

**COX SMITH MATTHEWS**  
INCORPORATED

112 EAST PECAN STREET  
SUITE 1800  
SAN ANTONIO, TEXAS 78205-1521  
(210) 554-5500  
FAX (210) 226-8395  
WWW.COXSMITH.COM

Writer's Direct Number  
(210) 554-5250

Writer's E-mail Address  
cpkavy@coxsmith.com

October 29, 2004

Mr. Robert Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5166

Letter of Comment No: 198  
File Reference: EITF03-1A

Mr. Lawrence W. Smith  
Chairman, Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

RE: Proposed FASB Staff Position EITF Issue 03-1-a, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

Dear Mr. Herz and Mr. Smith:

On behalf of our client, International Bancshares Corporation ("IBC"), we appreciate the opportunity to comment on the proposed FASB staff position EITF Issue 03-1-a referenced above (the "Proposed FSP") which provides implementation guidance for the application of paragraph 16 of EITF Issue 03-1 to debt securities that are impaired because of interest rate and/or sector spread increases. International Bancshares Corporation is a \$9.4 billion financial holding company headquartered in Laredo, Texas with bank facilities in Texas and Oklahoma.

We commend the Proposed FSP attempt to clarify when losses must be recognized in connection with investment portfolios; however a broad interpretation of

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EITF-03 threatens the ability of financial institutions to manage interest rate risk through the positioning of their available-for-sale securities portfolio. Without adequate clarification, the new guideline would impair risk management efforts of banks by discouraging them from selling securities because such sales may result in a write-down of the remaining available-for-sale portfolio of the bank. EITF 03-1 creates a safe harbor from impairment that banks will try to meet by asserting the ability and intent to hold the securities until recovery; however, if any of such securities is actually sold, the safe harbor for the whole pool of securities would be at risk.

The Proposed FSP clarification states in relevant part that "for purposes of applying paragraph 16, a minor impairment caused by interest rate and/or sector spread increases can be considered temporary and would not create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery."

The attempt to exempt minor impairments caused by interest rate and/or sector spread increases from the need to make the ability and intent to hold to recovery declaration is a step in the right direction, but it does not go far enough. The use of the language "minor impairment" is problematic, because the Proposed FSP also suggests a quantitative measure of 5% or less of cost as the standard for a minor impairment. We are not in favor of a quantitative measure and in any event believe 5% is far too limiting.

Instead of the "minor impairment" language, we recommend that securities impaired due to the normal interest rate cycle be exempted from the declaration of ability and intent to hold to recovery. This alternative would distinguish between different types of securities and would invite an analytical dialog between auditor and company regarding the relevant interest rate cycles and the impact on the available-for-sale securities portfolio. In the alternative and in the spirit of the guideline to address "other-than-temporary impairment," we believe the guideline should exclude unrealized losses, unless the unrealized loss can clearly be shown to be other than temporary.

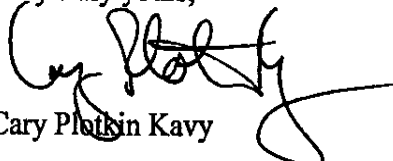
In connection with clarifying the implementation of EITF 03-1, special consideration should be given to the impact of the guideline on financial institutions. The business of banking revolves around the ability to manage net interest spread. If the application of EITF 03-1 is not adequately clarified, the ability of banks to manage interest rate risk could be unjustly impaired. For the most part, interest rate risk is managed through the investment portfolio. The interest rate risk management efforts of banks are heavily regulated by the bank examiners, and the type of inflexible management strategies that may be encouraged by EITF 03-1 would be frowned upon by the bank regulators. Further, if banks are required to realize losses related to interest rate

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fluctuations (due to confusion about what constitutes "minor impairment"), shareholders and the investing public may receive very misleading impressions of the true financial position of a financial institution. To illustrate this point, please consider IBC, a financial institution that invests almost exclusively in GSE mortgage-backed securities, which generally prepay well in advance of the maturity date and are guaranteed by the GSE. Impairing such securities due to interest rate fluctuations would not reflect any true risk to the payment of such securities. The unnecessary write-downs would cause the performance of the securities portfolio to be distorted due to the accretion related to the discount to par of the performing securities as well as the artificially high yield on the investment portfolio, both of which would mislead investors about the true earning power of the financial institution.

We thank you for the opportunity to comment on the Proposed FSP. Please contact the undersigned should you have any questions about our comments or if you would like any additional information.

Very truly yours,



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cc: Dennis E. Nixon