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Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

Dear Mr. Golden.

UBS appreciates the opportunity to comment on the Financial Accounting Standards Board's Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments (the Proposed FSP). Our consolidated financial statements are prepared in accordance with International Financial Reporting Standard (IFRS), and we have several significant subsidiaries that prepare financial statements in accordance with US GAAP.

UBS commends the Board for its quick and targeted action to address the current issues related to the other-than-temporary impairment (OTTI) model. We generally believe that the Proposed FSP successfully parses the impact of credit and noncredit factors and provides improved credit information to users while retaining the fair value information currently required in US GAAP. This should permit users to better understand fair value changes attributed to liquidity and other market risk adjustments from adjustments due to fundamental credit impairment. However, we have some concerns with the proposals that we believe should be addressed before a final standard is issued.

We question the usefulness of recognizing unrealized noncredit losses on held-to-maturity (HTM) debt instruments in the financial statements. Such losses are not expected to be realized and will reverse with the passage of time. We do not believe that recognizing these losses in other comprehensive income (OCI) and accreting them back provides enhanced information. In fact, this will only add unnecessary operational challenges for preparers and confuse readers. Thus, we suggest that only impairment related to credit should be recognized on HTM securities.

We note that US GAAP currently does not permit the reversal of impairment losses on debt instruments after recognition. Such reversals are currently permitted under IFRS and we believe that allowing this would improve the accounting for investments in debt securities. One-sided recognition does not accurately reflect the way markets and users value debt instruments. If presenting a reduction in value through earnings, due to credit impairment, is useful to users then it stands to reason that a recovery of value through earnings, due to credit improvement, is just as useful. This is a more accurate reflection of the value of the investments in situations where the economic health of a creditor and the expectation of future cash flows increases.

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Lastly, the scope of the Proposed FSP stipulates that it applies to other-than-temporary impairments of debt and equity securities. However, the guidance in paragraphs 13 - 15 relates entirely to debt securities. Thus, it is unclear what, if any, impact the Proposed FSP has on the accounting for equity securities not held for trading. We believe that the Board should clarify its expectations with respect to these instruments. If the proposed FSP is to be applied equally to equity securities further guidance is necessary on how to calculate the amount of impairment to be recognized in earnings.

While we generally support the proposed changes, we note that they will lead to further divergence between US GAAP and IFRS in the accounting for debt and equity securities not measured at fair value through profit or loss. Given the importance of this issue, we are concerned that the FASB did not closely consult with the IASB. UBS understands that the FASB and the IASB have initiated a joint project on financial instruments and implore the boards to address the divergence in the accounting for these instruments during their deliberations.

We have addressed the specific questions in the Proposed FSP in the appendix to this letter. Please contact me at 203-719-4212 or Mike Toyey at 203-719-8164 to discuss any of our comments.

UBS AG

John Gallagher Managing Director Group Accounting Policy Mike Tovey Executive Director Group Accounting Policy



Appendix

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?

UBS believes the separation of an other-than-temporary impairment into credit and noncredit components presents more useful information to users in situations where the holder does not have the intent and is unlikely to be required to sell an asset before its recovery. The separate presentation enhances users' ability to understand the actual expected losses, where previously, the combined presentation obscured the relationship between the yield on the instrument and its carrying value after an other-than-temporary impairment. Because of the distinction between credit and noncredit impairment under the Proposed FSP, users will be able to better assess the expected cash flows of the assets. Users also will have access to all market value information previously available.

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?

We believe that the guidance in the Proposed FSP relating to debt securities is clear and operational. UBS supports the recognition of other-than-temporary credit impairments in income and the noncredit portion in other comprehensive income. We agree that the noncredit portion of an impairment should be recognized in earnings when the entity has the intent to sell the asset or cannot assert that it will not have to sell the asset prior to recovery.

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. The Board believes that, compared to current requirements, it is more operational for management to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery. 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?



UBS believes that the current required assertion is difficult to substantiate and may have resulted in more frequent and conservative, but less useful, recognition of other-than-temporary impairment losses. The new requirement improves both the operationality and the usefulness of the assertion by removing the "period of time sufficient to allow for any anticipated recovery" criterion.

We believe that the modification in the intent and ability indicator is appropriate and should apply to both debt and equity securities. This will result in a significant change to the OTTI assessment. We recognize that there are equity instruments with characteristics of debt to which it would be appropriate to apply the approach for debt instruments in the Proposed FSP in order to recognize credit losses in earnings and noncredit losses in other comprehensive income. However, it is not clear to UBS how the Proposed FSP would affect the application of the OTTI principle to equity instruments that did not have characteristics of debt, but we believe that any principle should be applied consistently.

UBS notes that the scope of the Proposed FSP stipulates that it applies to other-than-temporary impairments of both debt and equity securities. However, the guidance in paragraphs 13 – 15 relates entirely to debt securities. Thus, it is unclear what, if any, impact the Proposed FSP has on the accounting for equity securities not held for trading. We believe that the Board should clarify its expectations with respect to these instruments. If the guidance is to be applied equally to equity securities, more guidance is necessary regarding how to calculate the amount of impairment to be recognized in earnings.

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?

We do not believe that an HTM security should be subject to noncredit impairment. The preparer has made a clear decision to hold the asset until maturity and the only impairment relevant to that business decision is credit impairment. Noncredit impairment information does not provide decision-useful information to users. Fair value information on these assets would continue to be available in the footnotes. This treatment would also largely converge US GAAP and IFRS for HTM assets.

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

Given the significant system changes necessary for implementation we believe that it would be difficult for companies to adopt the proposed changes in time for first quarter reporting. We, therefore, support a required effective date of fiscal periods ending on or after June 15, 2009. We do believe, however, that early adoption should be made available to those companies able to accomplish the changeover in order to provide investors with better credit and yield information as soon as possible.