McGladrey & Pullen
Certified Public Accountants

McGladrey & Pullen LLP
Third Floor
3600 American Blvd West
Bloomington, MN 55431

January 16, 2009

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

FSPFAS107A

LETTER OF COMMENT NO. 62

File Reference: Proposed FSP FAS 107-a

Dear Mr. Golden:

We are pleased to comment on the proposed FASB Staff Position (FSP) No. FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107.*

We do not support the proposed FSP as we do not agree it will achieve the Board's objective to increase comparability of information about certain financial assets that have related economic characteristics but have different reporting measurement attributes.

- We believe that the proposed effective date should be delayed, preferable to years ending after December 15, 2009. The short comment period, the time of year the exposure draft was issued, other business and financial issues facing preparers all contribute to difficulties complying with the expanded requirements in such a short time.
- We believe that the incurred loss measurement is not understood by those users, preparers or auditors that have not had to apply FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* ("FAS 114"). In addition, for those not familiar with FAS 114, the term "incurred loss" implies that the number being disclosed is equal to an amount of loss recorded in the financial statements.
- For available-for-sale and held-to-maturities securities, we do not believe the actual computation of incurred loss is useful information. Generally, if the incurred loss amount is less than the carrying amount, then an impairment charge would be recorded. Conversely, if the incurred loss amount is equal to or more than the carrying amount, then no impairment would be taken. Instead of providing the incurred loss amount for all financial assets, when impairment is taken an entity could discuss the amount of the impairment in context with fair value and the related incurred loss amount.

- We fail to understand how simply reporting an incurred loss amount that is greater than carrying value is useful information. When this situation occurs, in order for this information to be useful, more information would be necessary to explain why. The following are a few examples of when this occurs:
  - The probable cash flows have increased as credit concerns have improved from the date of purchase.
  - The probable cash flows have increased as time passes as the uncertainty regarding collection lessens as the collection date nears. In other words the projected cash flow's characteristic changes from a long-term cash flow to a short-term cash flow. For example, at purchase date the collection of $100 due in five years in the future was considered 90% probable to receive $100 but also a 10% probability of not being collected resulting in a projected cash flow of $90, but now that four years has passed, it is now 95% probable of being collected resulting in a projected cash flow of $95.
  - There was an impairment charge recorded during the holding period prior to the measurement date.

  Without such explanations, the simple disclosure of the incurred loss amount does not have much meaning or context.
- Paragraph 11 of the proposed FSP requires that the incurred loss measurement be computed based on the *present value of expected future cash flows discounted at the security's effective interest rate* for all available-for-sale or held-to-maturity securities. This requires entities to perform a computation that is not required by any other accounting standard. For example, while evaluating such securities to determine if a impairment is other-than-temporary, management needs to conclude whether the contractual cash flows are probable of occurring. This conclusion is often reached without actually scheduling the probable future cash flows based on other information received.

If the Board decides to continue with the issuance of the proposed FSP, we offer the following additional comments:

Scope of FAS 107

FASB Statement No. 107 applies to all entities except those that meet all of the following criteria provided in FASB Statement No. 126, *Exception from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, an amendment of FASB Statement No. 107*:

a. The entity is a nonpublic entity.
b. The entity's total assets are less than $100 million on the date of the financial statements.
c. The entity has no instrument that, in whole or part, is accounted for as a derivative instrument under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, other than commitments related to the origination of mortgage loans to be held for sale during the reporting period.

We believe this scope exception should be amended as follows:

- Criteria c. above should be eliminated. We fail to understand why the existence of one derivative financial instrument is the appropriate criteria for requiring fair value disclosures on all financial instruments. We believe that the amendments to FASB Statement No. 133 require the appropriate fair value disclosures related to the derivative financial instrument.
- The asset size limit has not been changed since Statement 126 was issued in 1996. We believe it should be increased at a minimum to account for the effects of inflation.

Scope of the Proposed Disclosures

We believe all financial assets classified as held-to-maturity, available-for-sale, trading, loans and long-term receivables and mortgage loans should be included in the proposed disclosures.

According to paragraph 9 of the proposed FSP, the objective is to provide information that enables users of its financial statements to understand the different measurement attributes used to measure financial assets. If the disclosures were only focused on the pro forma impacts based on recording all such financial instruments at fair value, we believe that excluding similar assets that are measured at fair value with the change in the fair value recognized through earnings is appropriate. However by requiring an additional measurement basis of incurred loss, the disclosures no longer present a complete picture of the various measurements in the financial statements for all similar financial instruments. In addition, financial assets measured at the lower of cost or fair value (such as mortgage loans) should also be included as these instruments are similar to other financial instruments included in the proposed disclosures.

Comparability and Pro Forma Impact on Income from Continuing Operations

We believe that the additional disclosures proposed required in paragraph 14 should be shown on a comparative basis. We believe that without providing comparative disclosures, the pro forma impact on income from continuing operations loses its impact.

In addition, we support providing the pro forma impact on income from continuing operations on a pre-tax basis. We believe introducing the impact of income taxes would increase complexity without provided additional value to the users of the financial statements.

Incurred Loss

We believe that the practical expedients allowed in FAS 114 for computing incurred loss should also be allowed, if applicable, to other types of financial assets in the scope of the proposed FSP.

We believe that the description of incurred loss should be fully embedded in the proposed FSP instead of referencing to FAS 114.

Appendix

The amended text of paragraph 15F includes a sentence that states "An entity shall not estimate an allowance for a pool of similar securities under Statement 5." This same sentence is also in note (a) to the table included in Example 4. However this is not included in the body of the proposed FSP.

We would be pleased to respond to questions the Board or its staff may have about any of the foregoing comments. Please direct any questions to Jay D. Hanson (952-921-7785) or Jolene M. Hart (952-921-7735).

Sincerely,

McGladrey & Pullen, LLP

McGladrey & Pullen, LLP