



LETTER OF COMMENT NO. 227

QUALCOMM Incorporated

5775 Morehouse Drive
San Diego, CA 92121-1714
(858) 587-1121

www.qualcomm.com

Submitted via email to director@fasb.org
March 31, 2009

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

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

Mr. Golden:

QUALCOMM Incorporated is a large accelerated filer with a diverse portfolio both debt and equity securities that are classified as available for sale. Our marketable securities balance as of December 28, 2008, our first quarter of fiscal 2009, was over \$9 billion. We respectfully submit this comment letter on the Proposed FASB Staff Position (FSP) that would amend FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* ("Proposed FSP").

We agree with the need for revisions to the current accounting guidance for other-than-temporary impairments. Specifically, we agree with the Proposed FSP that other-than-temporary impairments should be bifurcated for debt securities between a credit loss component and a non-credit loss component and that the noncredit component should not be recorded through earnings. In addition, we agree that the current indicator regarding management's assertion that it has both the intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value should be modified for both debt and equity securities. Although we support the Proposed FSP, we believe additional guidance is needed, specifically related to equity securities.

We have attached our responses to the specific questions that are enumerated in the Proposed FSP and our other comments in Exhibit I to this letter.

We appreciate the opportunity to comment on the Proposed FSP. Thank you for your consideration.

Sincerely,

Richard F. Grannis
Senior Vice President and Treasurer
QUALCOMM Incorporated

Exhibit I

Responses to Individual Questions in the Proposed FSP No. FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* and Other Comments

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 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 separate presentation of an other-than-temporary impairment related to a debt security between the (a) credit component and (b) noncredit component is decision-useful information. Bifurcation of the other-than-temporary impairment allows users to make more informed decisions and better understand the nature of the company's impairments.

However, we believe such information should be presented in the notes to the financial statements, both on an annual and interim basis, rather than on the face of the income statement. This information should be presented along side the disclosure related to the methodology and key inputs used to measure the portion of the total impairment that relates to credit loss (as currently contemplated in the Proposed FSP).

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?*

We agree that bifurcation of impairment into the two components better reflects the underlying economics associated with the impairment of a debt instrument and perpetual preferred securities with debt-like characteristics. The noncredit component should be considered temporary as the cash flows are expected to ultimately be received as the instrument matures. We agree that it is appropriate to recognize an impairment in earnings when an entity has the intent to sell, or is more likely than not it will sell, the security before recovery of its cost basis.

With regard to debt securities, the Proposed FSP states "If it is more likely than not that the entity will not sell a debt security (classified as held-to-maturity or available-for-sale) before recovery of its cost basis, but it is probable that the investor will be unable to collect all amounts due **according to the contractual terms of the security**, the impairment shall be separated into (1) the amount of the total impairment related to credit losses and (2) the amount of the total impairment related to all other factors." This statement indicates that a full recovery of the contractual amounts is required to determine

if the impairment should be taken. However, we believe the language should be clarified to address situations in which an entity purchases a security when the security was below its original par value. For example, if a debt security was issued at 100 (par), purchased by the entity for 70 but currently trades at 50, then we believe the holder would only need to determine if it was probable that it would be unable to recover its cost basis of 70 (rather than par). We believe this would be in keeping with the intention of the Proposed FSP. Therefore, we recommend an improvement in this wording as follows: "If it is more likely than not that the entity will not sell a debt security (classified as held-to-maturity or available-for-sale) before recovery of its cost basis, but it is probable that the investor will be unable to collect all amounts **sufficient to recover the cost basis and/or all amounts due according to the contractual terms of the security**, the impairment shall be separated into (1) the amount of the total impairment related to credit losses and (2) the amount of the total impairment related to all other factors."

We believe that allowing an alternative method of estimating the portion of loss due to credit factors is more operational for non-financial institutions than requiring the application of the methodology described in paragraph 12–16 of FAS 114 due to the significant costs required to internally develop and maintain a model compliant with FAS 114. One such method could be based on estimated credit losses rather than incurred losses. For estimated credit losses, we recommend allowing the utilization of estimated recovery rates (i.e. published by credit rating agencies or provided by institutional money managers) for the credit portion of the impairment. We believe this method would approximate the incurred losses model under FAS 114 and be more operational for non-financial institution.

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 the modification to the assertion related to intent should be made for both debt and equity securities. This change more closely aligns management's intended economic use of the asset with the accounting for that asset. As well, the modified assertion is more operational as intention can be very difficult to predict beyond the very near term. We believe the Proposed FSP allows management to make such assertion at each quarterly reporting date, and that this modification to the assertion lessens the risk that an entity might taint its ability to make an assertion because a single security (or minor portion of a group of securities) is (are) sold at a loss in a subsequent period despite management's previous assertion that they had not intended to sell them.

However, the guidance in the Proposed FSP regarding the assertion appears ambiguous. One could interpret the Proposed FSP to mean that if (a) management does not intend to sell the security and (b) it is not "more likely than not" that the entity will be required to sell the security before recovery of its cost basis, no impairment would be recorded through earnings, regardless of the severity and duration of the loss. Paragraph 7 of the Proposed FSP states "...other aspects of determining whether a security is other-

than-temporarily impaired remain unchanged.” While we assume that the Proposed FSP is not meant to change an entity’s consideration of the severity and duration of the loss, we believe the FASB should be more explicit regarding its intent in this regard.

Lastly, significant judgment is required for analyses of equity securities in both current and proposed guidance. As a result, we suggest that the Proposed FSP be amended to provide additional/improved guidance on determining whether an other-than-temporary impairment exists for equity securities. We recommend guidance which is direct, specific and topical to investments in individual equity securities, including consideration of equity securities with debt characteristics such as perpetual preferred equity securities, and mutual and exchange-traded funds (i.e. pools of equity securities).

4. Question 4 is not presented.

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

We believe that an effective date of interim and annual periods after March 15, 2009 is not operational. Our fiscal quarter ended March 29th, and we plan to release earnings and file our 10-Q on April 22nd. We are waiting to learn how quickly the final guidance will be issued after April 1, 2009. If there are any delays, we may have to reschedule our earnings release for our fiscal quarter. The proposed retroactive effective date may be difficult for many companies to accomplish, and as such, we think that the new guidance should be effective for interim and annual periods ending after April 15, 2009, with early adoption allowed.

Further, we believe that companies should be allowed to apply the new guidance retroactively to the beginning of their current fiscal year. In our view, the proposed guidance will serve to provide more reliable information to users of financial statements. As such, we believe it is important to enable companies to correct financial reporting in prior interim periods and present consistent and comparable quarterly and future annual results to investors and analysts. We recommend allowing companies that elect this voluntary retroactive implementation to “true-up” their financial statements in the period of adoption using a one-time, cumulative adjustment through earnings for impairments recorded in prior interim period(s) during an entity’s current fiscal year.

6. *Other considerations*

Interaction with Other Guidance: The application of the guidance in the Proposed FSP and its interaction with existing guidance, such as SEC SAB Topic 59, is unclear. For example, it is unclear whether the change in the assertion related to management’s intent to sell affects the determination of the period to project recovery for impairment. In addition, it is unclear whether the FSP changes the definition of temporary. For these reasons, we suggest that the guidance in the proposed FSP be combined with the related existing requirements into one standard.

Comment relevant to FSP 157-e, “Determining Whether a Market is Not Active and a Transaction is Not Distressed”: While the proposed changes are likely to be beneficial to financial institutions, we believe non-financial corporations may have a significant burden related to the application of the proposed guidance. The Proposed FSP may preclude entities from using traditional sources of pricing information (e.g. pricing services and brokers) because the pricing information from such sources is often based on observed transaction prices. As a consequence, many entities might need to devote

substantial cost and effort to develop alternative valuation techniques to apply the guidance in the proposed FSP. Additionally, our primary issues in applying other-than-temporary impairment guidance would not be addressed by modifying fair value measurement.