TOFIAS PC

July 3, 2008

Via e-mail

Mr. Russell G. Golden
Chairman of Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Re: EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement"

Paragraph 7 of this matter states “That credit enhancement is obtained for the benefit of the investor and does not represent and asset of the issuer.” This does not seem to ring true to me. Credit enhancement is commonly purchased by issuers when the benefit that they expect to gain through lower interest costs is higher than the higher interest cost they would expect to incur over the life of the instrument; in other cases it is purchased when an issuer cannot go to the market on their own. Entities regularly capitalize the costs associated with these policies and amortize them over the life, so I believe that users do view this as an asset. Thus the proposal to look at the debt without the effect of the enhancement raises a question in my mind about how issuers should evaluate the future benefit associated with the enhancement. In the case of a fixed rate debt, the issuer got the benefit of the lower rate on when issued and thus the price paid for the enhancement would seem to have continuing value even though pricing of the issue in the market may have eroded, so it would seem unfair to adjust value when if fact the issuer is getting the benefit of the lower rate that they bargained for. On the other side of the coin in the case of a variable debt where the credit enhancement is no longer causing the issuer to get lower rates, the question in my mind is whether or not the asset associated with the enhancement is impaired even though the fair value of the debt instrument will tend to be around face assuming the market is not pricing in a higher default risk. It seems to me that the substance is that these factors are in fact once consideration relative to fair value rather than separable as proposed. Perhaps I am blurring the issues here, but it does seem that the recommended accounting could create some strange financial reporting outcomes if people elect fair value here.

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