



LETTER OF COMMENT NO. 155

Federal Home Loan Bank of Des Moines

March 27, 2009

Mr. Russell G. Golden  
Technical Director  
Financial Accounting Standards Board  
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File Reference: Proposed FSP FAS 115-a, 124-a, and EITF 99-20

Dear Mr. Golden:

The Federal Home Loan Bank of Des Moines (the "Bank") appreciates the opportunity to comment on the proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b, "*Recognition and Presentation of Other-Than-Temporary Impairments*," (hereinafter referred to as the "proposed FSP"). Recognition of only the credit component of an other-than-temporary impairment in earnings is an improvement in the accounting for investment securities as it more closely aligns the amounts recognized in earnings for the impairment of debt securities with the amounts recognized for the impairment of loans. Additionally, we believe that recognition of the credit component alone provides useful and meaningful information because it informs users of the actual loss expected to be realized and eliminates the distortion of future earnings that occurs under the existing accounting rules. We also believe that recording the non-credit component of impairment of available-for-sale securities in other comprehensive income ("OCI") is an improvement in the accounting for such securities because changes in fair value are currently recorded in OCI and the securities are already carried at fair value. However, as described in more detail below, we suggest that the Board revise the proposed requirements for debt securities classified as held-to-maturity to further conform the accounting for these securities with the accounting for loans held-for-investment by not requiring recognition of the non-credit component of impairment. Instead, the fair value and the unrealized loss attributable to the non-credit component should continue to be shown in the disclosures to the financial statements where they are readily available to financial statement users.

Additionally, due to the large number of entities that have recently recorded significant other-than-temporary impairment charges (a significant portion of which were attributable to factors other than credit), it is imperative that the final FSP permit retrospective application. Additional information regarding these concerns and our responses to the specific questions posed by the Board are presented below.

Question 1

This proposed FSP would require entities to separate (and present separately on the statement of earnings or "performance indicator") an other-than-temporary impairment of a debt security into two components when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. The two components would be (a) the credit component and (b)

the noncredit component (residual related to other factors). Does this separate presentation provide decision-useful information?

Response to Question 1

We suggest that the Board remove the requirement to include a presentation of “total” impairment offset by the non-credit component in the statement of income. This presentation would complicate the face of the statement of income with information that is already required when reporting the components of comprehensive income and we believe this information would be more appropriately included in the disclosures to the financial statements. Additionally, we believe that presentation of the credit component alone provides useful and meaningful information because it informs users of the actual loss expected to be realized. See our response to question 2 below for additional views regarding the non-credit component.

Question 2

This proposed FSP would require that the credit component of the other-than temporary impairment of a debt security be determined by the reporting entity using its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. One way of estimating that amount would be to consider the measurement methodology described in paragraphs 12–16 of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. For debt securities that are beneficial interests in securitized financial assets within the scope of Issue 99-20, the amount of the total impairment related to credit losses would be determined considering the guidance in paragraph 12(b) of Issue 99-20. Do you believe this guidance is clear and operational? Do you agree with the requirement to recognize the credit component of an other-than-temporary impairment in income and the remaining portion in other comprehensive income? Under what circumstances should the remaining portion be recognized in earnings?

Response to Question 2

We agree with the requirement to recognize the credit component of other-than-temporary impairment in income. However, regarding held-to-maturity securities, we do not believe that the non-credit component should be recognized in other comprehensive income. We believe this introduces additional and unnecessary complexity into the financial statements. Subsequent to the day impairment is recognized, a held-to-maturity security would be carried at neither fair value (due to accretion of the non-credit component) nor amortized cost (which is defined as previous cost basis less the impairment recognized in earnings). Rather than recording a held-to-maturity security at fair value for only one day (because of the accretion under the proposed FSP), the accounting for held-to-maturity debt securities should be amended to be consistent with the accounting for loans held for investment purposes under Statement 114. Under the historical cost method of accounting, held-to-maturity securities and loans held for investment are both carried at amortized cost. However, impairment of a loan held for investment purposes does not include an adjustment for non-credit impairment losses. The primary reason given by the Board for this difference between Statement 114 and Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, is provided in paragraph 113 of Statement 115 which states:

The Board recognizes that the impairment provisions of this Statement differ from those in FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, which indicates that a loan is impaired when it is probable that the creditor (investor) will be unable to collect all amounts due according to the contractual terms of the loan agreement. This Statement requires that the measure of impairment be based on the fair value of the security, whereas Statement 114 permits measurement of an unsecuritized loan's impairment based on either fair value (of the loan or the collateral) or the present value of the expected cash flows discounted at the loan's effective

interest rate. **The Board recognizes that a principal difference between securities and unsecuritized loans is the relatively greater and easier availability of reliable market prices for securities, which makes it more practical and less costly to require use of a fair value approach.** In addition, some Board members believe that securities are distinct from receivables that are not securities and that securities warrant a different measure of impairment—one that reflects both current estimates of the expected cash flows from the security and current economic events and conditions. [emphasis added]

In today's dislocated credit markets, the principal difference between securities and unsecuritized loans no longer exists. Reliable market prices are not readily available for many of the debt securities for which entities are recording significant impairments and, therefore, the use of a fair value approach is not more practical and less costly. Since this difference no longer exists, the impairment model for held-to-maturity debt securities should be amended to be consistent with the impairment model in Statement 114. Additionally, the recognition of non-credit impairment on held-to-maturity debt securities in other comprehensive income is effectively recognizing (albeit in other comprehensive income) losses that are currently not expected to occur in the future. This would not be allowed under Statement 114 as stated in the response to question 14 of the FASB Staff implementation guide to Statement 114, which states, in part, "... Under generally accepted accounting principles, losses should not be recognized before they have been incurred, even though it may be probable based on past experience that losses will be incurred in the future. It is inappropriate to recognize a loss today for possible or expected future trends that may lead to a loss in the future."

Furthermore, we believe that aligning the impairment model for held-to-maturity securities with the impairment model for loans held-for-investment would result in guidance that is more consistent with International Accounting Standards No. 39, specifically, paragraphs 63 – 65, which apply to financial assets carried at amortized cost. This would further the Board's goal of convergence with International Financial Reporting Standards.

Lastly, in response to question 2, both Statement No. 5, *Accounting for Contingencies* (paragraph 23), and Statement 114 (paragraph 8) indicate that insignificant delays and/or insignificant shortfalls should not be considered. Accordingly, we recommend that the final FSP clearly indicate that insignificant delays and/or insignificant shortfalls should not result in other-than-temporary impairment.

### Question 3

This proposed FSP modifies the current indicator that, to avoid considering an impairment to be other than temporary, management must assert that it has both the intent and the ability to hold an impaired security for a period of time sufficient to allow for any anticipated recovery in fair value. Does this modification make this aspect of the other-than-temporary impairment assessment more operational (the remaining factors discussed in FSP FAS 115-1/FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, would remain unchanged)? Should this modification apply to both debt and equity securities? Will this change result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired?

### Response to Question 3

We believe this modification will make this aspect of the other-than-temporary impairment assessment more operational. Because we do not invest in equity securities, we have no further comments regarding this question.

Question 4

This proposed FSP would require that the portion of an impairment recognized in other comprehensive income for held-to-maturity securities be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset (that is, an entity would not be permitted to adjust the fair value of a held-to-maturity security for subsequent recoveries in the fair value of the security similar to the accounting for available-for-sale securities). Do you agree with this requirement?

Response to Question 4

As stated in our response to question 2, we do not believe that the non-credit component should be recognized in other comprehensive income. However, if the final FSP retains this requirement, then we agree that the non-credit portion should be amortized over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset.

Additionally, we suggest that the final FSP further amend Statement 115 and EITF 99-20 to provide detailed guidance for the accounting of investment securities subsequent to the recognition of other-than-temporary impairment. In this regard, please consider providing detailed examples that illustrate various methods of amortizing discounted credit losses to the realized amount (including classification in the statement of income) and the methods of amortizing the non-credit component in response to changes in forecasted and realized cash flows.

Also, the Board should consider revisions to the disclosure requirements of Statement 115 because the amortized cost of a held-to-maturity security subsequent to the recognition of an other-than-temporary impairment (as defined in the proposed FSP) will no longer equal the carrying value.

Question 5

Is the proposed effective date of interim and annual periods after March 15, 2009, operational?

Response to Question 5

We believe that the proposed effective date of interim and annual periods after March 15, 2009 is operational for many entities; specifically, those that have not recorded other-than-temporary impairment charges. However, due to the large number of entities that have recorded significant other-than-temporary impairment charges, we believe the Board should permit entities to elect retrospective application. Financial institutions that have recorded significant OTTI charges have amortized and will continue to amortize significant non-credit impairment amounts to interest income, which has and will continue to distort net interest income. At the FASB meeting on March 16, 2009, Chairman Herz stated, "Writing things down too far and having to accrete back up to the cash you are going to receive can create a distortion in the interest income." We agree with Chairman Herz and believe that permitting retrospective application will help alleviate this issue while maximizing the comparability of information between reporting periods and enhancing the usefulness of financial information. Additionally, permitting retrospective application would allow entities to eliminate any significant non-credit impairment charges reflected in retained earnings. This coupled with recognition of only the credit component being recognized in the statement of income would make it easier for investors to compare financial institutions' key financial metrics (e.g., Net Interest Margin and Tangible Common Equity).

Alternatively, the final FSP could permit entities to elect a limited form of retrospective application. Understandably, some entities with less significant OTTI charges may prefer to record an adjustment to

opening retained earnings rather than apply the final FSP retrospectively. Therefore, entities should be permitted to record a transition adjustment, measured as the difference between total OTTI charges recorded in the statement of income (net of any recognized accretion) and the credit component as defined in the proposed FSP, as a cumulative-effect adjustment to the opening balance of retained earnings for the fiscal year in which the FSP is adopted. This limited form of retrospective application would be consistent with the transition provisions provided in SFAS 157, "*Fair Value Measurements*."

We thank the Board for its consideration of our views and welcome the opportunity to discuss this matter with the Board and its staff. If you have any questions, please do not hesitate to contact our Vice President and Controller Kristy Carstensen at 515-281-1139.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard S. Swanson", with a long horizontal flourish extending to the right.

Richard S. Swanson  
President and Chief Executive Officer  
Federal Home Loan Bank of Des Moines

cc: Robert H. Herz, Chairman, Financial Accounting Standards Board