Illinois Bankers Association

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October 27, 2004

Letter of Comment No: 70
File Reference: EITF03-1A

Mr. Lawrence Smith
Director and Chairman of the Emerging Issues Task Force
Financial and Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856
Via: Facsimile 203.849.9714

Re: Proposed FASB Staff Position 03-1-a (Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments")

Dear Mr. Smith:

The Illinois Bankers Association ("IBA") appreciates this opportunity to comment on proposed Staff Position FSP 03-1-a issued on September 15, 2004, by the Financial Accounting Standards Board (FASB). The IBA represents more than 1,700 banks and branches of all sizes in Illinois, including state and national community banks, regional banks, money center banks, savings banks, and savings and loan associations. Together, IBA member banks and thrifts account for over 85 percent of all banking assets in Illinois. We appreciate the FASB's decision to delay the effective date of the measurement and recognition guidances contained in paragraphs 10-20 of EITF Issue 03-1 in order to provide more time for consideration of our industry's views.

The IBA is extremely concerned about the significant impact that FSP 03-1-a will have on asset/liability management by banks and thrifts. Specifically, the proposal creates the potential for a bank or thrift's entire available-for-sale (AFS) portfolio to become "tainted" when it sells an AFS security that is impaired due to interest rate and/or sector spread increases. Such "tainted" securities would then need to be permanently written down, resulting in an incorrect recognition of revenue. With the threat of unwanted "tainting," a bank or thrift's ability to practice prudent day-to-day balance sheet and asset/liability management could be impaired.

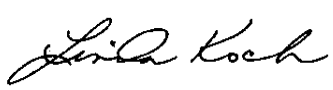
We also are concerned with the potentially confusing and possibly misleading financial statements resulting from the proposed treatment of impaired debt securities. For example, while mark-to-market gains would be taken in other comprehensive income, many debt security losses would go through earnings. Furthermore, if those debt security losses were taken through earnings, no gains would be taken on the liability side of the balance sheet, resulting in an asymmetry.

For these reasons, the IBA strongly prefers that debt security impairment caused by interest rate and/or sector spread increases be excluded from the coverage of EITF 03-1. We believe that the issues addressed in EITF 03-1 are adequately dealt with in SFAS 115, while the notion of "intent to hold" as outlined in the proposal conflicts with the

SFAS 115 "available for sale" standard. Furthermore, banks should be able to sell AFS securities without a concern for the "tainting" of other holdings in its portfolio.

Again, we appreciate the opportunity to comment on this proposal. Thank you for considering our views.

Sincerely,



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IBA Chairman and
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