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LETTER OF COMMENT NO. 33

File Reference: Proposed FSP FAS 107-a

PricewaterhouseCoopers appreciates the opportunity to comment on the FASB's Proposed FSP FAS 107-a, *Disclosures About Certain Financial Assets: An Amendment of FASB Statement No. 107* (the "Proposed FSP").

Recent economic events have focused the attention of users and preparers of financial statements on differences in the measurement of similar financial assets under existing accounting standards. Much of this attention has been focused specifically on differences in the impairment models for these assets, and some have suggested that information that improves the comparability of impairment losses recognized under these different models would enhance the usefulness of financial statements. In particular, participants at the joint IASB/FASB round-table meetings suggested that disaggregated disclosures for impaired available-for-sale (AFS) and held-to-maturity (HTM) debt securities that identify the incurred loss portion (i.e. the loss amount that would be recognised under an impairment model such as that provided by FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*) would provide greater transparency. The Board has acted on an expedited basis to begin addressing these concerns through the issuance of FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, and through the exposure of the Proposed FSP.

We support the Board in responding to these requests for additional transparency. However, the Proposed FSP does not result in disclosure of the incurred loss portion of impairment losses (as described above) for impaired AFS and HTM debt securities, which we believe users would find helpful. We are concerned that the Proposed FSP, as written, may not contribute significantly to more meaningful, transparent, or comparable disclosures for users of financial statements.

Specifically, the disclosure of pro forma income from continuing operations (before taxes) as if all financial assets within the scope of the proposed FSP had been measured at fair value with changes in fair value recognized through earnings may not necessarily result in more meaningful, transparent or comparable information between different companies. For example, if a company had measured all in-scope financial assets at fair value with changes in fair value recognized in earnings, it is likely that it would have adopted different hedge accounting strategies and, for some insurance companies, a different measurement basis for insurance contract liabilities. As management will not have managed all financial assets on a single measurement basis, it is not clear why users should assess the underlying performance of the company based on such an approach. We believe this is an example where more information is not always helpful and may well confuse users.

On a broader level, the requirement to disclose a comparison of measurement attributes and related pro forma income for financial assets within the scope of the proposed FSP leads naturally to questions regarding the most relevant measurement attribute for these financial assets for financial reporting purposes. As we indicated in the attachment to our response dated September 19, 2008, to the FASB's Invitation to Comment, *Reducing Complexity in Reporting Financial Instruments*, we believe there is a need for an extensive, structured debate to determine the appropriate long term solution to accounting for financial instruments. We support the Board's continued efforts in this area.

At the joint IASB/FASB round-table meetings in November 2008, we supported a proposal to amend the impairment model for debt securities to achieve comparability with the impairment model for loans and receivables, and encouraged both Boards to work together to achieve a consistent model for impairment. We continue to believe that this is a desirable solution. Consequently, we welcome the Board's December decision to work with the IASB to expedite consideration of the accounting for all aspects of the impairment of financial assets as part of a broader project on financial instruments. We support this holistic review of all of the measurement and disclosure requirements related to impairment.

In the event the Boards are not able to address the measurement requirements for impairment in a timely manner, we would support greater transparency for impaired AFS and HTM debt securities. This could take the form of a more limited disclosure requirement for impaired AFS and HTM debt securities than that included in the Proposed FSP and that simply identifies the incurred loss portion of impairment losses.

We also note that the proposed effective date is for interim and annual periods ending after December 15, 2008 (excluding comparatives). Although we recognize that, in the current economic environment, there are circumstances when limited due process and retroactive application are necessary, we do not believe that these proposals fall into that category. We believe the effective date for the Proposed FSP, whether modified as suggest above or not, should be changed to periods beginning after January 1, 2009, with early application encouraged.

We have responded to the specific questions raised in the Proposed FSP in the Appendix to this letter.

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We appreciate the opportunity to express our views on the Proposed FSP. If you have any questions regarding our comments please contact Marc Anderson (973-236-4678) or Ward Hamm (973-237-5616).

Sincerely,

PricewaterhouseCoopers LLP

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APPENDIX

Proposed FSP FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107*

Question 1
Do you believe that requiring disclosure of different reporting measurement attributes (that is, as reported in the statement of financial position, at fair value, and at the incurred loss amount) for certain financial assets within the scope of this proposed FSP would (a) improve the quality of information provided to users of financial statements and (b) increase the comparability of financial statements under U.S. generally accepted accounting principles (GAAP) and IFRS? Why or why not?

As noted in our cover letter, we believe that certain disclosures could enhance the transparency and usefulness of financial statements and increase the comparability of financial statements under GAAP and IFRS, especially disclosures that relate to debt security impairments. To that end, we would support a more limited disclosure requirement that focuses on impaired debt securities rather than the more extensive disclosures included in the Proposed FSP. Our suggested disclosure would identify the following two components of the impairment charge recognized in results of operations for a given period:

(1) the incurred credit loss component which is equal to the probable loss of contractual or expected cash flows (i.e., expected cash flows would be used in cases where a debt security does not have contractual cash flows- e.g., interest-only strips), and

(2) the remainder of the current period impairment charge due to all other changes in fair value, which would include, for example, the impact of liquidity discounts.

We believe this would provide users with useful information about management's expectations of probable losses relating to such impaired securities. The incurred credit loss component would be estimated using the incurred loss model proposed in the FSP, that is, it would represent the difference between the carrying value at the impairment date and the present value of expected future cash flows discounted at the security's effective interest rate (consistent with FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* ("FAS 114")). Given that the disclosure would be limited to impaired debt securities, any related FSP would more appropriately be characterized as an amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, rather than an amendment to FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments* ("FAS 107").

We do not support the disclosure of the incurred loss balances for all impaired and unimpaired HTM and AFS securities, loans, and long term receivables at this time because we do not believe this information would allow users to identify the incurred loss amounts relating to impaired HTM and AFS debt securities, which has been the primary focus of constituent requests. We believe that such a requirement should be based on a more robust discussion of the objectives of the disclosures for particular financial assets and the needs of financial statement users.

The fair value balance sheet information proposed for financial assets is already required by FAS 107, and we support its continued disclosure in its current form.

In addition to the general comments above, we believe clarification is needed regarding the definition of the incurred loss amount contemplated by the Proposed FSP for certain assets. Some believe that the incurred loss amount inherently assumes a financial asset will be held to maturity and reflects the expected credit loss consistent with that expectation. In that case, we are not convinced that this measure is useful to users of financial statements in situations where management has either expressly or implicitly asserted an intention other than to hold that financial asset to maturity. For example, and as noted in our response to Question 2, below, it is not clear to us that disclosing an incurred loss amount for mortgage loans which are held for sale is useful information, or, if useful, that this usefulness outweighs the additional complexity caused by requiring the computation of a new measurement basis for disclosure purposes. Similar questions exist for impaired available-for-sale debt securities for which management does not have the intent to hold to recovery. Others believe that the incurred loss amount for items held for sale should be equal to fair value, as it would be inappropriate and perhaps misleading to disclose a measure assuming future cash flows through maturity for items held explicitly for sale.

Clarification is also needed regarding the appropriate effective interest rate used in the calculation of the incurred loss amount for certain financial assets. We note that paragraph 11 of the proposed FSP refers to use of the "security's effective interest rate" and parenthetically refers to FAS 114. Paragraph 14 of FAS 114 defines the effective interest rate as "the contractual interest rate adjusted for net deferred loan fees or costs, premium, or discounting existing at the origination or acquisition of the loan." The tabular example disclosure, footnote (d), uses the term "original effective interest rate" in describing the rate used to discount estimated cash flows. We believe the Board should clarify how the FAS 114 definition should be applied to certain securities whose effective rates may vary (for example, instruments subject to EITF 99-20).

Finally, transition guidance should be provided regarding the effective yield to be used at adoption for previously impaired debt securities. We note that FSP FAS 115-1/124-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*, establishes a new effective yield "as if the security had been purchased on the measurement date." Given this guidance it is not clear whether, upon adoption of the new disclosure requirements, the "acquisition of the security" for purpose of computing the effective rate is the actual date on which the security was originally purchased, or the last impairment date.

Longer term, we support the Board's December decision to work with the IASB to expedite consideration of the accounting for all aspects of the impairment of financial assets as part of a broader project on financial instruments. However, if this will not be completed in time for the 2009 reporting season, we would support the disclosure requirement for impaired AFS and HTM debt securities described above, which is more limited than that included in the Proposed FSP.

Question 2

Do you agree that the proposed disclosures should not include financial assets measured at fair value in the statement of financial position with changes in fair value recognized through earnings? If not, would you propose including such financial assets within the scope of this proposed FSP? Should financial assets measured at the lower of cost or fair value (such as mortgage loans) be included within the scope of this proposed FSP? Why or why not?

We agree that financial assets measured at fair value with changes in fair value recognized through earnings should not be subject to the proposed disclosures. Excluding such assets is consistent with the Board's comments in paragraph 36 of FAS 114 that, "Fair value accounting or the lower of cost or fair value accounting obviates the need for accounting guidance for impairment associated with those loans." For similar reasons, we do not believe that financial assets measured at the lower of cost or fair value (such as mortgage loans) should be included within the scope of the proposed FSP.

We believe that fundamental questions relating to the objective and relevance of the incurred loss model for various financial assets should be addressed before requiring the proposed disclosures. For example, for mortgage loans which are held for sale, a current presumption exists that these loans will not be held to maturity. Given this presumption, the relevance to users of the financial statements of an incurred loss amount based on expected cash flows to be received until maturity is unclear.

Finally, and consistent with the observations of the IASB in paragraph BC6 of the exposure draft, *Investments in Debt Instruments - proposed amendments to IFRS 7*, we note that, as companies are not required to maintain amortized cost information for financial assets accounted for at fair value with changes in fair value recognized through earnings, compliance with the proposed disclosures for these assets might be unduly onerous.

Question 3

Do you believe that requiring disclosures of the pro forma income from continuing operations (before taxes) for financial assets within the scope of this proposed FSP as if those financial assets were carried (a) at fair value with changes in fair value recognized through earnings and (b) at the incurred loss amount with changes recognized through earnings would improve financial reporting? Why or why not? Should the disclosure requirements described in the preceding sentence also be required for net income and shareholders' equity? Why or why not?

We do not support the proposal to disclose the pro forma income from continuing operations (before taxes) for financial assets within the scope of the Proposed FSP or any pro forma disclosure requirements for net income and shareholders' equity, for the reasons noted in our cover letter and in our response to Question 1. In addition to those comments, we also note that the measurement of financial assets at fair value with changes in fair value recognized through earnings may also affect other balances that are not discussed in the proposed disclosures, including insurance company deferred acquisition costs that are amortized in relation to estimated gross profits and compensation accruals that are based on reported earnings. Not recognizing these types of related effects reduces the relevance and usefulness of the pro forma income disclosures.

Instead, we recommend the disclosure of disaggregated information on impairment charges for impaired AFS and HTM debt securities as further described in our response to Question 1.

Question 4

Would separate reconciliations of reported income from continuing operations (before taxes) to the proposed pro forma adjusted income form continuing operations (before taxes) under both a fair value basis and an incurred loss basis for financial assets within the scope of this proposed FSP be useful? Why or why not?

Consistent with our response to Question 3 and the comments contained in our cover letter, we do not support the pro forma aspects of the proposed disclosures, as we do not believe it will necessarily contribute significantly to more meaningful, transparent, or comparable information for users of financial statements. As a result, we do not support reconciliations between the pro forma amounts and the amounts reported in the statement of income. Please also see our response to Question 6 regarding operational difficulties associated with the pro forma amounts.

Question 5
Do you believe the provisions of this FSP should be effective for interim and annual reporting periods ending after December 15, 2008? Why or why not? Do you believe that the disclosures in this proposed FSP should be provided on a comparative basis for subsequent periods after initial application of the proposed FSP? Why or why not?

Should the Board move forward with the proposed disclosures, or our suggested limited disclosures for impaired HTM and AFS debt securities, we believe the effective date should be changed to periods beginning after January 1, 2009, to allow a reasonable period for implementation, with early adoption encouraged.

In general, we believe comparative disclosures provide more useful information.

Question 6
Are all of the disclosures in the proposed FSP operational based on the proposed effective date? Why or why not? Please be specific in your response?

The proposed disclosures, and in particular the pro forma profit or loss amounts, are very complex to calculate. In order to provide the disclosures, companies will have to give consideration to many factors, including purchases and sales of financial assets during the year, foreign exchange movements, interest accruals, principal repayments and other cash flows, hedge accounting, and transaction costs. In addition, the proposals essentially require companies to compute asset balances and income statement effects under a new measurement basis (the incurred loss amount) which is not currently captured or maintained in the existing financial reporting systems for in scope financial assets.

Given the complexity involved in gathering this information, and the associated need to update the processes, controls and documentation required by the Sarbanes-Oxley Act of 2002, we believe that many companies will be unable to provide these disclosures in the short time frame contemplated by the Proposed FSP.

For some companies, complying with these disclosure requirements for December 2008 financial statements could result in delays to the publication of their financial statements that would not be desirable in the current market conditions. In addition, some companies will have issued financial statements for the year ended December 31, 2008, before the proposals are expected to be finalized at the end of January, reducing comparability for these companies.