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January 15, 2009

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

LETTER OF COMMENT NO. 26

File Reference: Proposed FSP FAS 107-a

Dear Mr. Golden:

Deloitte & Touche LLP is pleased to comment on proposed FASB Staff Position No. FAS 107-a, "Disclosures About Certain Financial Assets: An Amendment of FASB Statement No. 107" (the "proposed FSP").

While we support the efforts of the Board to work closely with the International Accounting Standards Board (IASB) and other standard setters to simplify and improve the accounting standards for the reporting of financial instruments, we do not support issuance of the proposed FSP as currently drafted. As discussed in detail below, we believe that for many entities, particularly those with calendar year-ends, there is insufficient time to provide the proposed disclosures required by the proposed FSP's effective date. In addition, the proposed FSP does not clearly state its objectives or provide a basis for why such disclosures are needed.

Effective Date

Much of the information needed for compliance with the proposed FSP's disclosure requirements is not readily available to entities and, therefore, preparing the proposed disclosures will be time-consuming for them. For example, many entities do not prepare information about the pro forma income statement impact of using hypothetical measurement attributes or collect incurred loss information for debt securities. In addition, this reporting season, preparers of financial statements already have been tasked with compiling much additional information to comply with newly effective disclosure requirements, such as those in FSP FAS 140-4 and FIN 46(R)-8[1] and FSP FAS 133-1 and FIN 45-4.[2] Furthermore, preparers have been adjusting their systems to abide by new standards effective in fiscal periods ending March 31, 2009, such as Statements 160[3] and 161.[4] We are concerned that because of the timing of the final FSP and the work required to comply with it, many entities will find it difficult to fully and accurately implement the proposed FSP's requirements. In addition, we are

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[1] FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities."

[2] FASB Staff Position No. FAS 133-1 and FIN 45-4, "Disclosures About Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161."

[3] FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements.*

[4] FASB Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133.*

concerned that entities will not have enough time to develop sufficient internal controls over the preparation of the proposed disclosures and that auditors will not be able to adequately assess the newly developed internal controls. Consequently, if the FASB decides to issue the proposed FSP as a final standard, we believe that at a minimum the effective date should be deferred.

Objective

Even if the effective date of the proposed FSP is deferred, we do not support finalizing the proposed FSP as currently drafted because we do not believe it states a clear objective and a basis for why disclosures under alternative measurements are needed. If the FASB's objective is for the disclosures to illustrate the income statement impact of alternative measurement attributes or impairment models, the proposed FSP's disclosures do not achieve this goal because they do not illustrate the income statement effect and the carrying values of **all** financial assets had they been classified differently (e.g., debt securities, equity securities, or receivables measured at fair value with changes in fair value recognized in earnings), nor do they show the effect on impairment losses of applying different impairment loss models (e.g., incurred loss amounts disclosed for receivables would be subject to Statement 5,[5] whereas similarly disclosed amounts for debt securities would not). In addition, we are concerned that the proposed FSP will require entities to incur substantial costs to compile, maintain, and report the information required by the proposed FSP, even though users of financial information apparently have not specifically requested such information regarding impairments of financial instruments or indicated how the proposed disclosures would benefit them.

Many of the roundtable discussions on the credit crisis in November and December 2008 focused on how to determine the most appropriate impairment model for investments in debt securities that are classified as available for sale or held to maturity under Statement 115.[6] Several discussions centered on the complexity of having multiple models for debt securities, which differ from the impairment model for loans and receivables (which are economically similar to debt securities). We believe that reducing the complexity caused by having multiple impairment models for similar financial instruments should remain a priority (i.e., the FASB and the IASB should determine the most appropriate measurement model for similar financial instruments) and that proposing "as if" disclosures does not appropriately address this issue. Consequently, the Board should consider the wider issue of what an impairment loss represents, namely, when an impairment should be recognized and how it should be measured.

This letter includes two appendixes. In Appendix A, we respond to the questions posed by the FASB in the proposed FSP's Notice for Recipients. Appendix B contains our other comments and editorial suggestions for the proposed FSP.

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[5] FASB Statement No. 5, *Accounting for Contingencies*.
[6] FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Deloitte & Touche LLP appreciates the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact John Sarno at (203) 761-3433.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

APPENDIX A
Deloitte & Touche LLP
Responses to Notice for Recipients

Issue 1: Do you believe that requiring disclosure of different reporting measurement attributes (that is, as reported in the statement of financial position, at fair value and at the incurred loss amount) for certain financial assets within the scope of this proposed FSP would (a) improve the quality of information provided to users of financial statements and (b) increase the comparability of financial statements under U.S. generally accepted accounting principles (GAAP) and IFRS? Why or why not?

We do not believe the proposed FSP improves the quality of information to users of financial statements because the proposed FSP's scope is limited to (1) debt instruments classified as either held to maturity or available for sale and (2) loans and long-term receivables that are not measured at fair value with changes in fair value recognized through earnings. We question why the proposed FSP's scope does not extend to **all** financial assets and believe that because of this limitation, users of financial statements would receive information that is incomplete and potentially misleading.

In addition, we believe that the objective of the proposed FSP must be clear and address how it responds to the information needs of users of financial statements. We do not believe the proposed FSP's objective is clear as currently drafted. If the FASB intended to illustrate how net income and the carrying value of financial assets would have differed had an entity made different classification decisions, then excluding financial assets that are measured at fair value with changes in fair value recognized in earnings is not consistent with this objective.

Further, we believe the use of the term "incurred loss" as discussed in paragraph 15F of the proposed FSP's Appendix prevents comparable disclosures for debt securities and loans and, therefore, may (1) be misleading to preparers and users of financial statements and (2) conflict with the FASB's objectives if the FASB intended the FSP to present similar instruments on the same basis. That is, the proposed FSP suggests that the incurred loss amount for debt securities classified as held to maturity or available for sale is "the present value of expected future cash flows discounted at the security's effective interest rate (consistent with FASB Statement No. 114)." However under Statement 114,[7] in addition to the present value of expected future cash flows, an entity may measure loans using a practical expedient based on its observable market price, if available, or the fair value of the collateral if the loan is collateral dependent. In addition, if a loan is not specifically identified as impaired, the loan may still be included in a pool of similar loans for which an estimate of an impairment is evaluated under Statement 5. Consequently, under the proposed FSP, an entity may disclose an incurred loss amount for debt securities classified as held to maturity or available for sale that is based on a present value of expected future cash flows, whereas the incurred loss amount for a loan may be based on a present value of expected future cash flows, an observable market price, the fair value of collateral, or an estimate of an allowance under Statement 5. In addition, sometimes an incurred loss might be reported under Statement 114 even though no impairment loss would be recognized under Statement 115. That is, situations may occur in which expected cash flows have decreased, but fair value is not below carrying value, such as if expected cash flows and market interest rates both decline, resulting in a decrease in the present value of expected future cash flows discounted using the security's effective interest rate, but also resulting in a fair value that equals or exceeds the cost of the

[7] FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* — an amendment of FASB Statements No. 5 and 15.

security. We believe that users of financial statements could be confused or misled if an incurred loss for a debt security is disclosed for which no impairment loss is required to be recognized in the financial statements.

In addition, once an impairment is triggered, the interest income recognition models for debt securities and loans are not the same, which could result in the disclosure of different amounts for debt securities and loans. In turn, differences in the carrying amounts disclosed could potentially affect impairment conclusions in the future.

Lastly, we do not believe that the proposed FSP would result in comparable treatment under U.S. GAAP and IFRSs, because the impairment models in the existing literature are different. As mentioned above, we support the efforts of the Board to work closely with the IASB and other standard setters to simplify and improve the accounting standards for reporting financial instruments, including impairment models.

Issue 2: Do you agree that the proposed disclosures should not include financial assets measured at fair value in the statement of financial position with changes in fair value recognized through earnings? If not, would you propose including such financial assets within the scope of this proposed FSP? Should financial assets measured at the lower of cost or fair value (such as mortgaged loans) be included within the scope of this proposed FSP? Why or why not?

As stated above, the intended objective of the proposed FSP is not clear to us, nor is how it responds to the information needs of users of financial statements. Accordingly, we do not support the proposed FSP as currently drafted because we cannot determine whether excluding financial assets measured at fair value with changes in fair value recognized through earnings meets the intended objective of the proposed FSP.

Issue 3: Do you believe that requiring disclosures of the pro forma income from continuing operations (before taxes) for financial assets within the scope of this proposed FSP as if those financial assets were carried (a) at fair value with changes in fair value recognized through earnings and (b) at the incurred loss amount with changes recognized through earnings would improve financial reporting? Why or why not? Should the disclosure requirements described in the preceding sentence also be required for net income and shareholders' equity? Why or why not?

We do not believe that requiring disclosures of the pro forma income from continuing operations (before taxes) for financial assets within the scope of the proposed FSP at fair value and at the incurred loss amount (i.e., "as if" disclosures) would improve financial reporting. Also, we do not believe the pro forma information should be required for net income and shareholder's equity. Moreover, we believe that compiling the pro forma information will present operational challenges for preparers of financial statements. That is, entities will be required to maintain a separate set of records to capture the pro forma information apart from the records required for the preparation of the financial statements.

It is also unclear to us whether the Board intended that the pro forma disclosures would incorporate the indirect effects of measuring financial assets under different measurement attributes on income from continuing operations, net income, and shareholders' equity. Examples include the impact that (1) pro forma income from continuing operations and net income may have on compensation plans, (2) measurement of financial assets under different measurement attributes may have on hedging

relationships, and (3) measurement of debt securities at an incurred loss amount (pursuant to Statement 114) may have on interest income recognition.

Issue 4: Would including separate reconciliations of reported income from continuing operations (before taxes) to the proposed pro forma adjusted income from continuing operations (before taxes) under both a fair value basis and an incurred loss basis for financial assets within the scope of this proposed FSP be useful? Why or why not?

We do not currently support requiring reconciliations between alternative classification assumptions. To provide a meaningful reconciliation, an entity would need to disaggregate fair value gains and losses. We believe the FASB would need to conduct additional research before such an approach is mandated to ensure that relevant and comparable information is obtained. For example, the Board would need to decide to what degree, and on what basis, fair value gains and losses should be disaggregated. It would also need to consider whether and how fair value gains and losses should be disaggregated between movements in the risk-free interest rate, movements in credit spreads, liquidity spreads, etc. We believe that the FASB would need to better understand the different management techniques used in practice for disaggregating fair values, as well as the information needs of users of financial statements.

Issue 5:Do you believe the provisions of this proposed FSP should be effective for interim and annual reporting periods ending after December 15, 2008? Why or why not? Do you believe that the disclosures in this proposed FSP should be provided on a comparative basis for subsequent periods after initial application of the proposed FSP? Why or why not?

We believe the proposed effective date may not provide sufficient time for many entities, particularly those with calendar year-ends, to prepare their necessary disclosures fully and accurately. For many entities, much of the information required to meet the proposed disclosure requirements is not readily available. The amount of work needed to prepare these disclosures is significant. As previously mentioned, preparers of financial statements already have been tasked this reporting season with compiling the information necessary for the additional disclosure requirements pursuant to a number of new FASB standards. In addition, we are concerned that entities will not have enough time to develop sufficient internal controls over the preparation of the proposed disclosures, and that auditors will not have enough time to assess the newly developed internal controls. Consequently, if the FASB decides to issue the proposed FSP as a final standard, we believe that at a minimum the effective date should be deferred.

Also, it is unclear to us whether the Board intended the proposed FSP's disclosures to be required for interim and annual periods. Paragraph 16 of the proposed FSP states, "[t]his FSP shall be effective for **interim and annual** reporting periods" (emphasis added); however, the current disclosure requirements in Statement 107[8] are only for annual periods. In addition, the IASB's proposed amendments to IFRS 7 only apply to annual periods. Paragraph 44G of the IASB's proposed amendments to IFRS 7 states, in part, "An entity shall apply paragraph 30A for annual periods ending on or after [December 15, 2008]." If the Board intended to require these disclosures for interim and annual periods, such intention may conflict with Statement 107's existing disclosure requirements. That is, the disclosures required by the proposed FSP would be applicable for certain financial assets for interim and annual periods, whereas the disclosures required by Statement 107 are for all financial

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[8] FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments.*

instruments within its scope for annual periods only. We suggest that the Board clarify whether the disclosures were intended to be included in both interim and annual reporting periods.

Further, if the Board intended to require these disclosures for both interim and annual periods, we believe the proposed effective date presents significant challenges for entities with noncalendar year-ends. For example, an SEC registrant with a June 30 year-end would need to file its second quarter financial statements 40 or 45 days after the second quarter that ended December 31, 2008. If the proposed FSP is issued as a final FSP on or around the end of January 2009, an entity would have approximately 10 or 15 days to prepare the disclosures it requires. Accordingly, as previously stated, we believe that at a minimum the effective date of the final FSP should be deferred.

Issue 6: Are all of the disclosures in this proposed FSP operational based on the proposed effective date? Why or why not?

As mentioned above, we do not believe that all the required disclosures of the proposed FSP are operational based on the proposed effective date. For example, many entities do not presently prepare information about the pro forma income statement impact of the use of hypothetical measurement attributes or collect incurred loss information for available-for-sale debt securities.

APPENDIX B
Deloitte & Touche LLP
Other Comments and Editorial Suggestions

Other comments on and suggested editorial changes to the proposed FSP are highlighted below (added text is underlined and deleted text is ~~struck-out~~).

Lease Receivables

The scope of Statement 107 excludes lease receivables under Statement 13,[1] but the scope of the proposed FSP does not exclude lease receivables. Further, in Example 4 of the proposed FSP's Appendix, the table includes a reference to "Loans and **lease receivables"** (emphasis added). The Board should provide specific clarification on whether the proposed FSP's requirements apply to lease receivables.

If the Board concludes that the requirements do not apply to lease receivables, the table in Example 4 should be revised as follows to only refer to loans receivable:

Loans ~~and lease~~ receivables	150[(c)]	80	150

Example 4

Footnote (a) in Example 4 of the proposed FSP's Appendix states, "[T]he incurred loss amount for each individual security or loan would be recognized under Statement 114. An entity shall not also estimate an allowance for a pool of similar securities under Statement 5." We believe the FASB should clarify the footnote by indicating that it only applies to securities, because it seems to contradict paragraph 11 of the proposed FSP and paragraph A1's amendment that adds paragraph 15F to Statement 107, which state that an entity shall disclose the carrying amount of its loans or receivables on the basis of its existing accounting policy under Statement 114 and Statement 5. In addition, securities are not within the scope of Statement 114; therefore, the incurred loss amount for securities would not be recognized under Statement 114. Accordingly, the footnote should indicate that this measurement is as if Statement 114 was applied.

That is, footnote (a) should not apply to the whole column but rather only to the debt securities in the column and should therefore be revised to state:

(a) For purposes of this disclosure, entities should only estimate the incurred loss amount for each individual security ~~or loan that would be~~ as if recognized under Statement 114. An entity shall not also estimate an allowance for a pool of similar securities under Statement 5.

Loans Receivable

Paragraph 11 of the proposed FSP, and paragraph A1's amendment that adds paragraph 15F to Statement 107, seem to indicate that an entity's existing accounting policy for reporting the carrying amount of its loans and receivables may only fall under Statement 114 or Statement 5. We believe that

[1] FASB Statement No. 13, *Accounting for Leases.*

the FASB should clarify that an entity's existing accounting policy may be affected by other accounting literature (e.g., SOP 03-3[2]).

[2] AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.*