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December 30, 2008

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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LETTER OF COMMENT NO. 263

File Reference: Proposed FSP EITF 99-20-a

Dear Mr. Golden:

The Financial Reporting Committee (“FRC”) of the Institute of Management Accountants (IMA) appreciates the opportunity to provide its views on the Exposure Draft of Proposed FASB Staff Position No. EITF 99-20-a, *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20* (the “Exposure Draft”). FRC is the financial reporting technical committee of the IMA. The Committee reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

FRC agrees that the FASB should reassess the multiple impairment models that apply to financial assets. While we agree that EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* (“Issue 99-20”), needs modification and we agree with the proposed effective date, we do not agree with the specific changes proposed in the Exposure Draft. We believe replacing the impairment model in Issue 99-20 with the general impairment model in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (“SFAS 115”), will have unintended consequences. While we understand there may be diversity in practice regarding the scope of Issue 99-20, we believe the Board should preserve that impairment model for financial assets where there either are not the typical contractual cash flows (principal and interests) from debt instruments (such as interest-only mortgage-backed securities and residual interests in collateralized mortgage obligations) or where, as a result of structuring, the credit risk from a pool of financial asset is concentrated in a beneficial interest. We do not believe

those types of financial assets are economically similar to the other types of financial assets to which the impairment guidance in paragraph 16 of SFAS 115 applies.

Rather than the approach taken in the Exposure Draft, we believe that the Board could make two relatively simple changes that would help preparers in applying the Issue 99-20 impairment model. We recommend the Board retain most of the consensus on Issue 99-20, including the guidance in paragraphs 12(a) and 12(b), and do the following:

- Clarify the scope to limit the application of the Issue 99-20 impairment model to the financial assets that the Board believes were originally within its scope.
- Retain the Exposure Draft's proposed modification to require or permit companies to use management's best estimate of cash flows.

One of the original purposes of Issue 99-20 was to address how to apply interest recognition and other-than-temporary impairment guidance to beneficial interests in securitizations because many of those instruments do not have a stated principal amount and interest coupon like corporate debt or a mortgage-backed security. The EITF was aware of the significant differences between financial assets like interest-only mortgage-backed securities and corporate debt when it reached a consensus on Issue 99-20. Since those differences still exist, FRC does not believe the Board should try to apply the same impairment model to all financial assets. Further, the discussion in paragraph 12 (and paragraph 12(b) in particular) that the Board proposes to eliminate provides guidance necessary to properly apply the Issue 99-20 impairment model. For example, paragraph 12(b) clarifies that changes in the interest rate of a variable-rate financial asset do not result in the recognition of an other-than-temporary impairment, absent any other indicator of impairment.

We understand the Board is concerned that preparers are applying Issue 99-20 to financial assets that the Board believes were not originally included in the scope of the consensus. We are not sure if the Board's concern relates to the application of the Issue 99-20 impairment model to corporate debt securities and mortgage-backed securities with ratings of "A" or below, or if the Board is concerned about diversity in practice over companies reassessing whether a security is within the scope of Issue 99-20 subsequent to acquisition. (On the latter point, we understand that companies view reassessments as an accounting policy decision, with some companies continuously reassessing whether a security is within the scope of Issue 99-20, others reassessing only after recognizing an other-than-temporary impairment, and still others never reassessing.) Regardless, if the Board is concerned about the scope of Issue 99-20, we recommend it take this opportunity to fix it. If the Board decides to retain the scope of Issue 99-20 as written, FRC believes it should at least clarify whether companies should assess whether a security that was not within the scope of Issue 99-20 at acquisition subsequently meets the criteria to be within the scope. Additionally, the Board could use this opportunity to explain and clarify the interaction between the guidance in Issue 99-20

and AICPA Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*.

FRC believes the Board could improve the application of the Issue 99-20 model by allowing companies to use management's estimates of future cash flows rather than market participant assumptions. As noted in paragraph 4 of the Exposure Draft, the requirement to use market participant assumptions may have anomalous results (i.e., a write-down) in cases where the underlying financial assets are still performing as expected. Given current market conditions, it can be very difficult to determine whether the significant discounts at which many securities are trading are a result of market participant views of the credit risk of the underlying assets or their views of market liquidity. In the absence of evidence supporting a conclusion that a discount is attributable to market liquidity issues, the Issue 99-20 model requires a company to recognize an impairment write-down, even if management expects the company will recover the carrying amount of the investment. Permitting management to use its own estimates of future cash flows, supported by analysis of loan level performance, will hopefully avoid the result identified by the Board in paragraph 4.

Regardless of how the Board ultimately decides to amend Issue 99-20, FRC believes it should do so by issuing a stand-alone FASB Staff Position that supersedes the consensus on Issue 99-20. Even if the Board adopts the limited changes proposed above, it would still not be correct to indicate that the EITF reached a consensus along the lines proposed. By proposing changes to the consensus on Issue 99-20, the Board, in effect, is rewriting history.

Finally, FRC believes the FASB and the IASB should add a joint project to their agendas to comprehensively reconsider all of the guidance on impairments of financial assets. We believe the Boards should work to eliminate differences between US GAAP and IFRS and improve on the existing impairment models. We are concerned that the requirement to write-down an investment to its current fair value when it is probable that a company will not collect all amounts it is due according to the contractual terms of a debt instrument results in write-downs that are significantly disproportionate to the probable credit loss. While our current market conditions have certainly exacerbated that issue, the issue exists in less economically troubled times.

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We would be pleased to discuss our comments further with the Board or the FASB staff. You may contact me at (513) 983-6666.

Sincerely,

Mick Homan
Chair, Financial Reporting Committee