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January 15, 2009



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

LETTER OF COMMENT NO. 27

RE: Proposed FASB Staff Position FAS 107-a, "Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107" (File Reference: Proposed FSP FAS 107-a)

Dear Technical Director:

We appreciate the opportunity to respond to the proposed FASB Staff Position FAS 107-a, "Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107" (the "proposed FSP"). We agree with the Board's stated objective to increase the comparability of information about certain financial assets that have related economic characteristics but different reporting measurement attributes. While we support the issuance of the proposed FSP as an interim, short-term step prior to the completion of the joint FASB/IASB project to comprehensively address the recognition and measurement (including impairment) of financial instruments, we believe that certain aspects of the proposal require additional consideration and clarification by the Board prior to the issuance of a final FSP. We encourage the Board to expeditiously complete the comprehensive joint project, which we expect would supersede the FSP. Our general observations and specific comments on the proposed FSP are set forth below.

We agree that the different measurement attributes and impairment models in existing accounting standards hinder comparability of information about certain financial assets. Therefore, we believe that users of the financial statements would benefit from enhanced disclosures that would provide tabular comparisons of the amounts of financial assets as reported in the balance sheet, at fair value, and at the incurred loss amount, and pro forma disclosures of income from continuing operations (before taxes) as if financial assets were (1) carried at fair value with changes recognized through earnings and (2) carried at a consistently determined incurred loss amount with changes recognized through earnings.

For purposes of comparability, including financial assets currently measured at fair value with changes recognized through earnings in the scope of the proposed disclosures may provide the most useful information; however, since the disclosures represent an interim,



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short-term step and due to potential practical issues in developing the necessary information for such assets, we believe that excluding financial assets currently measured at fair value with changes recognized through earnings from the proposed disclosures is an appropriate approach. Accordingly, we agree with the proposed scope of the FSP.

We believe that the approach included in the proposed FSP, which includes pro forma disclosures related to income from continuing operations (before taxes) for financial assets within the scope of the proposed FSP as if they were carried at fair value and at the incurred loss amount, is a reasonable interim, short-term approach that will provide greater transparency to financial statement users than other approaches that may not include the pro forma disclosures related to income. However, we do not believe it is necessary to provide disclosures of pro forma net income or shareholder's equity. Nonetheless, we believe that the FASB should consider preparer concerns related to the practicability of obtaining the information necessary to provide the pro forma disclosures related to income as if the financial assets were reported on an incurred loss basis for the initial period of adoption for annual and interim periods ending after December 15, 2008.

Given the interim, short-term nature of the guidance in the proposed FSP and the potential operational difficulty that may exist for preparers to develop the information necessary to provide the proposed pro forma disclosures related to income, the Board may want to consider an alternative approach that would require that the proposed pro forma disclosures related to income would only be required for the interim period ending after December 15, 2008 in the initial period of adoption (only for the fourth quarter of 2008 for an entity with a calendar year end). This approach would simplify the initial application of the proposed FSP since preparers would not be required to obtain historical data about incurred loss amounts back to January 1, 2008 to determine the pro forma impact on income for the annual reporting period, in addition to the data about incurred loss amounts as of October 1, 2008.

The proposed FSP does not clarify what types of adjustments are expected to be included in the determination of the pro forma disclosures related to income. For example, it is not clear if the pro forma disclosures related to income should include the reversal of previously recognized adjustments related to hedge accounting if an instrument under the scope of the proposed FSP is currently designated as the hedged item in a qualifying hedging relationship, but would not have been eligible to be designated as the hedged item if the instrument had been accounted for at fair value with changes recognized through earnings. As another example, the proposed FSP is not clear if the pro forma disclosures related to income should include an adjustment of compensation expense (if based on a specific level of income) to reflect the amount that would have been recognized if the financial instruments had been accounted for at fair value (or using



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incurred loss amounts) with changes recognized through income. Particularly in light of the interim, short-term nature of the proposed FSP, we do not believe that preparers should be required to include all adjustments, such as those described above. We encourage the Board to specifically indicate what types of adjustments are required and suggest that the proposed FSP state that the only adjustments required are those that relate directly to the objective of the FSP, including adjustments to reflect changes in (1) fair value, (2) impairment, and (3) interest accretion or amortization (due to discounts or premiums).

In addition, we believe that a reconciliation of reported income from continuing operations (before taxes) to the proposed pro forma adjusted income from continuing operations (before taxes) under both a fair value basis and an incurred loss basis for financial assets within the scope of the proposed FSP would provide financial statement users with a better understanding of the adjustments made to determine the pro forma disclosures related to income. If a reconciliation is required, we suggest the proposed FSP provide an example of the reconciliation in Example 4 of the Appendix.

Effective Date and Transition

The proposed FSP states that it will be effective for interim and annual reporting periods ending after December 15, 2008 and will not require comparative disclosures at initial application or in subsequent periods. This guidance is inconsistent with FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. For example, Statement 107 applies only for fiscal years and requires comparative disclosures. If the disclosures under the proposed FSP are intended to be presented more frequently than other Statement 107 disclosures and are not required to be part of the comparative disclosures under Statement 107, we suggest that the Board explicitly clarify those points and include that guidance in the amendments to Statement 107 in the Appendix to the proposed FSP. However, we believe that comparative annual and interim disclosures (on a prospective basis) would be useful information for financial statement users. In addition, if the Board intends for the proposed FSP to be effective for both interim and annual reporting periods, the proposed FSP should clarify if a calendar-year-end entity would be required to provide the proposed pro forma disclosures related to income for both the annual reporting period and fourth quarter at initial adoption and subsequently.

Other Observations

Paragraph 11 of the proposed FSP and paragraph 15F and Example 4 of the Appendix provide specific guidance on how to determine the incurred loss amount for loans, receivables, and debt securities. Based on this guidance, it appears that the Board intends to require different methods for calculating the incurred loss amount depending on whether the financial asset is a loan/receivable or a debt security. For example, paragraph



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15F specifies that preparers cannot estimate an allowance for a pool of similar securities under FASB Statement No. 5, *Accounting for Contingencies*, if the financial asset is a debt security; however, they would not be allowed to reverse an existing Statement 5 allowance related to loans. Although we agree that the differences in the methods will simplify the determination of the incurred loss amount and may represent an appropriate practical expedient given that the proposed guidance is intended to be an interim, short-term step, we believe that the proposed FSP should clearly indicate the differences between the two methods, as enhanced comparability is an overall objective of the proposed FSP. Paragraph 11 should include guidance similar to paragraph 15F and Example 4 of the Appendix that, “An entity shall not also estimate an allowance for a pool of similar securities under Statement 5”. Additionally, paragraph 11, paragraph 15F, and Example 4 should address how an entity should determine the incurred loss amount for loans held for sale.

We believe that the term “investment” as used in the first sentence of paragraph 11 should be replaced with “financial asset” to be consistent with the overall scope of the proposed FSP. Additionally, we believe that the phrase “at the security’s effective interest rate” as used in the last sentence of paragraph 11 should be replaced with “at each security’s effective interest rate” to be consistent with footnote (a) in Example 4, which indicates that the incurred loss amount for each security is measured without using a Statement 5 pool concept.

Based on the language in paragraph 15H and Example 4 of the Appendix, we believe the guidance in the second sentence of paragraph 14 of the proposed FSP is intended to require preparers to disclose, for comparison purposes, the income from continuing operations (before taxes) as reported in the income statement. If our understanding is correct, the phrase “...related to those financial assets” should be deleted from the end of the second sentence in paragraph 14.

Additionally, we believe that the following revisions should be made to Example 4 of the Appendix:

- Example 4 includes a line item for “Loans and lease receivables”. We question whether lease receivables should be included in the scope of the proposed FSP given that lease contracts are excluded from the disclosure requirements in paragraphs 10-14 of Statement 107. If lease receivables are intended to be in the scope of the proposed FSP, entities would be required to disclose the fair value of the lease receivables for purposes of the proposed FSP, but not for purposes of applying paragraphs 10-14 of Statement 107. As this result seems inconsistent with the disclosures required under Statement 107, we believe that the Board should clarify this matter.



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- A footnote should be added to the Incurred Loss Amount column associated with the line item “Mortgage loans held for sale” to address how an entity should determine the incurred loss amount for loans held for sale.
- Footnote (a) should be removed from the Incurred Loss Amount column title as the guidance in footnote (a) is only applicable to held-to-maturity and available-for-sale debt securities, rather than all financial assets within the scope of the proposed FSP. In addition, footnote (a) should delete the phrase “or loan” from “each individual security or loan” as this footnote relates only to debt securities.
- Footnote (d) should be added to the line items related to held-to-maturity debt securities as its guidance is applicable to both available-for-sale and held-to-maturity debt securities. For consistency purposes, footnote (d) should refer to “expected cash flows” rather than “estimated cash flows”. In addition, it is not appropriate to refer to the “original” effective interest rate in footnote (d), since fair value hedge accounting under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, affects the measurement of impairment under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted recorded investment in a hedged loan. We suggest that the term “original” be deleted.

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We would be happy to further discuss these issues at the request of the Board or the staff. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Enrique Tejerina at (212) 909-5530 or Mark Bielstein at (212) 909-5419.

Sincerely,

KPMG LLP