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LETTER OF COMMENT NO. 247

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

File Reference: Proposed FSP EITF 99-20-a

Dear Mr. Golden:

We appreciate the opportunity to comment on the Exposure Draft of the Proposed FASB Staff Position, *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20* (the "Exposure Draft"). Huron Consulting Group helps clients address complex challenges that arise in litigation, disputes and investigations. Huron provides services to a wide variety of organizations, including Fortune 500 companies, medium-sized businesses, leading academic institutions, healthcare organizations, and the law firms that represent these various organizations.

We agree with the FASB's ultimate goal of reducing the number of impairment models that apply to financial assets. Although we agree that the Board should make certain changes to the impairment model in 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* ("Issue 99-20"), we do not agree with all of the specific changes proposed in the Exposure Draft. The impairment model in paragraph 16 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"), is appropriate for debt securities with predictable contractual cash flows (i.e., principal and interest payments). Without the guidance in Issue 99-20, we do not believe that model will work with beneficial interests that lack those normal attributes (i.e., interest-only mortgage-backed securities) or that are exposed to concentrated credit risk from a pool of financial assets because of structuring. We believe the Board should focus its efforts on clarifying the scope of Issue 99-20, simplifying the application of its impairment model, and addressing questions about the application of the impairment model in SFAS 115.

We agree with the Board that having multiple impairment models that result in different outcomes for economically similar instruments is not desirable. However, we do not believe the financial assets the Emerging Issues Task Force ("EITF") addressed in Issue 99-20 are economically similar to the other types of financial assets subject to the

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impairment model in SFAS 115. The guidance in Issue 99-20 evolved from the guidance in Issue 89-4, *Accounting for a Purchased Investment in a Collateralized Mortgage Obligation or in a Mortgage-Backed Interest-Only Certificate,* and Issue 93-18, *Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate.* The EITF added Issue 89-4 to its agenda because of diversity in practice regarding income and impairment recognition on investments in residual interests in collateralized mortgage obligations. With the issuance of SFAS 115 in 1993, the EITF reconsidered the impairment model in Issue 89-4 and concluded that it only needed to change the trigger for when a company would recognize impairment to be more consistent with the fair value approach in SFAS 115. The EITF recognized in 1993, and again in 1999, that the impairment model in SFAS 115 required implementation guidance so that companies could apply it to financial assets like residual interests and interest-only mortgage-backed securities. We do not believe anything has changed that would warrant the change the Board has proposed in the Exposure Draft.

We understand the Board is concerned that the scope of Issue 99-20 has expanded since the EITF reached its consensus. We also understand there is diversity in practice over if a company should reassess whether Issue 99-20 applies to a debt security subsequent to its acquisition when the security was not within the scope of Issue 99-20 at the time the company acquired it. Rather than doing away with guidance that assists companies in applying the SFAS 115 impairment model to specific debt instruments, we believe the Board could improve practice by clarifying the scope of Issue 99-20 and indicating whether companies should periodically reassess whether beneficial interests they hold are within Issue 99-20's scope. Clarifying the scope of Issue 99-20 and whether companies should reassess should hopefully also eliminate some of the situations the Board has observed where companies are applying different impairment models to the same or similar debt securities. In that regard, we think the Board should focus on the scope exclusion in paragraph 5(e) of Issue 99-20. We believe companies have applied Issue 99-20 to a number of debt securities with normal payment terms (i.e., principal and interest), either because those securities were not of high credit quality when acquired or because of downgrades of securities that were of high credit quality when acquired. If the Board does not agree that the scope of Issue 99-20 should include such debt securities, it should revise paragraph 5(e) accordingly.

We agree with the Board's proposed change to paragraph 12(b) of Issue 99-20 to allow a company to use management's best estimate of future cash flows in assessing whether a debt security within the scope of Issue 99-20 is impaired. Although Issue 89-4 and Issue 93-18 required companies to use assumptions that market participants would use in estimating the fair value of a debt security, consistent with the discussion in paragraph 9(b) of FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* we believe a company's use of its own assumptions about future cash flows, where supported by analysis of performance at the loan level, is acceptable when observable inputs are not available. We believe the Board should require a company to disclose circumstances where it has used management's assumptions to estimate the fair value of a financial asset within the scope of Issue 99-20 and that analysis results in a fair value that is significantly greater than transaction prices or market quotations.

Finally, we believe the Board should address questions regarding the application of the impairment model in SFAS 115. In particular, we believe the Board should incorporate a significance test into paragraph 16 of SFAS 115. As currently written, paragraph 16 of SFAS 115 requires a company to recognize impairment if it is probable that it will not receive all amounts due according to the debt security's contractual terms, even if the amount of the shortfall is immaterial. Given the current market dislocation, immaterial expected credit losses on a debt security can result in write-downs that are disproportionate to the expected future cash flows from the debt security. In that circumstance, we do not believe requiring a company to recognize a significant write-down that is then recycled as interest income provides a benefit to financial statement users.

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We would be pleased to discuss any of our comments with the Board or the FASB staff. Please direct any questions or comments to Jeff Ellis at 312-880-3019 or Ken Evola at 202-585-6860.

Sincerely,

/s/ Jeffrey H. Ellis

Jeffrey H. Ellis
Managing Director

/s/ Kenneth J. Evola

Kenneth J. Evola
Managing Director