

March 26, 2009

Re: FSP FAS 115-a. FAS124-a, and EITF 99-20-b

Dear FASB members and staff,

We thank the Board for the opportunity to comment on the Proposed FSP on Statement 115, Statement 124, and EITF Issue 99-20.

The FSP is a thoughtful approach to difficult issues surrounding the impairment of 'Held to Maturity' investments. It combines an incremental strengthening of the criteria for HTM classification with a financial reporting approach more suitable for assets held for the purpose of generating cash flows. However, we are concerned about its impact on reporting complexity and the introduction of novel methods which perpetuate the divergence between IFRS and USGAAP. While a fully satisfactory solution remains to be found, we believe that converge to the current IAS 39 approach to financial asset impairment represents the best near-term solution to the pressing issues underlying the issuance of the FSP.

The IASB and FASB have been engaged in a fundamental review of measurement issues in financial reporting. It is likely that recommendations emerging from this process will differ from both the current international standards and the proposed FSP. Furthermore, the views of Messrs. Linesmeier and Siegel indicate a lack of consensus for the proposed FSP within the FASB at this time. We do acknowledge that opponents of the FSP may have similar or even stronger objections to the current IAS approach. However, we believe convergence to the current IAS approach represents a pragmatic step toward development of a more comprehensive solution. Efforts expended upon the acceptance and implementation of the proposed FSP may also divert energy and urgency toward the development of more satisfactory long run solutions.

Benefits of the current IAS approach in comparison to the proposed FSP

The procedures for financial asset impairment under IAS39 are based on clearly articulated measurement principles. Under both IAS and USGAAP, 'Held to Maturity' assets call for the use of a measurement basis distinct from assets held as Trading or Available for Sale. IAS holds that an impairment event, by itself, does not change the appropriate measurement basis for a HTM asset (see IAS39,AG84).

The motivation for holding HTM assets, and their source of economic value to the firm, is the expected cash flow stream from the assets. IAS 39, therefore, makes impairment adjustments based on reductions or expected reductions in cash flows from the asset. Though by no means easy to estimate, expected cash flows offer a clearer and more intuitive reporting criterion than the multifaceted and difficult to interpret 'credit related factors' proposed by the FSP.

We believe that the 'bifurcation' of impairment effects between credit and non-credit components has little basis in finance theory or practice, and is bound to prove problematic in application. It may be poorly understood and carry little weight with investors. The notions of 'Other Comprehensive Income' and 'Accumulated OCI', despite longstanding efforts of the FASB, have remained obscure to the investor community at large. Fair value and traditional net income remain, appropriately so in our opinion, distinct categories of financial information in the minds of most investors. IAS39 makes impairment adjustments consistent with expected future impacts on cash flows, without the interpretive mediation of market-driven changes in discount rates. Therefore, we believe it results in more useful and transparent income reporting than either current standards or the proposed FSP.

Financial reports currently provide investors and regulators with quarterly information on the fair value of all HTM investments. The IAS approach provides a clear and logically consistent measure of carry values, in addition to ongoing information on fair value in the event of impairment.

We acknowledge shortcomings in the current IAS approach. One concern is the use of the original yield to maturity to discount revised estimates of future cash flows. Increases in market yield that also affect the firms' funding costs can reduce net margins realized from holding the asset. However, since such effects appear through reported net income, it is not clear whether an additional downward adjustment of the asset basis is needed as well. Another difficult issue, affecting both the IAS and the proposed FSP, is estimation of future cash flows. While cash flow projection is clearer conceptually than the FSP's notion of 'credit components', it is still difficult to apply and allows room for over-optimism on the part of the reporting firms.

We respectfully differ from Messrs. Linesmeier and Siegel's view that the issues addressed by the FSP can be resolved by further refinement of Fair Value guidance under FAS157. Messrs. Linesmeier and Siegel's comments appear grounded in a framework where all financial assets are recorded at Fair Value and all changes in Fair Value estimates flow through the income statement. While this approach is

being actively debated within the financial community, it is not the financial reporting system we have at present. As long as financial reporting continues to employ measurement bases other than Fair Value, solutions remain beyond the scope of Fair Value methods alone.

The proposed FSP is a thoughtful and creative approach to urgent reporting issues affecting the welfare of financial institutions. However, we believe it is better for the global financial community to work together from a common starting point. While by no means perfect, the impairment provisions of IAS39 effectively address the issues of most pressing concern to financial institutions. Convergence simplifies financial reporting and reduces opportunity for reporting or regulatory 'arbitrage'.

We appreciate the FASB's ongoing efforts to develop our financial reporting system and to address the difficult challenges of our economic environment. Thank you for the opportunity to share our views.

Sincerely,

James M Cataldo

Assistant Professor of Accounting, Suffolk University Sawyer Business School

Morris McInnes

Associate Dean and Professor of Accounting, Suffolk University Sawyer Business School