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THE FINANCIAL SERVICES FORUM

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2600 South River Road, Des Plaines, IL 60018-3286

THE FINANCIAL SERVICES ROUNDTABLE

December 19, 2008

1660-0TU

LETTER OF COMMENT NO. 11

The Honorable Robert Herz
Chairman, Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Chairman Herz:

Our business organizations represent companies and firms from all sectors of the economy and areas of the financial services arena. Despite the past actions of the Securities and Exchange Commission ("SEC") and the Financial Accounting Standards Board ("FASB"), the current treatment of mark to market accounting rules continues to make it difficult to accurately value assets during the ongoing financial crisis. While we understand that FASB is expected to release a year end proposal to change EITF 99-20, we are requesting that swifter and broader action be taken to clarify impairment accounting and ensure transparent accurate asset valuation for year end financial reporting. Accordingly, we believe that the following items be considered[1]:

1. Separate the periodic changes in fair value into periodic credit losses, to be reflected in earnings, and liquidity losses to be reflected in comprehensive income;
2. Improve the trigger for other than temporary impairment ("OTTI") on securities by eliminating the intent and ability to hold requirement of FAS 115 and the market participant concept of EITF 99-20 and replace them with objective evidence of a credit event; and
3. Improve provisions of FAS 115 to provide further use of held to maturity ("HTM") for cash flow investors.

[1] The proposals outlined in this letter have been put forth by many others in various different forums, the Center for Audit Quality, American Council of Life Insurers and Vincent Colman of PricewaterhouseCoopers. We believe that the consideration and possible implementation of these proposals are the type of action needed to address the valuation issues confronting preparers, issuers and investors for year end financial reporting.

Discussion of Potential Options

1. **Separate the periodic changes in fair value into credit losses, to be reflected in earnings, and all other losses to be reflected in comprehensive income**

GAAP guidance around recognition and measurement of impairment losses for loans differs from guidance for impairments of investments in debt securities, even though the cash flows for both types of assets may be similar. In accordance with FAS 5 and FAS 114, the former is based on incurred credit losses at the measurement date, while the latter is based on the fair value versus the current carrying value of the security at the measurement date, in accordance with FAS 115 and EIFT 99-20. This difference should be addressed by modifying the general model for fair value loss recognition and reporting and separating the periodic changes in fair value into two components: (1) in income and (2) in accumulated other comprehensive income. For OTTI in debt securities, this would mean recognizing: (1) probable credit losses currently in income (i.e., only those impairments representing probable losses of contractual cash flows) and (2) all other portions of the loss (such as from liquidity discounts) in other comprehensive income until it becomes probable that the asset will be sold or matures.

2. Improve the trigger for other than temporary impairment on securities by eliminating the intent and ability to hold requirement of FAS 115 and the market participant requirements of EITF 99-20 and replace them with objective evidence of a credit event

We are requesting that the FASB modify U.S. GAAP to align it with IFRS by removing the ability and intent to hold requirement for AFS securities, including those accounted for using EITF 99-20, which was not intended to address credit risk. We are requesting the following modification. OTTI would be recognized only (1) when there is a credit loss impairment based on objective evidence of a credit event, such as either a default or a debt restructuring; or (2) when it becomes probable that an investor will sell an otherwise impaired security. This modification would also align the OTTI model for debt and asset backed securities with the impairment model for other assets, such as loans and receivables and help provide a more meaningful distinction of fair value changes recorded through other comprehensive income versus those recorded through income.

3. Improve provisions of FAS 115 to provide further use of held to maturity for cash flow investors

FAS 115 classifies investments in equity and debt securities into three categories: trading, available for sale, and HTM. We believe that the intent of the HTM category is to accommodate investors that use securities for cash flow matching and recognize that the fair value of such securities should be disclosed but not reported in the balance sheet unless other than temporarily impaired. Unfortunately, cash flow models change and companies need the flexibility to trade securities from time-to-time to accommodate an active asset-liability matched management style as well as respond to unforeseen liquidity needs. Given that U.S. GAAP does not permit a loans and receivables category similar to IFRS, we believe that the FASB should consider revisiting the ability and intent to hold provisions of the HTM category to make it more widely available. The guidance should allow companies to transfer securities into this category.

Conclusion

We would further recommend that any such clarifications be transparently recorded on the appropriate financial statements to allow investors, users and regulators a full and accurate appraisal of financial information. Finally, we would request that this emergency review and year-end action be undertaken with the appropriate international standard setters and regulators to promote transparency and accurate reporting globally.

As you know, the financial crisis is ongoing and the ramifications are spreading throughout the entire economy. We believe that current treatment of fair value rules are continuing to make it difficult to accurately reflect the value of assets and potential write-downs will continue to exact deleterious impacts upon the economy. While some of these proposals have been rejected, or consideration delayed until next year, we believe that the continuing spread of economic contagion requires an immediate review to evaluate the above referenced proposals, as well as others if need be, and appropriate action taken to address valuation problems in year end reporting. We have limited our proposals herein to those that we believe can be, and should be, implemented by year end. We continue to have other, more conceptual, concerns with FAS 157 and fair value measurement and encourage the FASB to continue to discuss the role the fair value in the current economic crisis.

While it is clear that we are in a global recession, a failure to address these issues now will compound the current problems and cause additional long-term adverse consequences and dislocations. Reasonable efforts need to be made to soften the severity of the recession and speed full economic recovery.

We stand by to assist you in any manner with this process.

Sincerely,

Richard Murray
Chairman
U.S. Chamber of Commerce Center
for Capital Markets Competitiveness

Rob Nichols
President and Chief Operating Officer
Financial Services Forum

Steve Bartlett
President and Chief Executive Officer
Financial Services Roundtable

Michael M. Monahan
Director, Accounting Policy
American Council of Life Insurers

Robert Gordon
Senior Vice President, Policy Development and Research
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