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Mr. Russell Golden
FASB Technical Director
Financial Accounting Standards Board
P.O. Box 5116
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LETTER OF COMMENT NO. 242

Re: No. FAS 115-a, FAS 124-a, and EITF 99-20-b, "Recognition and Presentation of Other-Than-Temporary Impairments"

Mr. Golden,

I appreciate the opportunity to comment on this proposed Staff Position. As with the Proposed FSP No. FAS 157-e, I believe that this is a flawed proposal resulting from a flawed, though superficially rigorous, process. Though the FASB has met its due process requirements, I do not believe investors will be well-served by a hastily-developed FSP which so clumsily obscures impairment recognition. I repeat my remarks from my comment letter on the FAS 157-e proposal: this FSP will create difficulties for the FASB's long-term credibility as an independent standard setter. There is a nearly "Groundhog Day"-like sameness developing in the accounting standard world: at the end of the quarter, politicians acting in the interests of some of their constituents pressure either the IASB or the FASB to "do something" about an unfair standard, and a rapid-response amendment that weakens an existing standard is developed.

This template needs to be broken if investor confidence is to be restored to capital markets. This proposal does not break that template.

The following are my responses to the specific questions asked in the document.

1. This proposed FSP would require entities to separate an other-than-temporary 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?

I do not believe there is any investor-relevant information provided by the proposed decomposition of an impairment charge. It is an exercise in misplaced specificity: investors simply have not clamored for knowledge of which part of a firm's investment loss is attributable to credit and which part of the loss is attributable to all other factors. Investors are more concerned with timely recognition of losses and fair presentation of asset values. In fact, I believe the proposed accounting will result in *less* investor-useful information than is currently provided. The accounting results are largely driven by management intention, making it easier for preparers to avoid writedowns.

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?

As stated above, I do not believe that the proposal provides decision-useful information for investors. If the end result is not useful, then whether or not the guidance in Statement 114 and Issue 99-20 is clear matters little. I believe that the storage of other-than-credit losses in other comprehensive income makes no reporting sense and only delays the recognition of losses into periods in which such losses did not occur.

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 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?

If “more operational” means “easier to apply” then yes, the simple assertions of 1) no intent to sell a security and 2) more likely than not that it will have to be sold, will definitely be more operational than the current requirement.

It also makes it more operational to defer losses and present an unrealistic picture of a company’s financial status.

I do not believe that this treatment should be extended to equities. Debt securities have a certain time horizon, the end of which demands a holder to reckon whether or not they will recover their investment; equities have an indefinite time horizon, making such an assessment even less believable for an investor should a management assert “no intention of selling.”

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?

I disagree with the requirement because it adds no investor-useful information and only adds to reporting complexity for preparers. It will also add to analytical complexity for investors, who will likely try to reverse it in order to assess current-period performance. They will probably view this as a preparer-driven gimmick made only to cosmetically improve financial reporting. If they have to undo it, whose interests are being served? If this is supposed to instill investor confidence, how does it accomplish the mission if they don’t believe the information it produces?

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

As with the 157-e proposal, I don’t believe this can be effectively implemented in the short time span between now and first quarter reporting season. It can be implemented, certainly, but I have my doubts as to the quality of the reported information with such a short - two to three weeks at best - “grace period” before the reporting of first quarter results.

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If you have any questions on the above or wish to discuss any other aspects of the proposal with me, you are welcome contact me. Thanks again for the opportunity to comment. Best regards.

Sincerely,



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