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December 20, 2008



LETTER OF COMMENT NO. 241

FASB Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference – Proposed FASB Staff Position EITF 99-20-a: *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20*

Dear Technical Director:

Nationwide Insurance Group appreciates the opportunity to comment on the Exposure Draft of the Proposed FASB Staff Position EITF 99-20-a: *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20* (Exposure Draft or Proposed FSP). Nationwide Insurance Group (Nationwide) is comprised of three affiliated mutual insurance companies and their subsidiaries under common management. Nationwide Financial Services, Inc. is a Securities and Exchange Commission registrant, in which Nationwide has majority equity and voting interests. Nationwide is a large diversified insurance and financial services organizations in the world, with more than \$161 billion in assets and annual revenues in excess of \$20 billion.

We agree with the Board's objective to achieve a more consistent determination of whether an other-than-temporary impairment (OTTI) has occurred for debt securities classified as available-for-sale or held-to-maturity. The current economic crisis has highlighted the flaws of the other-than-temporary impairment model and the need to provide better information to financial statement users regarding liquidity issues and the impact of credit versus market losses on securities. We believe additional consideration is needed to correct the flaws. Therefore, we have included our additional recommendations herein.

We agree with the Board's decision that similar instruments should be subject to the same impairment model. Under the current guidance, similar structured debt securities with similar expected cash flows and subordination levels may fall under different OTTI assessment models based solely upon an external credit rating. We believe that instruments which provide for periodic cash flows, are rated similar to debt securities, and priced like other long term bonds should be assessed under one consistent model. Reducing the number of impairment models for debt securities in U.S. GAAP also eliminates one of the differences between U.S. GAAP and International Financial Reporting Standards (IFRS). This will provide greater global consistency in financial reporting between U.S. GAAP and IFRS filers.

As all debt securities are recorded under the FAS 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115) model for accounting and impairments prior to assessing the security within the scope of EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets* (EITF 99-20), we believe the FAS 115

impairment model should be operational for beneficial interests that were previously within the scope of EITF 99-20.

We believe that given the ongoing adverse market environment, it should be appropriate for practitioners to apply the changes in the Proposed FSP retrospectively for fiscal year 2008. This will ensure the income statement accurately reflects consistent guidance for a full year. In many cases, this may have a material impact on previously issued financial statements. Our recommendation is a cumulative catch-up to allow firms to retrospectively adjust financial statements as applicable. Further, the cumulative adjustment will align with the guidance in FAS 154, *Accounting Changes and Error Corrections* (FAS 154), regarding a change in accounting principle.

As outlined in our comment letter to the SEC Mark-To-Market Study File No. 4-573, there are three key items that we respectively recommend the FASB consider in addition to the Proposed FSP for 2008 financial statements:

- Revise OTTI guidance to apply only for credit related impairments. This is particularly important during dislocated markets, since nonperformance and liquidity risk premiums skew fair value measurements of otherwise credit worthy investments. Unrealized gain/loss due to MTM fluctuations would be recorded in Other Comprehensive Income (OCI).
- Recovery of fair value for previously impaired investments should be recorded in realized gain/loss as opposed to accreted/amortized into net investment income.
- Clarify terms including “inactive market”, “market participant”, and “forced sales”.

OTTI for Credit Impairments:

We propose the current OTTI guidance be modified to refocus the determination to expected credit losses as opposed to losses based on market price volatility. We believe that realization of losses in earnings should be more aligned with an adverse change in cash flows as opposed to fluctuations caused by market driven events. For example, current interpretation would result in an OTTI for investments with unrealized MTM losses greater than a reasonable duration (auditors are currently applying a 6-9 month standard). This interpretation is even being applied in circumstances where an investment is still receiving cash flows and is expected to fully recover.

Subsequent Recovery of Impairments:

We recognize FASB’s efforts to review and re-deliberate on subsequent recoveries of impairments. Current period OTTI being absorbed in realized gain/loss with the subsequent recovery taken through net investment income results in the potential for users of financial statements to have difficulty determining which components of future operating earnings are due to economic events and which are due to a “reclassification” of realized losses into net investment income. Therefore, the current mismatch would be alleviated with any future recoveries for OTTI investments recorded in the same manner as the original realized loss.

Clarification of terms:

We ask that the SEC provide clarification on the following terms:

Inactive Market

We suggest utilizing the following criteria to determine an inactive market: 1) a significant widening of the bid-ask spreads relative to historical levels and/or “like” products, 2) significant decreases in the volume of trades relative to historical levels, 3) no observable transactions that are not

forced/distressed sales, and 4) significant variability or dispersion between pricing sources for a given security. Also, if the trading volume is a certain amount in an active market, a decrease by a certain percentage should result in the market being considered inactive.

Forced Sale

We suggest defining a transaction executed in an inactive market (as defined above) at an uneconomically acceptable price as a "forced sale". We believe that the IASB's definition of a forced transaction, which includes: a legal requirement to transact, a necessity to dispose of an asset immediately and insufficient time to market the asset to be sold, and the existence of a single potential buyer as a result of the legal or time restrictions imposed, is too narrowly defined.

Market Participant

We suggest that clarification be made that current views of a market participant would adjust as orderly transactions become inactive or distressed. Views of a market participant should evolve when a market is inactive to include the intent of the company regarding the security as well as the credit performance of the security.

We also suggest that the use of an internal valuation model, without any reliance on a broker quote, be allowable depending on facts and circumstances for instruments in an inactive market. Such circumstances include when it cannot be validated whether a broker or other quote is based on observable transactions.

Overall, we agree with the Proposed FSP and believe these changes and our additional recommendations will result in better consistency amongst impairment models and convergence with IFRS. We hope these comments assist the Board during its redeliberations of the Proposed FSP. In the event that any Board or FASB staff member would like any further clarification of our positions we are available to discuss them in greater detail.

Respectfully,

/s/ Martha L. Frye

Martha L. Frye
Senior Vice President and Chief Accounting Officer
Nationwide Insurance