

March 31, 2009

Mr. Russell Golden
Technical Director Financial Accounting Standards Board
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LETTER OF COMMENT NO.

Via email: director@fasb.org

File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments

Dear Mr. Golden:

I appreciate the opportunity to comment on the Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments ("proposed FSP"). Certain aspects of current accounting guidance and practices are resulting in financial statements for banks that are not transparent and are misleading to users of financial statements. I believe it is critical to make immediate improvements to financial reporting – in this case, improvements to fair value accounting and accounting for Other Than Temporary Impairment (OTTI). I believe that the threshold to recognize losses through earnings – when management does not have the intent or the requirement to sell the security – is certainly more operational and provides a better economic picture than the current guidance.

The final FSP should apply to securities with OTTI at the effective date. The FSP should include a "true-up" for securities with OTTI by recording a one-time beginning balance cumulative adjustment between retained earnings and other comprehensive income. This will help avoid confusion and will increase consistency and comparability in the accounting for securities. It is also consistent with the approach taken for many other new accounting standards.

The effective date should be second quarter 2009, with earlier adoption permitted. Although I believe strongly that the proposed FSP should be effective for first quarter 2009, I also know that some entities will not be able to do the work needed in time to prepare their financial statements. Providing a second quarter effective date with earlier adoption permitted will help those whose systems and analyses require additional time.

OTTI for HTM securities should be based on credit losses rather than mark to market losses. I agree that probable credit losses represent actual economic losses of a security and should be recorded in earnings. However, non-credit losses on HTM debt securities should not be a part of OTTI at all. Recording non-credit losses in other comprehensive income for an HTM debt security, only to accrete that loss back to the security, will confuse users both at the time of the impairment as well as over the holding period.

Further guidance is needed on "intent to sell" an impaired security (and "more likely than not that it will not sell the debt security prior to recovery"). More guidance will be needed to avoid confusion that has arisen from the current practice over the past several years, especially related to "tainting".

Clarification is needed on the meaning of "credit losses". The final FSP should clarify that the amount of OTTI to be recognized through earnings is credit loss rather than "credit risk".

Longer-term recommendations:

Recoveries of OTTI should be reversed. OTTI should not be permanent if, in fact, the impairment is not permanent. Recoveries of OTTI should be immediately reversed through earnings in order to more accurately reflect performance of the borrower of the underlying assets and to provide consistency with other impairment accounting.

Although there are many reasons for the problems with OTTI, the best example is debt securities. In contrast to equities, debt securities, absent credit problems, have cash flows that are contractual and certain. In many cases, however, when losses are neither probable nor reasonably estimable, banks and other long-term investors have been required to mark to market (MTM) those debt securities and record losses — even when they do not intend to sell. These MTM losses on fully performing securities are often recorded permanently in earnings as OTTI. In other words, banking institutions must record, permanently in earnings, the market's view of losses, which often has no relationship to losses that are expected to occur. Further, those losses cannot be reversed through earnings, even if the market changes its views about the values or the losses do not materialize. In the current market environment, banking institutions and others are being required to materially overstate economic losses. This should not be interpreted that I oppose MTM.

Traditional banking is not based on buying and selling in the markets; instead, it is based on net interest margins and fee income. Thus, mark to market results in misleading volatility that does not reflect the cash flow business model of banking, and management performance is greatly distorted because banks manage cash flows and credit risk, not short or intermediate term fair values.

MTM should not be suspended. MTM can be very useful. However, the method to determine MTM should be improved, which is the topic of another proposed FSP.

I agree with reporting credit losses. This provides users of financial statements with information that is important in evaluating the quality of assets. Losses for OTTI should be based on credit impairment – as is the case for loan losses.

Recommendations for the proposed FSP

The final FSP should apply to securities with OTTI at the effective date. I agree with the proposal to provide better information to reflect probable credit losses by bifurcating market-related losses from credit losses. However, the proposal to prospectively apply this guidance will result in inconsistencies and non-comparability, because the amounts recorded for OTTI will be mixed. Both preparers and users of the financial statements will be faced with reconciling and analyzing how much OTTI results from credit losses recorded subsequent to the time full fair value losses were recorded (prior to 2009), as well as full fair value losses on those impaired securities that the bank intends to sell or it is more likely than not required to sell prior to recovery. Effective analysis of net interest margins, as well as market performance, will be difficult. In order to avoid such confusion, we recommend that a one-time beginning balance adjustment be allowed as of January 1, 2009. A similar beginning balance adjustment was, in effect, allowed in applying the Fair Value Option (SFAS 159), and it is appropriate at this time. The entity will then report the effect of the first reclassification of market-related OTTI as a cumulative-effect adjustment to the opening balances of retained earnings and accumulated other comprehensive income. The effective date should be second quarter 2009, with earlier adoption permitted. While I believe that the proposal should become effective as soon as possible. I understand that

there are certain institutions that will find implementation to be nearly impossible for the first quarter. Smaller institutions that lack sophisticated cash flow modeling tools will be executing these kinds of analysis for the first time. Further, larger organizations with vast portfolios that have not been required to analyze credit losses in this manner may also be similarly challenged. With this in mind, I recommend that the effective date of the proposal be changed to periods ending after June 15, 2009, with earlier adoption permitted. OTTI for HTM securities should be based on credit losses rather than MTM losses. The proposal to include market-related OTTI for HTM securities in OCI confuses users of the financial statements because HTM securities are to be held to maturity. Recording market-related OTTI contradicts the very principle that HTM securities are sheltered from market price influence. Recording non-credit losses in other comprehensive income for an HTM debt security, only to accrete that loss back to the security over time, is illogical and confusing. With this in mind, I recommend that OTTI for HTM securities be limited only to credit losses, which is similar to the accounting used in international accounting standards. Further guidance is needed on "intent to sell" an impaired security. I firmly agree with the proposal that credit losses (as opposed to MTM losses) should be recorded through earnings (if the company is not planning to sell the security or it is more likely than not that the company will not sell it prior to recovery). This will improve transparency for the financial statement user, and it much more accurately presents true economic losses that have been incurred. This is a positive step that helps address the underlying differences between debt securities and equity securities, and one that has been problematic for many years. With that in mind, however, we believe more guidance is needed to avoid confusion that has arisen from the practice over many years relating to "tainting" the portfolio if a security is sold. Auditing management's "intent" and "likelihood of sale" will bring up numerous questions as to timing, analysis, and documentation that may prove to be overly burdensome to many organizations. I believe it is not FASB's intent to create such an environment, and I do not advocate "bright lines". However, further guidance is required to avoid such a situation. Clarification is needed on the meaning of "credit losses". I recommend that the meaning of "credit losses" be expanded in the final FSP. I support the use of a cash flow methodology similar to that described in SFAS 114. However, I believe that to avoid misapplication of discount rates, the FSP should note that it is not the "credit risk" (as measured under SFAS 159, Fair Value Option), but the actual credit loss that is to be recorded. Further, the discussion should address other issues, including whether incurred, yet unidentified, impairment should be part of the calculation, as is performed in accordance with SFAS 5.

Longer-term recommendations

Recoveries of OTTI should be reversed. When OTTI is determined to have recovered, the recovered portion should be immediately reversed. Immediate reversal of OTTI furthers convergence with current International Financial Reporting Standards. Additionally, immediate reversal of OTTI will maintain consistency with recoveries of losses on impaired loans as calculated in SFAS 114. Excluding recoveries from retained earnings reduces transparency as to the performance of the underlying assets (or the market) and recording them will also allow better net interest margin analysis, as appropriate book values will be up-to-date.

Thank you for your attention to these matters and for considering my views.

Cordially,

WL Wantuck, CPA CIA Executive Vice President Chief Financial Officer Brazos Valley Bank