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April 1, 2009

Mr. Russell Golden Technical Director Financial Accounting Standards Board 301 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

LETTER OF COMMENT NO. 217

RE: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

Dear Mr. Golden:

The California Bankers Association (CBA) appreciates this opportunity to provide comments to Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments ("Proposal"). CBA is a professional nonprofit organization established in 1891 and represents most of the FDIC-insured depository institutions in the state of California. We commend your organization for responding to concerns about existing guidance related to assets with other than temporary impairment ("OTTI").

CBA had previously provided comments emphasizing how important this issue is to banks. During unusual circumstances such as these when the market fails to provide reliable valuation signals, it can be terribly misleading to account for impaired assets based on perceived market values. Estimates are likely to be unreliable no matter how much effort is made to ensure accuracy. Recording estimated market values (and, thus, declines to equity) where bid prices are often significantly greater than the ask prices misleads users of financial statements.

We note the obvious that banks generally are not in the business of trading securities, which a mark-to-market accounting scheme is more suited for. While recording impairment provides users of financial statements with meaningful information, applying existing OTTI guidance to banks generally results in overstating impairment. Banks must record earnings that reflect the market's view of losses even though the market has no relationship to losses that are expected to occur.

Under the existing guidance, to avoid considering an impairment to be other-thantemporary, management must assert it has both the intent and the ability to hold an impaired security for a period of time sufficient to allow for any anticipated recovery in fair value. We support a modification such that 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 Mr. Russell Golden April 1, 2009 Page 2

before recovery of its cost basis. FASB proposes that in such circumstances the impairment would be separated into credit losses and all other factors. The impairment related to credit losses would be included in earnings and the amount related to all other factors would be included in other comprehensive income.

Generally, CBA supports the Proposal as operationally more feasible than the current guidance. We also agree it is appropriate to recognize only credit losses through earnings because they represent actual economic losses of a security. If a bank intends to hold debt securities, which feature contractual cash flows, to maturity, then market-related losses should not be a part of OTTI. Recording market losses as OTTI on held-to-maturity securities is to apply market-based analysis to an asset that is not marketed. This misleads users of financial statements and forces preparers to formulate valuations that harm the company.

We urge FASB to clarify that recoveries of OTTI should be reversed. There is no principled reason why OTTI should be permanent if the impairment is not permanent. Accuracy demands that recoveries of OTTI should be immediately reversed through earnings, otherwise the performance of the assets is not accurately portrayed. More clarification on the meaning of "credit losses" would also be helpful. It should reflect an estimate of actual credit losses, rather than a derivation of the portion of the fair value affected by a change in the credit risk.

Finally, the Proposal should apply to securities with OTTI effective immediately, understanding however that some reporters will not be able to prepare their financial statements in time. Therefore, a second quarter effective date with an allowance for early adoption will accommodate most banks. Once again, we appreciate FASB's efforts to make these important changes.

Sincerely,

Leland Chan General Counsel