



2108 EAST SOUTH BOULEVARD ■ POST OFFICE BOX 11000  
MONTGOMERY, ALABAMA 36191-0001  
334/288-3900

February 26, 2009

Mr. Russell G. Golden  
FASB Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5166



LETTER OF COMMENT NO.

15

Dear Mr. Golden:

The purpose of this letter is to communicate our concern with respect to one aspect of the current accounting model for recording other-than-temporary impairments pursuant to Statement of Financial Accounting Standards No. 115 (FAS 115), *Accounting for Certain Investments in Debt and Equity Securities* as well as our concern regarding the determination of fair value of thinly traded securities amidst the current illiquidity of the capital markets. With respect to the accounting model for recording other-than-temporary impairments, for the reasons set forth below, we believe the FASB could improve current financial accounting and reporting standards by allowing for subsequent recoveries in the fair values of other-than-temporarily impaired securities to be recorded through earnings. We note that Paragraph 16 of FAS 115 states the following:

If the decline in fair value is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss). The new cost basis shall not be changed for subsequent recoveries in fair value. Subsequent increases in the fair value of available-for-sale securities shall be included in other comprehensive income pursuant to paragraph 13; subsequent decreases in fair value, if not an other-than-temporary impairment, also shall be included in other comprehensive income.

We concur with the views of the FASB staff expressed at the FASB's January 19, 2009 board meeting that requiring write-downs of a security but not allowing recoveries represents a conservative bias. We also believe that the inability under current standards to record subsequent increases in the fair value of securities subject to FAS 115 through earnings is not only inconsistent with International Accounting Standards but is also inconsistent with other standards under US GAAP. For example, paragraph 37 of Statement of Financial Accounting Standards No. 144 (FAS 144), *Accounting for Impairment or Disposal of Long-Lived Assets* states the following:

A loss shall be recognized for any initial or subsequent write-down to fair value less cost to sell. A gain shall be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized (for a write-down to fair value less cost to sell).

While determining the fair value of a marketable security in today's environment is undoubtedly a daunting and challenging task, we nonetheless believe that fair values of marketable securities, and thus the ability to determine whether or not a loss has reversed, is substantially more objectively verifiable for marketable securities than it is for long-lived asset subject to FAS 144. We do not believe there is a reasonable basis for the above noted inconsistency with respect to the reversibility of impairments of long-lived assets to be disposed of by sale as compared to the reversibility of other-than-temporary impairments of marketable securities.

We also believe that amending current accounting guidance to allow for recording subsequent recoveries through earnings would assist the FASB in achieving its goal of increasing the representational faithfulness of companies' financial statements. More specifically, we believe that preparers of financial statements are unnecessarily inclined to justify or rationalize why significant declines in the fair value of issuers' securities are not indicative of an actual deterioration of the financial prospects of such issuers. We believe that allowing for the recording of subsequent recoveries through earnings would appropriately decrease the sensitivity to recording other-than-temporary impairment charges that currently exists.

We commend the FASB for adding the other-than-temporary impairment project to its agenda. We believe that amending current accounting guidance to allow for recording of subsequent recoveries of other-than-temporarily impaired securities through earnings is one relatively straightforward way in which the FASB could rapidly improve financial reporting standards in these turbulent and challenging times.

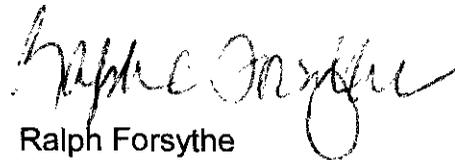
With respect to estimating fair values of thinly traded securities in current market conditions, we appreciate the FASB's attempts to clarify the determination of fair value estimates through the issuance of FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. However, we believe there remains a significant inconsistency between fair value as defined in Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (as well as subsequent standards issued to clarify FAS 157) and the expected economic value of certain marketable securities. Said another way, many companies hold marketable securities that are generating returns that are commensurate with the risk associated with these securities. However, due to severe dislocation of the capital markets there are very few willing buyers for these securities resulting in extraordinarily depressed values. We generally agree with the FASB that the exit price concept embedded throughout FAS 157 is the best indication of the fair value of an asset or liability. However, we do not believe that exit price is the only indicator of fair value amidst illiquid markets particularly when companies have the intent and ability to hold these illiquid securities for an extended period of time. To that end, we believe the FASB should expand the definition of fair value to allow for greater judgment regarding

the determination of fair value when management has the intent and ability to hold a security for an extended period of time. For example, we believe it would be appropriate to consider investor return assumptions under normal market conditions when estimating fair values if management has the intent and ability to hold securities for an extended period of time and the underlying collateral of the investment is sound.

We recognize there are significant challenges associated with developing an appropriate model for estimating the fair value of marketable securities in current market conditions. We concur with the FASB's statement in its recent press release that "more application guidance to determine fair values is needed in current market conditions". We believe that appropriately incorporating normalized return assumptions into fair value models as discussed in more detail above would greatly enhance the usefulness and representational faithfulness of companies' financial statements.



Steven G. Rutledge  
Chief Financial Officer  
Alfa Insurance



Ralph Forsythe  
Chief Accounting Officer  
Alfa Insurance