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Financial Accounting Standards Board
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FSPFAS115A

LETTER OF COMMENT NO. 273

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

The American Insurance Association ("AIA") is a leading property-casualty insurance trade organization, representing 350 insurers that write more than $123 billion in premiums each year. In addition to the comments that the AIA has just filed with the Financial Accounting Standards Board ("FASB" or "Board") with respect to proposed FSP FAS 157-e, the AIA is also pleased to provide the following comments with respect to the proposed FSP referenced above. We believe this additional guidance for reporting impairments is an improvement over existing guidance. We support the change in the current indicator, from one that focuses on the intent and ability to hold to one that focuses on intent to sell. In order to provide clearer, operational guidance for both debt and equity securities, we have a few recommendations for the Board to consider.

Recommendations Regarding Debt Securities.

The general rule, as reflected in paragraph 12 of the proposed FSP, is that an other-than-temporary impairment should be recognized when fair value has declined below the amortized cost basis and the entity intends to sell the security or it is more likely than not that the entity will sell the security before the fair value returns to or exceeds the amortized cost amount. As we have already indicated, we believe this is an appropriate rule.

However, the wording of paragraph 13 is contradictory. We believe the Board intends for entities to recognize credit losses in earnings when a credit event(s) has caused fair value to decline below the amortized cost. As worded, the proposed indicator would require an intent to not sell until recovery of the cost basis, in order to limit the other-than-temporary impairment to just the credit losses. However, a credit loss event, by definition, results in a reduction in the amounts expected to be collected under the contractual terms of the security; thus, as a practical matter, an entity would not normally have an intent to recover the amortized cost basis after a credit loss event has occurred. The result is an inconsistency in logic if the holder must have an intent to not sell until recovery of the cost basis at a time when the holder is aware of a credit event that will prevent recovery of the cost basis. To correct this, the relevant inquiry should stop at whether the entity intends to sell, given the occurrence of the credit loss event.

We recommend a re-wording of paragraph 13 to place proper emphasis on the credit loss event:

For debt securities for which the investing entity does not have an intent to sell, an other-than-temporary impairment should nevertheless be recognized if at the measurement date, the fair value has declined below the amortized cost and it is probable that the entity will be unable to collect all amounts due according to the contractual terms of the security. The amount of the impairment related to the credit losses shall be recognized in earnings (or the "performance indicator"). The amount of the impairment related to other factors shall be recognized in other comprehensive income (or shall be excluded from the "performance indicator"). The previous cost basis, less the impairment recognized in earnings, would then become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.

Bifurcating the credit and non-credit components of impaired securities requires companies to perform a credit analysis to determine the credit loss component of an impaired security. Therefore, we also recommend that the Board allow companies the option of using the fair value of a security as a practical expedient for determining the impairment loss to be recognized in earnings. Doing so would enable preparers without significant pricing expertise or a sufficient volume of impairments to avoid creating new models that might be costly to maintain. The practical expedient would also work well during normal markets, when entities would not want to incur the cost of bifurcation that would have little value to investors. This approach would be consistent with the measurement methodology described in paragraph 13 of FASB Statement No. 114.

Presentation.

Since the details of the total impairment must be disclosed in the notes to the financial statements, we do not see the necessity of placing the proposed offset display in the income statement. Preparers certainly should have the option of placing that information in the income statement, but it should not be mandated. Insurers, for example, report their financial results under FAS 60, *Accounting and Reporting by Insurance Enterprises,* which provides that realized gains and losses are to be reported in a separate *item* of the income statement or as a footnote disclosure.[1] Insurers' realized impairment losses are included within these other realized gains and losses. We suggest a similar approach for this FSP, allowing all preparers the option of reporting additional impairment information on the face of the income statement or disclosing such information in a note to the financial statements.

Summary

AIA believes the FSP's proposed change in the indicator will provide better operational guidance, but recommend that the Board provide additional clarity in paragraph 13 when credit events have occurred, as well as additional guidance regarding tainting implications, if any. We

[1] Paragraph 50 of FAS 60: Realized gains and losses on all investments (except those that are accounted for as either hedges of net investments in foreign operations or cash flow hedges as described in Statement 133) shall be reported in the statement of earnings as a component of other income, on a pretax basis. Realized gains and losses shall be presented as a separate item in the statement of earnings or disclosed in the notes to the financial statements. Realized gains and losses shall not be deferred, either directly or indirectly. Realized gains and losses on the sale of assets other than investments, such as real estate used in the business, shall be reported in accordance with APB Opinion No. 30, *Reporting the Results of Operations.*

also recommend that preparers be allowed the option of reporting the details of the total impairment in a separate item of the income statement or disclosing that information in a note to the financial statements.

Thank you for this opportunity to comment on the proposed rule. We hope the Board finds these comments helpful. Please feel free to call on us with any questions.

Sincerely,

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