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Financial Accounting Standards Board
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LETTER OF COMMENT NO. 236

File Reference: Proposed FSP EITF 99-20-a

First Commonwealth appreciates the opportunity to comment on Proposed FASB Staff Position No. EITF 99-20-a, "Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20." First Commonwealth is a \$6.2 billion NYSE listed financial institution headquartered in Indiana, Pennsylvania. First Commonwealth is particularly interested in this proposal since, not only are we an issuer of financial statements, but as a financial institution we are members of one of the largest users of financial statements, being creditors. This proposal directly impacts our analysis of other-than-temporary impairment for investments falling within its scope.

Specific answers to the questions raised in the proposal are below followed by additional comments.

- 1. If the proposal is accepted, the treatment of impairment on beneficial interests would be the same as other debt securities pursuant to SFAS 115, paragraph 16. We agree with the Board's decision that similar instruments should be subject to the same impairment model, however, we believe that the trigger for OTTI to be recognized through earnings should be based on credit impairment rather than fair value.
- 2. As the holder of debt securities, we believe it is difficult to assess whether we will collect all amounts due according to the contractual terms of a debt security. However, we feel that the intent of SFAS 115 is to allow the holder to apply reasonable judgment in this assessment. We feel that the "best estimate" accomplishes this.
- 3. While generally the application of an accounting pronouncement so close to a year-end with such little notice is undesirable, we feel that the proposed effective date is appropriate in this case.

We agree with the proposed change to EITF 99-20 which would align its impairment model with the SFAS 115 valuation model. As indicated in paragraph 4b of FSP EITF 99-20-a, approval of this change would "not require exclusive reliance on market participant assumptions regarding future cash flows, permitting the use of reasonable management judgment of the probability that the holder will be unable to collect all amounts." The current disorder in the credit markets has resulted in significant declines in the market value of many assets, even when it is probable that all principal and interest will be collected. We believe a market participant's view incorrectly assumes that the degree of decline in the fair value of an asset is an indication of a likely credit event. We do not believe that fair value necessarily represents a transaction in a normal market between a willing buyer and seller.

FSP EITF 99-20-a does not change the OTTI guidance in Statement 115 and other related literature. In accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, Other than



Temporary Impairment of Certain Investments in Debt and Equity Securities, consideration should be given to the following when determining whether an impairment is other than temporary (a) the length of time and the extent to which the fair value has been less than cost, (b) the financial condition and near-term prospects of the issuer, and (c) whether the reporting entity has the intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. We are concerned that some accounting firms may rely too heavily on the length of time fair value has been less than cost and we request that FASB clarify that there are no bright lines for determining impairment.

FSP EITF 99-20-a provides that if there has been an adverse change in cash flows when compared to those previously projected, then other-than-temporary impairment charges should be recognized through the income statement for the difference between fair value and the carrying amount. This proposal does not address giving the present value of discounted cash flows more credibility when determining the amount of impairment charges to recognize. We request that FASB consider issuing guidance in FSP EITF 99-20-a which provides for the income statement recognition of impairment based on credit risk, or the adverse change in estimated cash flows, instead of based on fair value. Fair value may reflect an expectation of cash flows as well as a degree of market speculation. We have all recently witnessed the impact of speculation of the real estate markets as well as commodity markets and its ability to misrepresent value. We would further request that FASB consider allowing reversals of OTTI charges when recoveries occur.

As users of financial statements we feel that the inconsistency in application of current accounting guidance related to OTTI and fair value accounting do not provide for comparability of financial statements nor do they provide for consistency and reliability of valuation models. We believe that while fair values are useful, cash flows are more reliable and more relevant to the user. Fair values are useful in the case of liquidation, or in the case of an entity that is not expected to be a going concern, but for a going concern fair value should be a footnote disclosure, not a component of earnings. We believe that this is the case for changes in values of both the asset and liability side of the balance sheet.

In conclusion, we agree with the proposed changes to EITF 99-20 to remove market participant terminology and allow for more judgment about whether it is probable that holders of instruments subject to EITF 99-20 will collect all amounts due. However, we do not believe the proposed changes to EITF 99-20 provide the needed guidance related to the amount of impairment that should be recognized through the income statement. We request that FASB consider issuing guidance in FSP EITF 99-20-a which provides for the income statement recognition of impairment based on credit risk, or the adverse change in cash flows, instead of based on fair value, as defined in FAS 157, "Fair Value Measurements," and further clarified in FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." We would further request that FASB consider issuing guidance allowing reversals of OTTI when recoveries occur.

We appreciate the opportunity to comment on the proposed FSP and would be pleased to discuss our comments with Board members or the FASB staff. If you have any questions, please contact Ed Lipkus at (724) 463-4724, or at the above address.

Sincerely,

Edward J. Lipkus III
Executive Vice President and Chief Financial Office