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LETTER OF COMMENT NO. 323

March 30, 2008

Via email: director@fasb.org

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

Re: File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

Dear Mr. Golden,

U.S. Bancorp, the parent company of the sixth largest commercial bank in the United States, with over $265 billion in total assets, appreciates the opportunity to comment on the Proposed FASB Staff Position No. 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* (the "Proposed FSP").

We strongly support this proposed guidance which amends FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("FAS 115") and EITF Issue No. 99-20, *Recognition of Interest Income Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* ("EITF 99-20"). We believe the Proposed FSP is an improvement to the current impairment model because it aligns the amount of impairment recognized in earnings with an entity's expectation of foregone future cash flows. In addition, the Proposed FSP may improve the test for recognition of other-than-temporary impairment by better aligning considerations of management's investment strategy with impairment triggers.

Our comments regarding the Board's specific questions are as follows:

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?

We believe separate disclosure of the credit component of a decline in fair value provides meaningful information for financial statement users because the credit component represents the cash flows that a security holder expects to forego in future periods. The current impairment model, which measures other-than-temporary impairment based on the decline in fair value attributable to all factors, results in a charge to earnings in excess of expected foregone cash flows and thereby overstates the security holder's expected economic loss. We agree that under circumstances where an entity can assert that it does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security, an entity should recognize only a decline in value representative of the amount of cash flows it expects to not realize in future periods.

We recommend the staff allow preparers to report the gross unrealized loss and offsetting noncredit component as footnote information, only presenting in the income statement the credit component. We believe this presentation will be more transparent to users than the method in the Proposed FSP, equally informative, and consistent with other impairment and fair value disclosure requirements.

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 the proposed guidance is understandable and operational. The concepts for measuring impairment, as presented in the Proposed FSP, reflect existing methodologies and should, therefore, be operational for financial statement users. In addition, we agree with the proposal to recognize in other comprehensive income a decline in fair value attributable to factors other than expected credit losses. We also agree with the requirement that an entity recognize any difference between cost and fair value if the entity intends to sell or it is more likely than not that the entity will be required to sell the security. We also recommend the following revisions to the Proposed FSP:

- Although paragraph A3b of the Proposed FSP states "one way of estimating . . . consider the measurement methodology described in paragraphs 12-16 of FASB Statement No. 114 . . .", we believe paragraph A3b should explicitly state that there may be appropriate alternatives to a SFAS 114 methodology.
- Include a de minimis provision with regard to the calculation of credit loss amounts. This wording would be consistent with the guidance of SFAS 114 which does not require application of a discounted cash flow analysis for "an insignificant delay or insignificant shortfall in the amount of payments" (SFAS 114 paragraph 8). We believe a de minimis provision will allow financial statement users and preparers to focus on only material impairment, particularly given the Proposed FSP's gross presentation approach for the income statement.

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?

We believes the proposed guidance is an operational improvement with regard to the determination of the intent and ability with regard to holding a security as the guidance provides more definition with regard to the intent and ability test. The Proposed FSP states that in order for an impairment not to be considered other than temporary, management must assert:

1. There is no intent to sell the security; and
2. It is more likely than not that they will not have to sell the security before the recovery of its cost basis.

We agree that if an entity intends to sell a security (condition 1 above), other-than-temporary impairment should be recognized in earnings for the amount of decline of fair value below cost. We interpret condition 2 to address management's assertion regarding its <u>ability</u> to hold a security. However, we believe condition 2 must be clarified in the Proposed FSP as the language with regard to this condition is inconsistent throughout the proposed guidance. For example, paragraph 2 of the Proposed FSP states management must assert that "it is more likely than not that it <u>will not have to sell</u> the security before its recovery" (emphasis added). However, paragraph A3c of the Proposed FSP states "it is more likely than not that the investor <u>will sell</u> the security before recovery . . ." (emphasis added). We believe the phrase "it is more likely than not that an entity <u>will not have to sell</u> the security" should be used consistently throughout the proposed guidance to address management's assertion regarding its ability to hold a security. Additionally, we recommend incorporation of language clarifying the intent assertion is based on the facts and circumstances at the measurement date, with respect to individual securities.

We believe separate presentation of credit loss on equity securities may be appropriate for certain securities, particularly those with debt-like characteristics. Whether the proposed guidance will result in changes in practice will depend on whether preparers and auditors believe the Proposed FSP applies regardless of duration or severity of unrealized losses on those securities. As a result, we recommend the staff indicate the use of brightline impairment triggers is not required for either debt or equity securities.

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?

Recording declines in value unrelated to credit losses seems inconsistent with the held-to-maturity classification, as well as the "intent" focus of other aspects of the Proposed FSP. If the staff concludes recording those amounts is appropriate, we believe the subsequent accounting treatment should be the same for held-to-maturity and available-for-sale securities.

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

We believe that the effective date of interim and annual periods after March 15, 2009 is operational and strongly urge the effective date of this Proposed FSP not be delayed.

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We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. Please contact me at (612) 303-4352 with questions or if you need additional information.

Sincerely,

Craig E. Gifford

Craig E. Gifford
Chief Accounting Officer