Financial Accounting Standards Board  
Attention: Director, TA&I-FSP  
401 Merritt 7  
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position No. EITF Issue 03-1-a

Ladies and Gentlemen:

We appreciate the opportunity to express our views relating to the proposed FASB Staff Position, FSP EITF Issue 03-1-a. Shay Financial Services, Inc. has over the past 23 years, provided investment opportunities through the ownership of various types of securities to hundreds of GAAP reporting institutions. These investments have been held as “debt” and “equity” securities classified as held-to-maturity and/or available-for-sale under FASB Statement No. 115. It is especially significant to note that the majority of these securities, both “debt” and “equity”, are currently accounted for as available-for-sale.

Issue 1: Minor Impairments

We strongly believe that the Board should specifically define the term “minor impairment” since our experience has been in the past, and continues to be today, that the auditors are uncomfortable providing specific enough guidance without a “bright-line” definition. In addition, the Board should also define or give more specific guidance on “substantially all” as it is used in this document. We believe that the Board should set this “bright-line” number at greater than 5%. We believe there has been some precedent for which numbers as high as 20% (Citigroup 2003 8K) were adopted, and would like to see at least 10% as a number that the industry could support. The Office of Thrift Supervision uses a 10% limit on price changes under similar circumstances to create a “bright-line” between “Complex” securities (which require substantial additional analysis before purchase) and “non-Complex” securities.

If the Board decides to establish a limit as low as 5%, there could be significant economic dislocations within the investment securities universe as investors move from their current investment choices into those types of assets which are unlikely to fall in value as much as 5% through the upcoming increase in interest rates. Establishing a lower limit, or, allowing auditors to offer vague guidance will not be productive for the financial services industry or the users of the financial statement prepared from these vague guidelines.

Since interest rate cycles can last from three to seven years, the current delineation between “Less than one year” and “One year or more” in terms of impairment, provides at least, a presumption that any security that has been impaired for more than 12 months will require presumptive proof or an entry will be required, appears to be arbitrary and capricious. It also serves no useful purpose to the readers of financial statements since the vast majority of these issues will simply be held to maturity.
Issue 2: Limiting Minor impairments Pursuant to Paragraph 16

It is vitally important that the Board offers guidance on either “minor impairments” or “immateriality” for all types of debt securities, equity securities and mutual funds composed of debt securities, especially when the sole reason for impairment is due to interest rate and/or sector spread increases. The securities universe contains trillions of dollars worth of mortgage related securities, which may or may not qualify for Paragraph 16 unless and until the term “substantially all” is defined. While a mutual fund, specifically comprised of debt securities, offering diversification and active management of especially, mortgage related securities, may be the best investment opportunity for the investor, it will not necessarily be a realistic consideration if it is excluded under the proposed rule. We believe the benefits of this type of investment will be unduly and harshly impacted at the expense and detriment of the investors with the greatest need and desire for the attributes of this form of debt investment.

Mutual Fund Special Issues:

The Board may also wish to consider providing guidance on a potential situation created by the staff recommendation that “an investor should assert its ability and intent to hold to a forecasted recovery at the individual security level, as stated in Paragraph 16 of FAS Statement 115. If a mutual fund investor purchases shares of a mutual fund on a regular basis, must the intent be declared at the time of each purchase? How will the investor, or the auditor, be able to remember, or test, the intent, if one cannot identify the specific lot that was purchased versus the lot that was sold.

In conclusion, we believe that the Board has not had the opportunity to completely review all of the pertinent information surrounding the current ownership and benefits derived by GAAP reporting investors in shares of mutual funds that are exclusively limited to owning debt securities and currently being held as available-for-sale. It is therefore requested that the decision regarding this type of security, as related to paragraph 16, be postponed until the Board can make a more deliberate and expansive study of this investment type.

Sincerely,

Rodger D Shay
Chairman
Shay Financial Services, Inc.