision is made to not revisit the definition of ability and intent to hold, then we respectfully request the FASB to expand paragraph 7 to include selling for risk management purposes (i.e., managing sector concentration/exposure, duration match, credit risk, etc.). Insurance companies must proactively manage their risk exposure by evaluating their portfolios on a continual basis given current market conditions. As conditions change, companies may need to rebalance their portfolios to stay within established risk tolerance ranges. If companies will not be allowed to change their intent to hold based on new facts and circumstances that have arisen, then they need to be able to sell impaired securities without the risk of tainting their entire portfolio. If neither is allowed, companies will be forced to take

preemptive impairment losses to avoid tainting their portfolio, resulting in distorted financial results due to increased losses and accretion income.

We also recommend that the additional items provided in paragraph 7 of the proposed FSP be rephrased to eliminate the reference to “unexpected”. We are concerned that this term has multiple interpretations all of which imply companies should try to forecast interest rate changes, which does not seem to be a reasonable standard to attain.

**Other Issues**

We would like to see a consistent definition of minor impairments and a consistent application of intent and ability to hold for all debt securities. As such, we propose that any clarifications cover both paragraph 10 and 16 of EITF 03-1.

It is our understanding there has been some discussion regarding what constitutes a “portfolio” for purposes of EITF 03-1. In our opinion, the definition should be at the level at which the assets are managed.

We appreciate the opportunity to provide comment. If you have any questions, please feel free to contact Greg Elming at (515) 247-6945.

Sincerely,

Julia Lawler  
Sr. Vice President and Chief Investment Officer  
Principal Financial Group

Greg Elming  
Vice President and Controller  
Principal Financial Group