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LETTER OF COMMENT NO. 26

March 25, 2009

FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

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

Dear Technical Director:

The abovereference FASB Staff Position (FSP) proposes, among other things, the bifurcation of losses into credit and noncredit components for securities where an other-than-temporary impairment exists.

As an independent, "disinterested" third-party, we wish to add credence to Messrs. Linsmeier and Siegel's suggestion that the isolation of credit losses from "other" losses would at best prove challenging in current market conditions. While we cannot comment on – and certainly neither support nor object to -- the usefulness of such a bifurcation as a whole, we share with you the belief that consistency, clarity and transparency together calm the markets.

With this in mind, we do not contend that the challenge of separating these losses is insupportable; rather, we suggest that should a determination be made to continue with this proposed bifurcation, significant guidance ought to be issued in tandem with such determination in order to ensure the goal on consistency in financial reporting and disclosure.

Consider for example the market for collateralized fund obligations (CFOs) which aptly demonstrates, indeed exaggerates, our concern. CFO liabilities, like CDO tranches, are supported by a portfolio of assets which generate receivables. For CFOs, the underlying assets are hedge funds. The receivables then are the returns generated by the underlying hedge funds. As you may notice, the underlying assets, here, are not vanilla bonds or loans subject only to typical market-based or credit-related risks such as default and recovery. Rather, they are managed portfolios, often including short positions, which may or may not track or correlate to the market as a whole.

Thus, distinguishing model-driven credit losses alone for a CFO may prove infeasible: it would require an analysis or understanding of, or assumption about, among others: (a) underlying hedge fund return volatilities; (b) default rates, recovery rates, prepayment speeds and recovery lags on each current and potential future asset class supporting each underlying hedge fund; (c) current and future redemption optionality features of each fund; (d) litigation risks; (e) regulation risks; (f) operational risks; and (g) leverage, and its counterpart liquidity risk, again for each sub-fund. Part (g) alone can be further broken down many times to include regulatory capital risk, downgrade risks and so forth. Let us generously include parts (c) to (g) above under the umbrella of "model risks."

In sum, since we are exploring the proposed regulation with respect to the current market conditions, and given the particular complexities of its underlying assets during these troubled times, we argue that for a CFO any segregation of credit-related losses from noncredit-related losses will prove almost impossible if the procedure is not clearly defined. Not only, as Messrs. Linsmeier and Siegel suggest, would the liquidity and credit risks be inextricably intertwined in the evaluation of the CFO liability, but the abovementioned model risks (pertaining to any analysis of the underlying assets), downgrade risks, regulatory risks and even operational risks may be deeply embedded in an assessment.

We thank you for accepting our comments and taking them into your consideration.

Sincerely,

Guillaume Fillebeen and Gene Phillips
Directors, PF2 Securities Evaluations, Inc.