



December 30, 2008

LETTER OF COMMENT NO. 260

Mr. Russell Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Subject: Comment Letter 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

Dear Mr. Golden:

Wachovia Corporation is pleased to have the opportunity to comment to the Financial Accounting Standards Board (the Board) on the 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 Proposed FSP). Wachovia invests in securities subject to the existing impairment provisions of both EITF Issue No. 99-20, Recognition of Interest Income Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets (EITF 99-20) and FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (Statement No. 115), which has exposed Wachovia to significant risk of other-than-temporary impairment in the current market environment. Accordingly, we are closely monitoring the Board's proposal to amend EITF 99-20, the forthcoming proposals on disclosures and recoveries, and the comprehensive joint FASB/IASB project to address the complexity in existing standards of accounting and reporting for financial instruments.

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Our comments regarding the Board's proposal are as follows:

1. Issue 99-20 applies to beneficial interest that are not of a high credit quality or that can be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment. Other debt securities (for example, a corporate bond) with similar credit quality are not within the scope of Issue 99-20. The Board decided that similar instruments should be subject to the same impairment model. Do you agree with the Board's decision? Does the presence of prepayment risk warrant a different impairment model?

Response:

We agree with the Board's decision that there should be a single impairment model for debt securities based on SFAS No 115, and that the existence of prepayment risk should not dictate a more sensitive accounting trigger for the recognition of impairment. We believe that the EITF 99-20 impairment model is flawed, and the current market conditions have only served to shine a light on its deficiencies. We believe EITF 99-20 is being broadly interpreted by the market, both in scope and application, resulting in security impairments based on cash flow projections implied from current asset fair values that are often inconsistent with an individual security's actual current performance and/or a company's own judgment of the security's future performance. We believe securities impairment should not be recognized until it is determined to be probable that some portion of contractual principle or interest will not be received, and that this determination should be based on a company's own judgment of expected cash flows. We cannot think of any reason why the existence of prepayment risk would warrant a separate impairment model. There are a very large number of securities that are outside

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the scope of EITF 99-20, including most Agency-Backed MBS, which have prepayment risk and are assessed for impairment under SFAS No. 115. We further believe that the SFAS 115 OTTI model should be modified so that the amount recognized as impairment in net income is based solely on the credit component of the security's value as opposed to the entire change in fair value.

The mechanical impairment test under EITF 99-20 requires the use of the best estimate of a market participant's view of the cash flows of a beneficial interest. A company's ability to estimate a market participant's view of cash flows is difficult and complex in a liquid market, and even more difficult and complex, if not impossible, in an illiquid market. For example, when attempting to estimate the cash flows in a highly illiquid market where overall security prices have fallen, does a company consider only the market information available from the small number of trades that have occurred, which may indicate a high level cash flow deterioration, or does that company also consider the large number of holders of securities who have chosen not to sell at the reduced price, which may indicate that they believe cash flows have not deteriorated? Current holders of securities are as much market participants as recent sellers and purchasers, and in an illiquid market, one can reasonably assume that the population of current holders far exceeds the seller/purchaser population. However, we believe it is not possible to determine why current holders of securities choose not to transact, and accordingly, it is not possible to ascertain the holder's (the largest group of market participants) view of the estimated cash flows of the security. Accordingly, the only information with which to make a determination of estimated cash flows from a market participant's view is the very small number of actual transactions, which we believe can result in a distorted conclusion whereby fair value deteriorations caused largely by supply/demand factors will result in a conclusion that expected cash flows are impaired.

In practice, the lack of readily available market participant cash flow data leads auditors and regulators to rely on interpolating this data from any available indication of Technical Director – File Reference: Proposed FSP EITF 99-20-a

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fair value, even if the fair value estimate is based on a very small number of transactions. Severe deteriorations in fair value estimates, or alternatively, very high market yields, are considered by auditors and regulators to be indicators of impairment, regardless of other facts or management's judgment, and result in the application of "bright lines" in the EITF 99-20 impairment process. These informal "bright lines" can be applied to all securities whose values have deteriorated, even those that are highly rated, performing as originally anticipated, and with significant credit protection. We believe the application of the EITF 99-20 guidance in this manner results in overstating impairment based on declines in fair value due more to liquidity (or market supply and demand) than to underlying concerns about the specific credit-worthiness of the issuer.

We believe that best short-term solution to this problem is to eliminate EITF 99-20's reliance on the "market participant's view of cash flows and apply the management judgment concept embedded within SFAS 115 to the estimation of the expected cash flows for purposes of determining impairment. This step would provide a consistent accounting model for security impairment, eliminate the complexity involved in applying the 99-20 model, align the impairment trigger for loans accounted for under SFAS No 114 and loans bundled and sold as securities, and reduce the potential for prematurely recording security's impairment.

Long term, we ask the Board to reconsider the accounting model for securities to consider whether an exit price-based fair value concept, which is indicative of a liquidation value, is the appropriate measure for a financial instrument that a company does not intend to liquidate. For securities not intended to be liquidated, we believe the SFAS 115 impairment calculation should be changed to mirror the impairment calculation for loans under SFAS 114, whereby the impairment charge is calculated based on the credit component of the loss and not the overall change in fair value.

2. The FSP amends Issue 99-20 to align the Issue 99-20 impairment model with the Statement 115 impairment model, resulting in a consistent determination of whether other-than-temporary impairment of available-for-sale or held-to-maturity debt securities have occurred. Statement 115 requires entities to assess whether it is probable that the holder will be unable to collect all amounts due according to the contractual terms. Is the Statement 115 impairment model operational for beneficial interest that were previously within the scope of Issue 99-20

Response:

We believe the Statement 115 impairment model is operational for securities currently within the scope of Issue 99-20. These securities have readily determinable contractual cash flows that are already captured in most accounting information technology systems.

3. The Board is proposing that he FSP be effective for interim (including the fourth quarter for an SEC registrant) and annual reporting periods ending after December 15, 2008, applied prospectively. Do you agree with the proposed effective date? Should the Board consider making the FSP effective for periods beginning after December 15, 2008?

Response:

We agree with the proposed effective date.

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We would be pleased to address any questions you may have regarding the comments in this letter or to discuss our position in more detail, at your convenience. I can be reached at 704-383-3021, or by email at pete.carlson@wachovia.com.

Sincerely,

Peter M. Carlson Executive Vice President and Corporate Controller

cc: David Zweiner, Senior Executive Vice President and Chief Financial Officer