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March 31, 2009



Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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LETTER OF COMMENT NO.

200

**RE: Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b,
“Recognition and Presentation of Other-Than-Temporary Impairments” (File
Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b)**

Dear Technical Director:

We appreciate the opportunity to respond to the proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, “Recognition and Presentation of Other-Than-Temporary Impairments” (the “proposed FSP”). We have previously expressed our support for the principles underlying the proposed FSP and we strongly support the issuance of the proposed FSP. We agree with the Board’s stated objectives to make the other-than-temporary impairment guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. We also agree with the separation of other-than-temporary impairment losses on available-for-sale debt securities into their credit and noncredit components, provided that the entity does not intend to sell the security and it is more-likely-than-not that the entity will not be required to sell the security prior to recovery of the noncredit impairment losses.

The Appendix to this letter includes further explanation of our views and provides our recommendations for revisions and clarifications that the Board should consider making to the proposed FSP.

We would be happy to further discuss these issues at the request of the Board or the staff.

Sincerely,

KPMG LLP

Cc: James Kroeker, Acting Chief Accountant, Office of Chief Accountant, SEC
Martin Baumann, Director, Office of Research and Analysis, PCAOB
Jennifer Rand, Acting Chief Auditor, Office of the Chief Auditor, PCAOB



Appendix

Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, “Recognition and Presentation of Other-Than-Temporary Impairments” (File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b)

As discussed in our attached letter, we support the issuance of the proposed FSP and agree with the Board’s stated objectives to make the other-than-temporary impairment guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This Appendix includes further explanation of our views and provides our recommendations for revisions and clarifications that should be made to the proposed FSP.

Modification of the “Intent and Ability to Hold to Recovery” Indicator

The proposed FSP modifies the “intent and ability to hold to recovery” indicator of other-than-temporary impairment such that the indicator would depend on whether the entity does not intend to sell the security prior to recovery and whether it is more-likely-than-not that the entity will not sell (or will not be required to sell) the security prior to recovery. We support the objective of the modification to the indicator for other-than-temporary impairment, and we believe that the Board should make certain clarifications about the new indicator.

- The Board should clarify whether (1) an entity is expected to consider the possibility of the occurrence of future events, and if so what events, when determining whether it is more-likely-than-not that it will sell (or will be required to sell) a security prior to recovery or (2) the evaluation should be based only on events that are known as of the measurement date. If an assessment of the occurrence of future events is included in this evaluation, we would assume that an entity would be expected to apply a probability-weighted approach to make that assessment. We believe the evaluation should be based on events that are known as of the measurement date not considering the probability of the occurrence of future events.
- The Board should clarify whether the revised indicator is intended to be based on whether it is more-likely-than-not that the entity *will sell* the security prior to recovery or *will be required to sell* the security prior to recovery. The proposed FSP uses those two phrases interchangeably; however, we believe that they may have different meanings. We believe that the revised indicator should be based on whether it is more-likely-than-not that the entity *will be required to sell* the security prior to recovery.
- The Board should clarify how the revised indicator will impact the analysis of other-than-temporary impairment for securities in managed portfolios. In current practice, we believe that an entity that has assigned its investment discretion in a group of securities to a portfolio manager would not be able to assert that it intends and has the ability to hold impaired securities to recovery unless the agreement with the portfolio manager restricts the sale of the



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securities prior to recovery. It is unclear whether the revised indicator would change that practice.

Separate Presentation of Credit Component and Noncredit Component of Other-Than-Temporary Impairment Loss

We support the separate presentation of the two components (credit and noncredit) of an other-than-temporary impairment loss for available-for-sale securities provided that the entity does not intend to sell the security and it is more-likely-than-not that the entity will not be required to sell the security prior to recovery of the noncredit impairment loss. The approach set forth in the proposed FSP is similar to a proposal for revising the loss recognition model for other-than-temporarily impaired debt securities discussed in a November 2008 comment letter sent to the SEC by the Center for Audit Quality related to the SEC study of mark-to-market accounting. Consistent with the view expressed in that comment letter, we believe that the separate presentation would better align impairment accounting for loans and debt securities and may help address the concern that fair value accounting unduly affects the regulatory capital adequacy of applicable institutions.

Measurement of Credit Component of Other-Than-Temporary Impairment Loss

Paragraph 15b of the proposed amendment to FASB Staff Position FAS 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP FAS 115-1 and 124-1) states that an entity should use its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument in determining the amount of the total impairment related to credit losses. The reference to credit risk suggests that the credit-related component of the total impairment represents the portion of the decline in fair value that is attributable to an increase in the instrument-specific credit spread. That measurement could differ significantly from the measurement of a credit loss under FASB Statement No. 114, *Accounting for Creditors for Impairment of a Loan* (Statement 114). However, we believe that a credit loss measurement using the approach of Statement 114 was the Board's intent due to the specific reference to the measurement guidance in Statement 114 and we support that approach.

The reference in paragraph 15b of the proposed amendment to FSP FAS 115-1 and 124-1 to the measurement methodology described in paragraphs 12-16 of Statement 114 should be clarified. Those paragraphs actually describe the following three methods for measuring impairment: (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) a loan's observable market price, and (3) the fair value of the collateral. We believe that the final FSP should clarify that the phrase "the measurement methodology described in paragraphs 12-16 of [Statement 114]" allows any of the methods described in Statement 114 to be used to



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determine the amount of the total impairment related to credit losses. We acknowledge that the second method described in Statement 114 would allow an entity to record the entire other-than-temporary impairment loss in earnings, without segregating the credit loss component from the remaining difference between the security's fair value and its cost basis. However, we believe that would be an acceptable alternative due to potential difficulties in determining the expected cash flows for certain types of securities with credit losses (for example, corporate debt securities) and because it is consistent with accounting for loans. In addition, the proposed FSP should provide additional guidance on the types of models that may be acceptable other than the measurement methodology described in Statement 114. If the Board does not believe that there are other acceptable methods for determining the amount of the impairment loss related to credit losses, the Board should clarify that the use of the measurement methodology in Statement 114 is required.

Held-to-Maturity Debt Securities

The accounting model for held-to-maturity debt securities will become significantly more complicated under the proposed FSP. Entities will be required to recognize the portion of other-than-temporary impairment losses for these securities not related to credit losses in a new category within other comprehensive income. The amount of impairment recognized in other comprehensive income would then be amortized prospectively back through other comprehensive income over the remaining life of the debt security, unless additional other-than-temporary impairments attributable to credit losses are recognized in a future period.

We believe that under the proposed FSP an other-than-temporarily impaired held-to-maturity debt security should be measured at its amortized cost basis less credit losses. The recognition of the remaining difference between the security's fair value and its cost basis as a charge to other comprehensive income and then amortizing that amount back as increases to other comprehensive income in subsequent periods would not provide meaningful information for a security that will be held until maturity and would increase the complexity of the model. FASB Statement No. 107, *Disclosure about Fair Value of Financial Instruments*, already requires entities to disclose the current fair values of held-to-maturity securities. In addition, measurement of held-to-maturity securities at their amortized cost basis less the credit loss upon an other-than-temporary impairment would be an opportunity for convergence with the related guidance in IFRS for those securities.



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Subsequent Accounting after an Other-Than-Temporary Impairment

Clarification is necessary regarding the subsequent accounting after an other-than-temporary impairment is recognized, particularly in circumstances in which further credit deterioration results in a subsequent other-than-temporary impairment loss.

For example, assume that an entity recognizes a \$50 other-than-temporary impairment loss on a security with a cost basis of \$100. Further assume that \$15 of the loss related to a credit impairment and was recognized in earnings, while the remaining \$35 loss was recognized in other comprehensive income. Assume that the entity concludes, in a subsequent period, that a further credit loss of \$15 has occurred (based on the guidance in Statement 114), but the fair value of the security has only declined by \$10 since the date of the original other-than-temporary impairment (for example, because of a decrease in interest rates and/or the liquidity risk premium). In that circumstance, should the credit loss be limited to the \$10 excess of the security's fair value over its amortized cost basis (as adjusted for the original other-than-temporary impairment) or should the entity recognize the \$15 credit loss in earnings with a \$5 gain in other comprehensive income?

The proposed FSP should clarify the Board's intent for the subsequent accounting after an other-than-temporary impairment loss.

Scope

The proposed FSP would apply to other-than-temporary impairments of both debt and equity securities, but it is not clear how the guidance in the proposed FSP would impact the assessment of other-than-temporary impairment for equity securities.

SEC Staff Accounting Bulletin Topic 5M, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities* (SAB Topic 5M), which has been incorporated into the guidance in FSP FAS 115-1 and 124-1, requires an entity to consider the extent and duration of impairment, the financial condition and near-term prospects of the issuer, and the investor's intent and ability to hold a security for a period of time that is sufficient to allow the security to recover its value. Although paragraph 7 in the background section of the proposed FSP indicates that it would not change the need to consider the severity and duration of impairment and the financial condition and near-term prospects of the issuer, the absence of that guidance from the recognition and measurement framework set forth in the proposed FSP, or in the related amendments to existing pronouncements, and the lack of specific guidance about the continuing applicability of SAB Topic 5M raises questions regarding the application of the proposed FSP to equity securities.



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If the Board intends for the proposed FSP to apply to equity securities, it should clarify how the FSP would affect existing other-than-temporary impairment guidance and how the amount of the loss recognized in the income statement for other-than-temporarily impaired equity securities would be determined if the entity does not intend to sell those securities and concludes that it is more-likely-than-not that it will not be required to sell the securities prior to recovery.

We understand that the SEC staff may be considering revisions to SAB Topic 5M that would further change the evaluation of other-than-temporary impairment for equity securities. If the Board intends for the revised guidance in SAB Topic 5M to be applied by both public and nonpublic entities, we suggest that the Board specifically address that point and include the guidance in the proposed FSP, rather than continuing to incorporate that SAB Topic into U.S. GAAP for all entities through FSP FAS 115-1 and 124-1. Including that guidance directly in the proposed FSP would (1) make the other-than-temporary impairment guidance more operational and less complex, (2) clarify that the guidance is applicable to all public and nonpublic entities, and (3) ensure that any future amendments to those requirements are not exempt from due process.

Recovery of Other-Than-Temporary Impairment Losses

In December 2008, the FASB added a project to its agenda to consider whether recoveries of previously recognized impairment charges should be recognized through earnings. We support recognition of recoveries of other-than-temporary impairment charges through earnings and believe that the Board could address that issue in this FSP. However, if inclusion of recovery guidance in this FSP would delay issuance of the final FSP, we encourage the Board to expedite its separate project to address those recovery issues.

Effective Date

We support the proposed effective date. If the proposed FSP is finalized and effective for interim periods and fiscal years ending after March 15, 2009, given the short period of time between the issuance of the final FSP and SEC filing deadlines for periods ending on March 31, 2009, the Board should discuss with the SEC whether an extension of the quarterly filing deadlines for the first period ending after March 15, 2009 would be appropriate.

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