



LETTER OF COMMENT NO. 244

March 31, 2009

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

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

Dear Mr. Golden:

We appreciate the opportunity to comment on the Exposure Draft of Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b *Recognition and Presentation of Other-Than-Temporary Impairments* (the "Exposure Draft"). Huron Consulting Group helps clients address complex challenges that arise in litigation, disputes and investigations. Huron provides services to a wide variety of organizations, including Fortune 500 companies, medium-sized businesses, leading academic institutions, healthcare organizations, and the law firms that represent these various organizations.

We generally agree with the conclusions in the Exposure Draft. In particular, we agree that a company should only recognize other-than-temporary impairment for the decline in the fair value of a debt security attributable to credit losses when the company does not intend to sell and it is more likely than not that the company will not be required to sell. That conclusion appears to be consistent with the input the Board has received from many of its constituents since last year and should reduce some of the angst resulting from the significant declines in the fair value of many debt securities. In the absence of the proposed amendment, companies will be required to continue to recognize impairment losses in earnings that may significantly exceed a company's best estimate of losses arising from credit issues. While we agree with the Board's conclusion on recognizing an impairment loss for the portion of the decline in fair value attributable to expected credit losses, we do not agree with the Board's proposal to recognize the decline in the fair value of a held to maturity debt security in excess of credit losses in Other Comprehensive Income ("OCI"). We also do not agree with the change to the requirement that management assert it has the positive intent and ability to hold to maturity a debt security classified as held to maturity to avoid recognizing other-than-temporary impairment for declines in fair value attributable to factors other than credit losses. We also have comments intended to improve the clarity and operability of the proposed FSP.

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Recognition of Other-Than-Temporary Impairment Losses

We agree with the Board's proposal to modify the amount of an other-than-temporary impairment loss a company is required to recognize in earnings to the decline in the fair value resulting from a probable shortfall in the amounts an investor expects to collect on a debt security. When a company does not intend to sell a debt security and it is unlikely it will be required to sell the debt security prior to the fair value recovering, we agree it should only recognize the credit loss portion of the other-than-temporary impairment loss in earnings.

We also agree that a company should recognize impairment losses on debt securities where there is not a probable credit loss and equity securities when a company intends to sell the security or it is more likely than not it will be required to sell the security prior to a recovery in the fair value. However, as noted below, we believe the lower threshold for recognizing other-than-temporary impairment on debt securities should not apply to debt securities classified as held to maturity.

Threshold for Recognizing Other-Than-Temporary Impairments

We do not agree with the proposed relaxation of the threshold at which companies are required to recognize other-than-temporary impairment losses on held-to-maturity debt securities. We believe requiring a company to assess its ability and intent to hold to maturity a debt security classified as held to maturity in order to avoid recognizing other-than-temporary impairment losses for decreases in fair value arising from factors other than probable credit losses is appropriate. A company is required to assert it has the positive intent and ability to hold a debt security to maturity at acquisition in order to classify it as held to maturity. Allowing a company to avoid recognizing other-than-temporary impairment losses on a held-to-maturity debt security because it does not intend to sell, and it is not more likely than not it will be required to sell, the debt security prior to the fair value recovering is inconsistent with the assertion implied by the security's classification.

Further, we recommend the Board clarify the impairment approach for equity securities. The discussion in the Exposure Draft appears to have resulted in confusion as to how a company should assess whether an equity security is other-than-temporarily impaired. The discussion in paragraph 7 of the Exposure Draft appears to support a conclusion that the Board only intended to lower the threshold at which a company is required to recognize a loss in earnings, and that it intended companies to continue applying all of the other criteria applicable to assessing whether an equity security is other-than-temporarily impaired. We understand that some constituents believe a company that can assert it does not intend to sell an equity security and it is more likely than not it will not be required to sell the equity security before the fair value has recovered can stop with that assessment. We believe that is inconsistent with the discussion in paragraph 7 of the Exposure Draft, but given the potential for confusion, we encourage the Board to clarify its intent. Similarly, we encourage the Board to clarify whether the discussion in paragraph 7 of the Exposure Draft applies to debt securities. Based on the discussion in

that paragraph, we assume a company would be required to assess whether the impairment of a debt security arising from factors other than credit losses is other-than-temporary by considering other literature, including FSP FAS 115-1 and FAS 124-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*; SEC Staff Accounting Bulletin No. 59 *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*; and Statement on Auditing Standards No. 92 *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*. If our assumption is correct, it would be helpful if the Board clarified the discussion in paragraph 13 of the Exposure Draft.

We also encourage the Board to address the impact of a subsequent sale of a debt security at a loss on a company's assertion that it does not intend to sell, and it is unlikely it will be required to sell, similarly impaired debt securities prior to their fair value recovering. Currently, we understand that auditors assess the facts and circumstances surrounding a company's decision to sell an impaired security and that a pattern of such sales might preclude a company from asserting it has the intent and ability to hold a debt security until the fair value recovers. We are not sure whether the lower threshold for avoiding recognition of an impairment in earnings changes that practice, but expect the question will eventually arise.

Finally, we believe the Board should clarify whether companies should assess other-than-temporary impairment of perpetual preferred securities using the impairment approach for debt securities or equity securities. While perpetual preferred securities have attributes similar to debt securities, we believe the fact that they are not entitled to contractual cash flows overrides any similarities to debt securities. Accordingly, we encourage the Board to require companies to make other-than-temporary impairment assessments for perpetual preferred securities using the impairment model for equity securities.

Measurement of Credit Loss

Paragraph 15(b) of FSP FAS 115-1 and FAS 124-1, as amended, states, in part:

In determining the amount of the total impairment related to credit losses the reporting entity shall use its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. One way of estimating that amount would be to consider the measurement methodology described in paragraphs 12-16 of FASB Statement No. 114

Paragraph 15(b) refers to Statement 114 as "one way" of measuring the credit loss, implying that other methods are also appropriate. We encourage the Board to clarify in the final FSP whether it intended to permit a company to measure the credit loss at fair value. We believe the Board should allow a company to measure the credit loss at fair value even though one purpose of the proposed guidance is presumably to align the accounting for credit losses on loans and debt securities.

Accounting for Non-Credit-Related Impairments of Held to Maturity Securities

We disagree with the proposed requirement for held to maturity securities that a company recognize the portion of an impairment related to factors other than probable credit losses in Other Comprehensive Income ("OCI"). We believe the requirement to recognize that portion of an impairment loss in OCI contributes to complexity but does not provide a corresponding increase in the information provided to users of financial statements. We assume that a company would amortize the discount on the held to maturity debt security created through the application of the proposed FSP as required by paragraph 15(d) of FASB Statement No. 115 *Accounting for Certain Investments in Debt and Equity Securities* for securities transferred into the held to maturity classification from available for sale. Assuming the amortization of the discount on the held to maturity debt security and of the deferred loss in OCI offset, it seems like additional work for little to no improvement in the information provided to investors. We encourage the Board to revise its proposed treatment of impairment losses on held to maturity debt securities.

Presentation

We do not agree with the Board's proposal to recognize the gross amount of impairment in earnings with an offset for impairment arising from factors other than credit losses. If the Board believes that a company should only recognize impairment for probable credit losses (in the absence of an intent to sell or a conclusion that it is more likely than not a company would be required to sell), we do not understand the requirement to report the gross impairment. We believe the gross presentation will be confusing to users of financial statements and that information about the gross impairment would be better included in the footnotes to the financial statements.

Effective Date

We believe the Board should provide companies with a quarter ending March 31, 2009, the option of not applying the guidance in the final FSP until the quarter ending June 30, 2009. Although we suspect most companies would elect to apply the guidance, in certain circumstances it may be difficult to obtain information necessary to separate the credit loss from losses arising from other factors for other-than-temporary impairments recognized earlier in the quarter. In that circumstance, we believe a company should have the option of recognizing other-than-temporary impairment for the difference between the amortized cost of the debt security and its fair value.

Due Process

Finally, as noted in our letter on proposed FSP FAS 157-e *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*, we do not believe it is optimal to provide constituents with such a short period to read, understand, and comment on significant proposed changes and are sure the Board shares that view. We are concerned that

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reduced comment periods increase the risk that constituents will not have sufficient time to identify potential unintended consequences that a proposed standard might create.

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We would be pleased to discuss any of our comments with the Board or the FASB staff. Please direct any questions or comments to Jeff Ellis at 312-880-3019.

Sincerely,

/s/ Jeffrey H. Ellis

Jeffrey H. Ellis
Managing Director