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Director, Regulatory Affairs Department



April 1, 2009

Mr. Russell G. Golden
FASB Technical Director
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, CT 06865-5116, U.S.A



LETTER OF COMMENT NO. 208

Cc: iasb@iasb.org (in response to Request for views from the IASB)

File Ref.: Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments*

Dear Mr. Golden:

The Institute of International Finance Senior Accounting Group appreciates the opportunity to comment on the proposed FASB Staff Position amendments to FAS 115, FAS 124 and EITF 99-20. The Institute is pleased to contribute comments on this issue and, of course, stands ready to provide any additional clarifications or explanations that may be needed.

The proposed guidance, along with that prescribed in FSP FAS 157-e, addresses immediate concerns that have been raised by constituents regarding the impact and potential procyclical nature of fair value measurements. The Institute is pleased by FASB's decision to take note of market participants' apprehensions and to address these matters expeditiously.

A Significant Improvement

The proposed changes provide an important and appropriate immediate response that better reflects the underlying economic substance of what constitutes impairment of a financial asset. The proposed approach is consistent with a fundamental credit-analysis view, regardless of the form taken by the financial asset (e.g. a securitized asset or a vanilla loan instrument). It appropriately separates fair-value changes that are attributable to liquidity and risk-premium components that are exacerbated in dislocated markets from impairment that is due to a credit component. This will yield a much more accurate disclosure of management's view of its portfolio and allow investors to consider the relationship between credit and market risk factors. The guidance also reestablishes the

impairment-analysis linkage between investments in debt securities classified as available for sale (AFS) or held to maturity (HTM), and the impairment model for loans, as prescribed in SFAS 114 par. 13-16. This change promotes the FASB's stated objective, and the goal of the G20, of reducing complexity and enhancing measurement consistency across various financial instruments. Thus, we think that the proposed guidance for a "separate presentation" model, which disaggregates credit-related impairment losses from other losses, indeed provides decision-useful information for investors, analysts and both prudential and securities regulators.

Medium-term Clarification Needed as to Equities

However, we also think that the application of a credit-impairment model to equity securities may turn out to be operationally challenging. A decline in fair value of equity securities below cost may or may not be directly related to the probable recovery of future cash flows. We think that the difficulties of this approach are illustrated in the body of the guidance. Paragraph 12 of the proposed FSP addresses both debt and equity securities in the recognition of the existence of impairment indicators. However, paragraph 13 discusses the recognition and measurement only in the context of debt instruments and probable collectability of contractual cash flows. The application of a credit-related impairment model to equity securities creates ambiguities that will need to be worked out through practice and perhaps further guidance over time. As part of the longer-term convergence project on reducing complexity in financial instruments additional guidance regarding impairment indication and measurement for equity financial instruments will likely need to be provided. This future refinement, however, should not be an obstacle to adoption of the current proposal as an urgent matter.

Conditions for OTTI

Furthermore, the proposed FSP modifies the existing impairment indicator to state that, for management to avoid considering an impairment as other than temporary, management is required 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 recovery. The proposed language helpfully modifies the burden of proof, which is operationally burdensome to preparers in the existing standard (and indeed subjected to elevated levels of scrutiny by auditors and securities regulators, particularly in periods of market downturn). The revised approach is more operational, more reflective of the way business is managed, and less ambiguous.

The alternative views of Messrs. Linsmeier and Siegel expressed some concern that a potential result of the proposed change would be to reduce the amount of impairment losses recognized in financial statements. We do not think that the reflection of economic substance would be altered by changing the "intent and ability" language to an extent that would result in a significant change to the amount of credit losses recognized.

Convergence Concerns

In general, we are supportive of the approach taken by the Board; however, while we understand the circumstances in which the proposed guidance is being issued, many IIF members have voiced concern about the accelerated due process and effective date for these proposals which may, without prompt action from the IASB, lead to implementation gaps or level playing field issues for internationally active financial institutions. Every effort should be made to achieve consistent implementation dates.

It is important to balance necessary, immediate responses to market developments via short-term changes to accounting guidance, and the basic need for a long-term solution that is broad and internationally accepted. Therefore, we urge both the FASB and the IASB to attend to the issue in unison, under the auspices their recently re-affirmed commitment to international coordination, so that any short-term divergence is avoided and final convergence is achieved on this point as part of the joint project to reduce complexity in financial instruments.

In short, we believe that the FASB proposals address critical issues highlighted by market turmoil and we encourage the FASB to adopt the proposed amendments. We strongly believe that because of the need for continuous convergence of international accounting standards, the IASB should make every effort to determine whether and how the FASB proposals would impact IFRS to avoid creating additional GAAP differences, while continuing to work with the FASB to achieve common, revised final standards as already stated.

It is clear that the Boards face a dilemma here between urgent needs and due process. As the Institute stated last year in its *Final Report of the Committee on Market Best Practices*, development of expedited, coordinated due process is essential, and the need seems all the more pressing with each new development. We will be commenting on the same point to the FCAG. In the mean time, we can only urge the two Boards, and in particular the IASB, to find a way to apply expedited process and yet achieve substantial congruence and simultaneity with the FASB's proposal on this matter.

Should you have any questions about this comment letter, please contact the undersigned (dschraa@iif.com; + 1 202 857 3312) or Eran Meishar (emeishar@iif.com; + 1 202 857 3633).

Very truly yours,

