Technical Director
FASB
File Reference: Proposed FSP FAS 157-e

LETTER OF COMMENT NO. LO

March 19, 2009

**FSPFAS115A*

LETTER OF COMMENT NO. 5

Dear Director.

In response to your request for comment with regard to FSP FAS 157-e, I have the following comments which are not directly related to FAS 157 but are related to the bigger picture affecting mark-to-market accounting principles. Below is a quote from FAS 115.

FAS 115 Paragraph 15 (d)

"Consistent with paragraphs 7 🕮-9, transfers from the held-to-maturity category should be rare, except for transfers due to the changes in circumstances identified in subparagraphs 8(a) 🕮-8(f). Given the nature of a trading security, transfers into or from the trading category also should be rare."

The above paragraph states that transfer into and from trading securities "should be rare". Given the illiquid market today for certain asset backed securities and collateralized debt obligations (CDO's), I think that the FASB should make it easier to transfer investments between held-to-maturity, available-for-sale and trading securities categories.

Assume you have a CDO that is performing well and is generating a respectable cash flow. You originally classified it as a trading security but market conditions require you to write the investment down by 50% or more. However, if it was valued on a discounted cash flow basis perhaps no significant write-down would be required and therefore you decide to hold the investment, either until maturity or until the trading market shows significant improvement. Should a reclassification out of trading securities be "rare" as FAS115 states?

Hopefully, the FASB will reconsider FAS115 as a part of FSP FAS 157-e, in order to allow financial institutions and other entities to have more flexibility with regard to the transfer of securities between held-for-sale, trading securities and held-to-maturity categories, where each security may be valued using different principles and classified differently on the financial statements.

Obviously, financial institutions should not be allowed to move securities between these three categories every quarter as a way to "manage" profits. Conversely, in a situation where markets don't exist and it makes perfect business sense to hold a security to maturity there should be some leeway in the guidance. As a former CFO of a non-financial institutions we made the decision to hold illiquid securities to maturity because the return was acceptable and there was no reason to self the security at the losses the market dictated. Unfortunately, the accounting rules did not match the realities of this business decision which is unfortunate and a weakness in the accounting principles.

Sincerely, Dennis H. Bunt CPA