January 15, 2009

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

File Reference: Proposed FSP FAS 107-a

Dear Mr. Golden:

The Financial Reporting Committee ("FRC") of the Institute of Management Accountants (IMA) appreciates the opportunity to provide its views on the Exposure Draft of Proposed FASB Staff Position No. FAS 107-a, Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107 (the "Exposure Draft"). FRC is the financial reporting technical committee of the IMA. The Committee reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

We do not believe the Board should finalize the Exposure Draft. As noted in our letter on Proposed FASB Staff Position No. EITF 99-20-a, Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20, we believe the FASB should focus its efforts on improving the impairment model. We do not believe disclosure is sufficient to overcome the issues arising from the application of the current impairment model for financial assets. Stated differently, we believe doing the accounting well is better than one or two pro forma presentations.

However, if the Board decides to require the disclosures in the Exposure Draft, we believe the Board should delay the effective date. Even if preparers were not already dealing with many other issues in this reporting season, we do not believe the effective date called for in the Exposure Draft provides companies with sufficient time to comply with the required disclosures. FRC notes that a significant number of new standards are effective for 2008 financial statements (including FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities, which the Board did not issue until December 11, 2008) or will be effective in 2009. Those standards are already consuming, and will continue to consume, a substantial amount of preparer and auditor...
technical resources. At the best of times, implementing all of the new guidance would be a significant challenge. In the current economic environment, complying with the new guidance is even more daunting. We have listed most of the standards that became effective for 2008 calendar year-end companies, or that will become effective in 2009, in Appendix 1. (The list is not all-inclusive. For example, it excludes guidance that affects certain specialized industries or is otherwise likely to have minimal effect.)

In addition to delaying the effective date, we also believe the Board should not require companies to provide the pro forma income statement information. While companies will incur additional costs to prepare the first table, we do not believe that table is as onerous as the second table. We are not convinced that the information conveyed by the second table justifies the cost companies will incur to provide the information.

We are very concerned that the Board would propose the addition of significant new disclosures this close to year-end, particularly since the Board won’t issue a final FSP until the end of January if it decides to go forward on this project. Given the abbreviated due process (a single meeting) afforded to such a significant issue and the fact that the Board issued the Exposure Draft during an already busy holiday period, there was virtually no time for most of the Board’s constituents to fully engage in the normal evaluation process to ensure that companies will actually be able to comply with the new disclosures. The Board permitted 22 calendar days (20 days if you exclude holidays) for companies to read, understand, and comment on the Exposure Draft, which we do not believe sufficient for constituents to fully think through the implications of the proposed guidance and identify any unintended consequences. Further, we are concerned that many nonbank/nonfinancial institutions with long-term receivables may not even be aware of this project, let alone be preparing to try to comply with the proposed disclosure requirements. Accordingly, if the Board finalizes the Exposure Draft, we believe it should delay the effective date until fiscal years ending on or after July 1, 2009. A delayed effective date will give companies the opportunity to identify any issues with the proposed disclosures that a longer due process period would have permitted.

We want to convey to the Board the significance of the additional burden it will be placing on preparers and auditors if it decides to retain the proposed effective date. As noted previously, companies are working to comply with many new standards already. In addition, the staff of the SEC has made it clear that they expect to see significant changes to Management’s Discussion & Analysis to address the current economic conditions. Companies may not have sufficient time to establish the processes needed to obtain the information necessary to comply with the proposed disclosures, so companies may only be able to comply (if they can comply) by taking a short-cut approach, which increases the risk that companies will miss something of significance. Given the focus users have placed on fair value, we believe requiring a rushed adoption increases the likelihood of errors, which may further reduce investor confidence in financial reporting. If the Board does not issue a final FSP until the end of January, accelerated filers will
have only about 30 days to gather the information required to comply with the proposed disclosures before they have to file their 2008 financial statements. We assume a company’s independent auditor is going to need time to assess the controls over the process a company uses to develop the required disclosures, which will likely compress the time a company has to develop the required disclosures if it hopes to file timely. Otherwise, companies will have to request extensions, which will delay the reporting process and the availability of financial information to users.

The timing may be an even greater issue for companies with fiscal years that end prior to December 15, 2008. Paragraph 16 of the Exposure Draft indicates that the FSP will “be effective for interim … reporting periods ending after December 15, 2008.” Based on our reading of the Exposure Draft, the proposed FSP would require a company with a fiscal year ending September 30 to provide the additional disclosures in its first quarter Form 10-Q. Given the SEC’s accelerated filing requirements for quarterly reports, it is possible the staff will issue the final FSP at about the same time that companies are required to file their quarterly reports. We do not believe that situation is acceptable.

FRC notes that paragraphs 16 and 86 of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* ("SFAS 107"), make clear that the disclosures required by SFAS 107 do not apply in interim financial statements if a company only provides the summarized financial information required by APB Opinion No. 28, *Interim Financial Reporting*. Does the Board intend that a company will provide the disclosures proposed in the Exposure Draft in interim financial statements even if the company only provides summarized financial information? If so, the Board needs to revise the effective date for interim financial reports to provide additional time. We believe the Board should follow the provisions in SFAS 107 on the applicability of fair value disclosures in interim financial statements.

While the Board provided even less due process on the proposed FSP amending EITF Issue No. 99-20, we did not object to that guidance because we believe the Board was making it easier to comply with Issue 99-20 by allowing preparers to use management’s best estimate of future cash flows. Thus, we do not believe we are being inconsistent in requesting a delay of the effective date on this proposed FSP.

In addition to these concerns, we have the following comments on the Exposure Draft:

**Availability of information**

Companies will have some of the information required as of the balance sheet date through the fair value disclosures required by SFAS 107. However, we believe much of the required information will not be readily available. In particular, we believe companies will not have the information needed to determine the incurred loss amount for debt securities and loans held for sale and expect it will take a significant effort to obtain that information.
A company that classifies debt securities as available for sale and has recognized an other-than-temporary impairment write-down of those securities will need to determine what the write-down would have been under an incurred loss model. The company would then need to determine whether it could have reversed the initially computed reserve for all or a portion of that incurred loss as of the balance sheet date. It may prove difficult to obtain information that a company needs to determine the incurred loss amount for debt securities for which the company recognized an impairment write-down in prior periods.

It was not clear to us how the guidance in the proposed FSP fits with the requirements in SFAS 107. For example, SFAS 107 provides an exception to the required disclosures if a company concludes that it is not practicable to estimate the fair value of a financial instrument or class of financial instruments. Do the required disclosures in the proposed FSP override that exception? If so, we believe companies that have applied the exception will find it extremely difficult to comply with the proposed FSP. We also note that SFAS 107 excludes lease receivables from its scope, yet the example in the Exposure Draft includes a line item for “loans and lease receivables.” If the Board requires fair value disclosures for assets that are not within the scope of SFAS 107, it will pose issues for companies in gathering the required fair value information, both at the balance sheet date and as of the beginning of the year.

Further, companies will face additional issues if the Board requires them to include the pro forma disclosures on a quarterly basis, even if they issue summarized financial information, because they currently do not gather fair value disclosure information until the end of the year. The Board should not require a company to provide the proposed disclosures in interim financial statements when the company prepared summarized financial information, consistent with the guidance in SFAS 107 on the presentation of fair value disclosures.

Comparative disclosures

Although the Exposure Draft does not require comparative information in the year of adoption, it will not be possible for a company to provide the pro forma income statement information without determining the comparable amounts that it would have reported at the end last year. Companies will have to determine the corresponding amounts (fair value and incurred losses) for the prior year-end, as well as identify all of the activity affecting loans and debt securities during the current year, to determine the pro forma income statement effects. We believe many companies will not be able to compute the required pro forma disclosures in the time remaining before filing deadlines.
Scope

We were not sure whether the proposed FSP requires a company to compute any adjustments for loans within the scope of AICPA SOP 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" ("SOP 03-3"). Does the Board believe the carrying amount of loans subject to SOP 03-3 reflects the incurred loss model already? What about for debt securities within the scope of SOP 03-3?

While we have not done an extensive analysis, our sense is that preparing an incurred loss analysis for interest-only mortgage-backed securities or residual interests could be complicated because both prepayments and credit risk affect the timing and amount of future cash flows on those securities.

Other

The intent of the second sentence of footnote (a) to the first table is not clear. We assume the Board intends that companies should not aggregate debt securities and establish a reserve under FASB Statement No. 5, "Accounting for Contingencies," for those securities. If that is the Board’s intent, we encourage you to make that clear in the final FSP.

Finally, we encourage the Board to add to its agenda a project to comprehensively address disclosures required under US GAAP. It seems that the Board, in every new standard it issues, mandates additional disclosures, but never prunes existing disclosures. Because of that, financial statements have become increasingly dense and impenetrable to the average investor. Consistent with the recommendations of the SEC Advisory Committee on Improvements to Financial Reporting ("Advisory Committee"), we believe the Board should develop a disclosure framework that outlines the objectives of disclosures and should only require disclosures that clearly meet those objectives. We do not believe using disclosures to plug gaps in recognition and measurement is an appropriate objective and only leads to confusion. In addition, we believe the Board should add a project to its agenda to assess the continued relevance of existing disclosures, consistent with the Advisory Committee’s recommendation.

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We would be pleased to discuss our comments further with the Board or the FASB staff. You may contact me at (513) 983-6666.

Sincerely,

Mick Homan
Chair, Financial Reporting Committee

cc: Sir David Tweedie, Chairman, International Accounting Standards Board
The following guidance is effective for calendar year-end companies in their 2008 financial statements:

1. FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities
2. Proposed FASB Staff Position No. EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20
3. FASB Statement No. 157, Fair Value Measurements
4. FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension Plans and Other Postretirement Benefit Plans (Measurement date change becomes effective)
6. FASB Staff Position FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees - An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161
7. Issue 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities
8. Issue 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards
9. Issue 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements
10. Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements
11. SEC Staff Accounting Bulletin 109, Written Loan Commitments Recorded at Fair Value Through Earnings
12. FASB Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active

In addition, the following standards become effective in 2009. Companies are expending a considerable amount of time and effort to comply with the requirements in the standards, including developing systems and controls, creating data requests, and addressing any interpretive issues (internally and with the company's independent auditor).

1. SFAS 141(R), Business Combinations
2. SFAS 160, Noncontrolling Interests in Consolidated Financial Statements
3. SFAS 161, Disclosures About Derivative Instruments and Hedging Activities
4. SFAS 157, Fair Value Measurements (Application to nonfinancial assets and liabilities)
5. FASB Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets
6. FASB Staff Position FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions
7. FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities
8. FASB Staff Position APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)
9. FSP FAS 141(R)-a, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (Pending final issuance)
10. Issue 07-1, Accounting for Collaborative Arrangements
11. Issue 08-6, Equity Method Investment Accounting Considerations
12. Issue 08-7, Accounting for Defensive Intangible Assets
13. Issue 08-8, Accounting for an Instrument (or an Embedded Feature) With a Settlement Amount That Is Based on the Stock of an Entity’s Consolidated Subsidiary
14. Issue 08-3, Accounting by Lessees for Maintenance Deposits
15. Issue 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock
17. FASB Staff Position FAS 132(R)-1, Employers’ Disclosures about Postretirement Benefit Plan Assets
18. Issue 08-10, Selected Statement 160 Implementation Questions (Pending final issuance)