Letter of Comment No: /85
File Reference: EITF03-1A

AmSouth Bank 1900 5th Avenue North Birmingham, AL 35203

October 29, 2004

Mr. Lawrence W. Smith
Director and Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Proposed FSP EITF 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

Dear Mr. Smith:

AmSouth Bancorporation (AmSouth) appreciates the opportunity to comment on the above-referenced FASB Staff Position (the proposed FSP). AmSouth is a regional bank holding company with \$50 billion in assets, more than 670 branch banking offices and over 1,200 ATMs. AmSouth operates in Florida, Tennessee, Alabama, Mississippi, Louisiana and Georgia. AmSouth is a leader among regional banks in the Southeast in several key business segments, including consumer and commercial banking, small business banking, mortgage lending, equipment leasing, annuity and mutual fund sales, and trust and investment management services.

AmSouth commends the Board for responding to the concerns raised regarding Issue 03-1 by delaying the application of the evaluation guidance and for taking action to address those concerns through the proposed revisions to that issue, as provided in the proposed FSP.

It is important to note that one of most important responsibilities of financial institutions is to manage the asset/liability sensitivity of its balance sheet to control its risks of movements in interest rates. The investment securities portfolio is a significant tool used by financial institutions to appropriately manage this sensitivity as well as the liquidity position of the total balance sheet. In many cases the movement of interest rates that causes the market value to fall below the cost of the asset is economically offset by the positive effects of the interest rate movement on the matching liabilities. If financial institutions are required to charge earnings for solely interest rate driven market fluctuations on a portion of their assets, the results will distort the economic realities and create earnings fluctuations that do not represent actual results. For example, if a financial institution is perfectly balanced in terms of asset/liability sensitivity, and interest rates change such that the institution is required to recognize an impairment charge to earnings on the asset with no offsetting benefit recognized on the liability, the institution will realize an accounting reduction to reported equity capital even though there was no real change to "economic" capital. This will further distort future reported results as the impairment amount is recaptured through higher yields on the impaired asset. One of the unintended consequences of Issue 03-1 could be that it may encourage managing the investment portfolio to accounting outcomes, rather than making prudent investment decisions, in order to reduce these potential distortions.

AmSouth suggests that Issue 03-1 be withdrawn. We believe Issue 03-1 fundamentally changes the guidance in Statement 115 for measuring other-than-temporary impairments of debt securities. This seems to effectively amend Statement 115 as it relates to available-for-sale (AFS) securities. Statement 115, paragraph 16, states that "if it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred." This language does not require that the investor assert its intent and ability to hold the security to recovery in order to avoid impairment. Instead, Statement 115 focuses on the inability to collect all amounts contractually due. EITF D-44 states the following: "The FASB staff believes that when an entity has decided to sell an available-for-sale security whose fair value is less than its cost basis and the entity does not expect the fair value of the security to recover prior to the

expected time of sale, a write-down for other-than-temporary impairment should be recognized in earnings in the period in which the decision to sell is made. The staff also notes that an entity's decision to sell a security is only one of the circumstances that needs to be considered in determining when an other-than-temporary impairment exists." EITF D-44 focuses on taking an other-than-temporary impairment charge when an explicit decision to sell has been made. The combination of these two pronouncements does not require an institution to make an explicit decision regarding the intent to hold an otherwise temporarily impaired security until recovery. Therefore, we believe the focus should be on the ability to hold the security to recovery, not the intent.

Current interpretations of Issue 03-1 modify and overrule existing generally accepted accounting principles (GAAP) contained in Statement 115. GAAP requires that unrealized losses on AFS securities that are determined to be temporary or recoverable be accounted for as an adjustment to equity, rather than income, as long as the investor has the ability and intent to hold the "impaired" securities to such time that the remaining book value is recoverable (e.g. could be until maturity). Current interpretations are disregarding investors' ability and intent to hold securities. Placing restrictions on AFS securities is inconsistent with existing GAAP. When current accounting rules were developed, the decision was made to expand to three categories, acknowledging that financial institutions must have flexibility with regard to balance sheet management. Issue 03-1 appears to amend Statement 115 by bifurcating the AFS category further into held-to-recovery and AFS. Sales of AFS securities for risk management purposes should continue to be acceptable, even if those sales result in losses, and should not taint the remaining securities.

Guidance on measuring other-than-temporary impairments can also be found in SEC SAB Topic 5-M which includes the following:

"...Acting upon the premise that a write-down may be required, management should consider all available evidence to evaluate the realizable value of its investment.

There are numerous factors to be considered in such an evaluation and their relative significance will vary from case to case. The staff believes that the following are only a few examples of the factors which, individually or in combination, indicate that a decline is other than temporary and that a write-down of the carrying value is required:

- a. The length of the time and the extent to which the market value has been less than cost;
- b. The financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; or
- c. The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

Unless evidence exists to support a realizable value equal to or greater than the carrying value of the investment, a write-down to fair value accounted for as a realized loss should be recorded. In accordance with the guidance of paragraph 16 of Statement 115, such loss should be recognized in the determination of net income of the period in which it occurs and the written down value of the investment in the company becomes the new cost basis of the investment." [See SAB Topic 5-M]

We believe the guidance in part b of SAB Topic 5-M above relates to the creditworthiness of the borrower. The guidance in part c refers to the "intent and ability of the holder to retain its investment in the issuer." Some parties take the view that part c also relates to the creditworthiness of the borrower. Therefore, this guidance would seem to apply to equity and corporate debt securities (whereby creditworthiness is a significant driver of valuation) and not debt securities traditionally issued by the U.S. Government and federal agencies. Therefore, Issue 03-1 appears to be amending prior guidance that only addressed other-than-temporary impairment of equity and corporate debt securities. Issue 03-1 seeks to apply the same principles to U.S. Government and federal agency debt securities when, in fact, valuations of debt securities are driven more by changes in interest rates than by changes in creditworthiness of the U.S. Government.

Therefore, we believe that Issue 03-1 should be withdrawn in its entirety. However, should the Board decide not to withdraw Issue 03-1 in its entirety, we are providing the following comments on the proposed FSP.

Question 1: At what unit of account should an investor assert its intent and ability to hold to a forecasted recovery?

We believe the focus for debt securities should be on the ability to hold the security to recovery when creditworthiness is not an issue, not the intent. However, we do agree that either assertion should be made at the individual security level, as stated in paragraph 16 of Statement 115. Assertion at the individual security level is also consistent with paragraph 6 of Statement 115 which requires enterprises to classify debt and equity securities as either held-to-maturity, available-for-sale or trading at acquisition of the security.

Question 2: Although Issue 03-1 states that an investment is impaired if the fair value of the investment is less than its cost, paragraph 16 does not refer to the severity of the impairment. Is there a level of impairment that can be considered temporary that would not create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery?

The normal rise and fall of business activity will evoke counter responses from economic policy makers such as the Federal Reserve (monetary policy) and the Congress as regards fiscal policy, causing interest rates to rise and fall over each cycle. Therefore, the likelihood of principal recovery for debt securities should not be artificially divorced from these interest rate cycles that naturally occur in economic environments. We believe the measure of temporary impairment for debt securities should incorporate rate movements naturally occurring within an interest rate cycle.

The threshold for determining whether impairment is other-than-temporary should be based upon whether or not the impaired amount can be recovered within a normal rate cycle. In the event of a strong probability that an impaired amount will not be recoverable within a normal rate cycle, then an other-than-temporary impairment would be recognized. This threshold should not be an arbitrary standard applied to all investments, but rather should be a determinable standard applied to each security based on individual characteristics. For example, if a security is impaired but based upon existing observable evidence it is highly unlikely the impaired amount can be recovered within a normal interest rate cycle, the impairment should be considered other-than-temporary. As a matter of operational practicality, some minor threshold for temporary impairment may also be established to expedite the review of a large number of securities, whereby any impairment under this minor amount would be considered temporary without need to further evaluate that particular security's likelihood of recoverability.

Question 3(a): If an interest-rate-impaired and/or sector-spread-impaired security for which the investor previously had asserted its ability and intent to hold to a forecasted recovery is expected to be sold prior to recovery, when is the impairment considered other than temporary?

We concur with the FASB's proposed position that an other than temporary impairment on an interest-rate-impaired and/or sector-spread-impaired security should be recognized when the decision to sell the security is made.

Question 3(b): If an interest-rate-impaired and/or sector-spread-impaired security for which the investor previously had asserted its ability and intent to hold to a forecasted recovery is expected to be sold prior to recovery, are there circumstances for such a change in ability or intent that would not necessarily call into question the investor's ability or intent to hold other securities to recovery?

We concur with the FASB's proposed position that the following circumstances would not call into question an investor's ability or intent to hold other securities to recovery: unexpected and significant changes in liquidity needs, unexpected and significant increases in interest rates and/or sector spreads that significantly extend the period that a security would need to be held by the investor, and a de minimis volume of sales of securities. We also believe that there could be other instances whereby an investor's

ability or intent to hold other securities to recovery should not be called into question. These instances would be evaluated based on the individual facts and circumstances.

In conclusion, we want to emphasize that Issue 03-1 should be withdrawn in its entirety.

Again, we appreciate the opportunity to comment on this proposal. Thank you for considering our views. If you would like to discuss this matter in further detail, please contact me at (205) 326-4831.

Sincerely,

Beth E. Mooney Senior Executive Vice President and Chief Financial Officer