

## Via E-Mail to director @tasb.org

March 31, 2009



LETTER OF COMMENT NO. 274

Mr. Russell G. Golden Technical Director FINANCIAL ACCOUNTING STANDARDS BOARD 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b Re:

Dear Mr. Golden:

Costco Wholesale Corporation ("Costco") appreciates the opportunity to comment on the proposed FASB Staff Position (FSP) FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments.

Costco does not operate any businesses that would be considered part of the financial services industry. We do, however, currently have two investment portfolios that would be subject to the provisions of this FSP. Both portfolios hold asset and mortgage backed securities, some of which have been other than temporarily impaired. It has never been our intention to hold some of these securities directly, however as a result of the current financial crisis we ended up holding a "vertical slice" of an enhanced money market fund containing a number of these illiquid and otherwise troubled securities. Accordingly, we have had to apply FAS 115 and 157 with respect to these assets. resulting in a significant expenditure of time and resources.

To date, a significant number of responses to this proposed FSP have been received from constituents in the financial services industry. We offer the perspective of a constituent outside of that industry.

Question 1 - This proposed FSP would require entities to separate (and present separately on the statement of earnings or "performance indicator") an other-thantemporary impairment of a debt security into two components when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. The two components would be (a) the credit component and (b) the noncredit component (residual related to other factors). Does this separate presentation provide decision-useful information?

Comments to Question 1 - We do not agree that the separate presentation provides decision useful information, and we concur with the point of view expressed by Messrs. Linsmeier and Siegel, *Proposed FASB Staff Position Alternative View*, in their comments on two points. First, that investors [financial statement users, clarification added] do not require a bifurcation of the fair value write down between earnings and other comprehensive income when it is determined that an other-than-temporary impairment should be recognized because a credit loss event has occurred. Second, the incurred loss approach (as proposed in this FSP) can isolate the credit loss from other losses (particularly liquidity risk), including the fact that "liquidity risk is inextricably intertwined with credit risk, representing the discount associated with the uncertainty of collection."

Question 2 - This proposed FSP would require that the credit component of the other-than temporary impairment of a debt security be determined by the reporting entity using its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. One way of estimating that amount would be to consider the measurement methodology described in paragraphs 12–16 of FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan. For debt securities that are beneficial interests in securitized financial assets within the scope of Issue 99-20, the amount of the total impairment related to credit losses would be determined considering the guidance in paragraph 12(b) of Issue 99-20. Do you believe this guidance is clear and operational? Do you agree with the requirement to recognize the credit component of an other-than-temporary impairment in income and the remaining portion in other comprehensive income? Under what circumstances should the remaining portion be recognized in earnings?

Comments to Question 2 – We do not believe the FSP, as currently written, provides sufficient guidance for the investor to assess and value the bifurcated components. There is no discussion on the selection of an appropriate discount rate or factors that should be taken into consideration in arriving at that rate. While suggesting constituents refer to *FASB Statement No. 114* to segregate the credit and other-than-temporary impairment components, this pronouncement provides guidance for the creditor to evaluate loan impairment. Since the investor is not the creditor, those security attributes required to perform the impairment evaluation would have to be obtained from the investment manager and the associated broker/dealer. This places an additional operational burden on the investor, particularly since the information has to be gathered and the modeling analysis performed on a CUSIP by CUSIP basis.

We believe the entire amount of the impairment should be recognized in earnings. As the investor evaluates the previously impaired security on an ongoing basis, future credit loss impairment may need to be recognized. In such circumstances, the amount previously amortized and recorded in other comprehensive income would require analysis and potential adjustment. This review process brings about further operational burdens.

Question 3 - This proposed FSP modifies the current indicator that, to avoid considering an impairment to be other than temporary, management must assert that it has both the intent and the ability to hold an impaired security for a period of time sufficient to allow

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for any anticipated recovery in fair value. The Board believes that, compared to current requirements, it is more operational for management to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery. Does this modification make this aspect of the other-than-temporary impairment assessment more operational (the remaining factors discussed in FSP FAS 115-1/FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, would remain unchanged)? Should this modification apply to both debt and equity securities? Will this change result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired?

Comments to Question 3 - We agree with the comment from CNA Financial Corporation, Letter of Comment No. 37, asking for clarification as to the period of time the assertion remains in place and specifically seeking guidance as to the acceptable reasons when that intent may change. Further, a discussion or list of examples of acceptable reasons as to a change in intent would also be helpful to guide management in its assessment.

We have no comment on the question as it pertains to equity securities.

Question 4 - This proposed FSP would require that the portion of an impairment recognized in other comprehensive income for held-to-maturity securities be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset (that is, an entity would not be permitted to adjust the fair value of a held-to-maturity security for subsequent recoveries in the fair value of the security similar to the accounting for available-for-sale securities). Do you agree with this requirement?

Comments to Question 4 - We do not agree with this requirement. First, it introduces different accounting with the amortization of that portion of the impairment recognized in other comprehensive income over the remaining life of the debt security rather than recognizing the impairment loss immediately. Second, should there be future other-than-temporary impairment of the same security, the determination of that bifurcated amount is further complicated.

Question 5 - Is the proposed effective date of interim and annual periods after March 15, 2009, operational?

Comments to Question 5 – Because of the additional information that would have to be gathered from third parties, the development of models and related analysis applied on a security by security basis, we believe the proposed effective date should be delayed until these matters are clarified.

We thank the Board for its review and consideration of these comments. If the Board or Staff has any additional questions, please do not hesitate to contact me at (425) 313-6124.

Very truly yours,

COSTCO WHOLESALE CORPORATION

Rue A. Jenkins / Assistant Treasurer