

LETTER OF COMMENT NO. 2/

Subject: FW: Proposed FSP EITF 99-20-a

From: Steve Harms [mailto:sharms@american-equity.com]

Sent: Monday, December 29, 2008 9:36 AM

To: Director - FASB

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Dear FASB Staff,

I agree with the board's assessment that the same impairment model should be utilized for all debt securities whether or not they fall under the scope of EITF Issue No. 99-20 or any other guidance prescribed by standard setting bodies. I believe that a debt security with contractual payments (whether or not they allow for prepayment) operate and mature in the same manner regardless of the underlying specifics of the security.

However, I do believe that the impairment model is still flawed for all debt securities. In both SFAS 115 and now in the proposed amended EITF 99-20 the first step is to determine whether or not the carrying amount is greater than fair value of the debt instrument. If fair value is below carrying value then management is to determine if it is probable that the company will be unable to collect all amounts due according to the contractual terms of the debt security. If it is probable that cash flows will not be collected according to contractual terms then we are required to recognize an other-than-temporary impairment. I agree that accurate financial reporting will be accomplished by assessing whether or not there is OTTI of a debt security. It's the amount to recognize as OTTI that seems flawed. It seems that in most circumstances the difference between carrying amount and fair value at the measurement date would not automatically be the amount of OTTI. That difference could be significantly more, or significantly less within a few weeks after the measurement date. If that's the case I don't think OTTI would be accurately assessed using the fair value at the measurement date.

I believe that accurate accounting for impairment would consider the correct amount of OTTI for a debt security as the difference between the carrying amount and the net present value of expected future cash flows discounted at the interest rate in effect of the security at the date of measurement. This method would present the security on the balance sheet at an amount that represents the value of the security to the company. There is probably some amount of credit risk that could be assessed here, but that would add a layer of complexity that would not be appropriate. Generally, by reporting the security at the net present value of expected future cash flows, the security would be presented at a level that if an offer would be received from another party for less than that amount the company would not be willing to sell the asset for that amount. It seems like that is a better representation of fair value for debt securities than less than active markets where values are altering by 10-20% within a 30 day window.

This guidance would be consistent with SOP 03-3's method of recognizing impairment based on expected future cash flows.

There are also some inconsistencies between US GAAP and IFRS in connection with recognizing impairment losses. IFRS provides that a security is considered impaired and an impairment loss is recognized if there is objective evidence of impairment as a result of one or more triggering loss events, and the amount of the impairment loss recognized is dependent on the balance sheet classification (HTM or AFS). In assessing the accounting for OTTI the convergence project should be improved to more accurately represent an entity's financial position at measurement dates.

Please consider this for future amendments to the method of recognizing OTTI. It does make sense that part of the impairment at measurement date could be temporary and part other than temporary.

Thank you for considering improvements to the existing accounting standards and all that you are doing with the convergence and conceptual framework projects.

Sincerely,

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