

March 31, 2009

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Via Email to <u>director@fasb.org</u>



LETTER OF COMMENT NO. 245

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Re: Proposed FASB Staff Position (FSP) FAS 115-a, FAS 124-a, and EITF 99-20-b

Dear Mr. Golden:

Grant Thornton LLP appreciates the opportunity to comment on proposed FASB Staff Position (FSP) FAS 115-a, FAS 124-a, and EITF 99-20-b, "Recognition and Presentation of Other-Than-Temporary Impairments." We support the Board's efforts to make other-thantemporary impairment guidance more operational and to improve the presentation of otherthan-temporary impairments in the financial statements.

General comments

Subject to certain concerns described below, we support the Board's proposal to separate impairment into estimated credit losses that would be included in earnings and an amount related to all other factors that would be recognized in other comprehensive income, but only as a short-term remedy until the Board completes its joint project with the International Accounting Standards Board (IASB) on financial instruments.

We believe the Board should clarify that the impairment loss recognized in earnings, as discussed in paragraph 13 of the proposed FSP, is not intended to represent the credit portion of a fair value adjustment but rather refers to an entity's internal estimate of probable credit losses. The guidance should clarify that the amount of impairment loss recognized is either an incurred credit loss adjustment or an expected credit loss adjustment, unless the amount is based on a write-down to fair value. The presentation in the statement of earnings should clearly indicate the nature of the impairment loss recognized in earnings. Further, it is our view that entities should be required to disclose a reconciliation of the carrying amounts of availablefor-sale and held-to-maturity debt securities from the previous to the current reporting date, including other-than-temporary impairments recognized in earnings and in other comprehensive income.

We noted an inconsistency within the proposed FSP that we believe the Board should address. Paragraph 2 states "The Board believes 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 recovery of its cost basis." We noted that paragraph 12 of the proposed FSP states "If a decline in fair value below the amortized cost exists at the measurement date for a debt or equity security and the entity intends to sell the security or it is more likely than not that an entity will sell the debt or equity security before recovery of its cost basis, an other-than-temporary impairment exists." It is unclear whether management would be required to assert that the entity does not intend to sell and will not have to sell the security, or that the entity intends to sell and it is more likely than not that it will sell the security. Paragraph 2 indicates that in order to avoid considering an impairment to be other-than-temporary, management must assert it is more likely than not that it will not have to sell the security, indicating that the entity has the ability to hold a security for a period of time sufficient to recover the cost basis, whereas paragraph 12 indicates that management must assert it is more likely than not that it will sell the security. These two sentences appear inconsistent, as the sentence in paragraph 2 addresses an entity's need to sell a security, while the sentence in paragraph 12 addresses management's intent to sell a security. We believe that paragraph 2 is more operational and that paragraph 12 should be revised.

Paragraph 12 of the proposed FSP refers to declines in fair value below amortized costs for both debt and equity securities. It is unclear to us how the management assertion in paragraph 12 that an entity will sell a debt or equity security prior to recovery of its cost basis can be applied to available-for-sale equity securities. Currently, FASB Statement 115, Accounting for Certain Investments in Debt and Equity Securities, refers to guidance in SEC Staff Accounting Bulletin 59 (SAB 59) for determining whether available-for-sale equity securities are other-than-temporarily impaired. SAB 59 specifies some indications that an available-for-sale equity security may not be other-than-temporarily impaired, including that the holder of the security has the intent and ability to retain its investment for a period sufficient to allow for any anticipated recovery in the security's market value.

Paragraph 8 of the proposed FSP indicates that the SEC's Office of the Chief Accountant plans to amend SAB Topic 5M, which consists of the same guidance that is in SAB 59, to conform with the guidance in the proposed FSP. It is not possible for us to determine whether the proposed guidance for assessing impairment of available-for-sale equity securities is appropriate without knowing how the SEC staff proposes to amend SAB Topic 5M. Because of the difficulties in evaluating recovery of equity securities, it is our opinion that the Board should exclude equity securities from the scope of the proposed FSP and address these issues as part of its joint project with the IASB on financial instruments.

We believe the Board should incorporate the guidance from SAB 59 into Statement 115 because it is frequently referred to in practice when assessing potential other-than-temporary impairment of securities held by both public and private entities. Incorporation of the guidance into Statement 115 would allow for consistent application of the guidance without reference to SEC materials and permit the FASB to modify the guidance without the need for a similar modification by the SEC. It would be beneficial for all entities to have access to that guidance with the upcoming adoption of the FASB Accounting Standards Codification.

Our responses to the Board's specific questions in its Notice to Recipients are as follows.



Question 1

This proposed FSP would require entities to separate (and present separately on the statement of earnings or "performance indicator") 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 the 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?

We believe that the presentation needs to be improved to clarify that the amounts recognized are not fair value adjustments in order to provide decision-useful information. Please see our general comments above.

Question 2

This proposed FSP would require that the credit component of the other-thantemporary 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?

We agree with the requirement as a short-term remedy until the Board completes its joint project with the IASB on financial instruments. Please see our general comments above.

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 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?

We believe that the wording in paragraph 2 of the proposed FSP is more operational than the wording in paragraph 12. We believe that the scope of the FSP should be limited to debt securities and that the impairment of equity securities should be addressed as part of the joint project on financial instruments with the IASB. Please see our general comments above.

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?

We believe that amortization of the portion of the impairment for held-to maturity securities recognized in other comprehensive income will increase complexity without providing decision-useful information.

Question 5

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

We believe the proposed effective date is operational if application of the FSP is prospective. However, implementation of the proposed impairment model will require significantly greater time commitments if the Board determines the proposed FSP should be applied retrospectively. Small and mid-size entities may experience difficulty in retrospectively implementing the proposed FSP prior to reporting deadlines for periods ending after March 15, 2009, depending on the availability of employee resources and expertise. Furthermore, some entities may require outside assistance in compiling the information necessary to retrospectively implement this proposed FSP.

Additionally, we are concerned with the abbreviated comment period and proposed implementation timeline as it relates to due process in developing authoritative accounting guidance. We understand that there is a significant need in the current economic environment to provide guidance that will help entities determine whether financial instruments are other-than-temporarily impaired and present such assessments in their financial statements. However, there is significant risk that the short timeframe for developing and issuing this proposed guidance could impair the ability of constituents to provide useful input on the Board's guidance and impair the ability of the Board to adequately consider that input in developing a final FSP.



We appreciate the opportunity to comment on the proposed FSP and would be pleased to discuss our comments with the FASB staff. If you have any questions, please contact Mark K. Scoles, Partner, Accounting Principles Consulting Group, at 312.602.8780 or <u>Mark.Scoles@gt.com</u>.

Sincerely,

/s/ Grant Thornton LLP