McGladrey & Pullen
Certified Public Accountants

FSPFAS115A

LETTER OF COMMENT NO. 214

McGladrey & Pullen LLP
Third Floor
3600 American Blvd West
Bloomington, MN 55431

March 31, 2009

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO 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 are pleased to comment on the proposed FASB Staff Position (FSP) No. FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments.*

We support the efforts of the FASB to make the other-than temporary impairment guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. However we do have concerns about the proposed FSP as discussed below in our response to the five issues on which specific comment is sought and in our additional comments.

Comments on Specific Issues Requested by the FASB

Issue 1: This proposed FSP would require entities to separate (and present separately on the statement of earnings or "performance indicator") an other-than-temporary impairment of a debt security into two components when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. The two components would be (a) the credit component and (b) the noncredit component (residual related to other factors). Does this separate presentation provide decision-useful information?

We believe the separate presentation will provide decision useful information in the current economic environment because it separately identifies that portion of the unrealized loss that is not expected to be ultimately realized from the portion that is expected to be realized.

Issue 2: This proposed FSP would require that the credit component of the other-than temporary impairment of a debt security be determined by the reporting entity using 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, Accounting by Creditors for Impairment of a Loan. *For debt securities that are beneficial interests in securitized financial assets within the scope of Issue 99-20, the amount of the total impairment related to credit losses would be determined considering the guidance in paragraph 12(b) of Issue 99-20. Do you believe this guidance is clear and operational? Do you agree with the requirement to recognize the credit component of an other-than-temporary* *impairment in income and the remaining portion in other comprehensive income? Under what circumstances should the remaining portion be recognized in earnings?*

We believe that in order for the proposed FSP to be operational and consistently applied, the process for measuring the credit loss component must be clearly defined. While we don't object to the reference to FASB Statement No. 114, we believe the reference to "one way of estimating" does not clearly define the measurement process. If there are other ways of estimating the credit loss component, we believe those methods should be identified in the FSP. We believe the proposed FSP should also provide guidance on:

- How to isolate credit losses from liquidity risk.
- How to determine credit losses for single obligor debt securities. Under current practice, preparers typically determine whether other-than-temporary impairment exists based on subjective factors such as evaluating extent and severity of decline, change in credit ratings, occurrence of specific credit events, etc.
- Determining an appropriate discount rate. The addition of paragraph 15.b. to FASB Staff Position 115-1 and FAS 124-1, *The Meaning of Other-Than-Impairment and Its Application to Certain Investments,* discusses use of a discount rate "equal to the current yield used to accrete the beneficial interest. Without the full context of EITF Issue 99-20 provided, it is unclear what is meant by "current".
- How to determine the credit loss amount at subsequent measurement dates when credit losses have previously been recognized.

We agree with the requirement to recognize the credit component of the other-than-temporary impairment in income but due to the complexities with the proposed model, we recommend that either a practicability exception be provided or an option be available to measure other-than-temporary impairment as the entire difference between the carrying value and fair value and not separate the credit portion. This option could be applied similarly to FASB Statement No. 159, *Fair Value Option,* which allows for selection on a security-by-security basis.

Issue 3: This proposed FSP modifies the current indicator that, to avoid considering an impairment to be other than temporary, management must assert that 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. The Board believes that, compared to current requirements, it is more operational for management 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 before its recovery. Does this modification make this aspect of the other-than-temporary impairment assessment more operational (the remaining factors discussed in FSP FAS 115-1/FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, *would remain unchanged)? Should this modification apply to both debt and equity securities? Will this change result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired?*

The proposed FSP is inconsistent in using the phrase "it is more likely than not that it will not have to sell the security before its recovery" and "it is more likely than not that it will not sell the security before its recovery". We believe the phrase "it is more likely than not that it will not sell the security before its recovery" is preferable because it represents both ability to hold and an expectation that present intent is unlikely to change. However, regardless of which phrase is selected, that phrase should used consistently throughout the FSP. We believe the most significant operational issue for equity security impairments is forecasting the recovery period, which is not addressed in the proposed FSP.

Applicability to Equity Securities

The proposed FSP deletes substantially all of paragraph 15 of FSP FAS 115-1 and FAS 124-1 and replaces it with guidance on all securities which an entity intends to sell or is more likely than not that it will sell and guidance on debt securities it does not intend to sell or is more likely than not to not sell. However it does not state how to record other-than-temporary impairment on an equity security deemed to be other-than-temporarily impaired due to the presence of other indicators. We assume the Board did not intend to change the accounting in this situation and wording should be added to address this.

If the Board's intention was to not change current practice, we offer the following suggestion to the proposed amendment to paragraph 14 of FSP FAS 115-1 and FAS 124-1. Changes to the proposed wording indicated using strikethrough and underlines.

> An other-than-temporary impairment of a debt or equity security has occurred if the ~~investor~~entity intends to sell the security or it is more likely than not that the ~~investor~~entity will be required to sell the security before recovery of its cost basis. However, an entity shall recognize an other-than-temporary impairment loss even if the decision to sell has not been made or it is more likely than not that the entity will not be required to sell before recovery if such other indicators of other-than-temporary impairment provided for in paragraph 13. are present .

Issue 4: This proposed FSP would require that the portion of an impairment recognized in other comprehensive income for held-to-maturity securities be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset (that is, an entity would not be permitted to adjust the fair value of a held-to-maturity security for subsequent recoveries in the fair value of the security similar to the accounting for available-for-sale securities). Do you agree with this requirement?

We do not agree with this requirement. We believe this requirement adds unnecessary additional complexity to the other-than-temporary impairment model providing very little benefit to the users of the financial statements. We suggest limiting the loss recorded for an other-than-temporary impairment on held-to-maturity securities to the credit loss portion of the impairment.

Issue 5: Is the proposed effective date of interim and annual periods after March 15, 2009, operational?

We believe the proposed effective date will be operational for some, but not all entities and suggest an effective date of interim and annual periods ending after June 15, 2009 with earlier application permitted for interim and annual periods ending after March 15, 2009.

Additional Comments

Objective

Paragraph 1 of the proposed FSP states the objective of other-than-temporary impairment. This objective was not previously stated in existing U.S. generally accepted accounting principles (GAAP). We believe the objective as written in the proposed FSP does not adequately explain how current other-than-temporary impairment is applied. The proposed FSP states the objective "is to determine whether the holder is likely to realize some portion of the unrealized loss on an impaired security." FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, states in paragraph 16 " if it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred." "Likely" and "probable" have different meanings, and the balance of the proposed FSP uses "more likely than not." To provide consistency and avoid confusion, we believe the objective stated in the proposed FSP, the changes to paragraph 14 of FSP FAS 115-1 and FAS 124-1 and paragraph 16 of FASB Statement No. 115 should all use "more likely than not".

Presentation

We believe the proposed presentation of the entire impairment loss less the noncredit-related losses on the face of the income statement is unnecessary and recommend such presentation be included in the footnotes to the financial statements.

Other Suggestions

The addition of paragraph 18A to FSP FAS 115-1 and FAS 124-1 requires entities to disclose the methodology and "key" inputs used to measure the portion of the total impairment that relates to credit losses. We recommend that "key" be changed to "significant" to be consistent with language used in FASB Statement No. 157, *Fair Value Measurements.*

The proposed FSP is inconsistent in that it sometimes refers to the holder of the securities as the "entity" and at other times as the "investor". We suggest the term "entity" be used consistently throughout the FSP when referring to the holder of the securities.

We would be pleased to respond to any questions the Board or its staff may have about any of the preceding comments. Please direct any questions to either Jay D. Hanson (952-921-7785) or Jolene M. Hart (952-921-7735).

Sincerely,

McGladrey & Pullen, LLP

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