

LETTER OF COMMENT NO.



ETTER OF COMMENT NO. 249

Meghan Clark; Wade Fanning; Joe Vernuccio; Diane Inzano; Russell Golden

Subject: FW: File Reference: Proposed FSP FAS 157-e, FAS 115-a, FAS 124-a, and EITF 99-20-b.

From: Aberdeen, Jeff [mailto:Jeff.Aberdeen@CommerceBank.com]

Sent: Sunday, March 29, 2009 1:36 PM

To: Director - FASB

Subject: File Reference: Proposed FSP FAS 157-e, FAS 115-a, FAS 124-a, and EITF 99-20-b.

## Members of theBoard:

I am commenting on proposed FASB Staff Position FAS 157-e, "Determining Whether a Market is Not Active and a Transaction is Not Distressed", and proposed FASB Staff Position FAS 115-a, FAS 124-a, & EITF 99-20-b, "Recognition and Presentation of Other-Than-Temporary Impairments", both issued for public comment on March 17, 2009.

## FSP FAS 157-e

While the purpose of trying to improve definitions how to determine fair value in destressed markets is important, I believe that this new proposal adds a new level of complexity, new terms, and new uncetainties that need to be corrected.

- While step 1 in paragraph 11 does a reasonably good job of further describing conditions indicating when
  markets are not active, the whole idea of defining when markets are inactiveand transaction are not
  destressed is very hard to understand, not a clear concept and one that I believe will lead to numerous
  interpretations, thus adding to the uncertainty of this pronouncement. It's not clear to me that this is an
  improvement to the existing FAS 157 gudiance.
- Step 2 as outlined in paragraph 13 is also very hard to understand, especially the idea in (a) about there being "...sufficient time before the measurement date to allow for the usual and customary marketing efforts..." Given that this is trying to further clarify such situations as valuing non agency mortgage back securities which are very thinly traded, this has not clarified at all just how we are to view the market for these securities or whether a market like this should be considered inactive or active.
- To make this standard workable, further clarification should be made, examples further clarified etc. As is, the guidance is complicated, hard to understand and fraught with unexpected consequences.
- Imbedded in the standard is the idea that the use of level 3 models will increase greatly in valuing such
  things as mortgage backed securities. The idea that if the securities are considered distressed and markets
  are inactive, (such as possible the non agency mortgage backed market) then a person would be
  precluded from using a pricing service, which would be very bad and create an impossible situation for
  many smaller banks. Models for valuing securities are very complicated to prepare, very time consuming

and only the very largest Wall Street banks would really have the technical expertise to do with accuracy. Hiring valuation experts to run the models each quarter for medium and small banks would be a huge burden and a costly one and is just not practical. Large regional banks today are already spending millions of dollars preparing numerous models to comply with curent fair value rules, smaller banks simply can not do this or afford this.

- You should consider modifying the rule so that use of models in place of pricing serivces is acceptable, but not required.
- In summary, this new standard is very complex, adds new concepts and ideas not previously discussed or
  part of existing guidance and will encourage more use of models which would be very hard and costly to
  do. I believe that the effective date of this FSP should be delayed and further reviewed as it needs much
  more work so that it is more clearly understood.

## FSP FAS 115-a FAS 124-a and EITF 99-20-b

This FSP is very helpful dealing with the problem of mortgage backed securities where the actual impairment due to credit loss is small but the the current market price of the security is unusually low (I have seen numerous examples of securities like this).

- I believe that this FSP will greatly improve the current guidance such that credit losses should be booked
  as a loss in the income statement while the actual market price (excluding credit loss) should be part of
  other comprehensive income. This will correct a long standing problem with the current OTTI rules that
  just did not contemplate the existing environment we are in today.
- 1 believe that it is very important that this standard be passed as soon as possible and make retroactive to the 1st quarter 2009
- I don't believe however that the provision whereby the gross market price loss should be included in the income statement and then a contra be shown immediately underneath on the income statement reflecting the non credit portion being back out and recorded to OCI, is appropriate or meaningful at all. This does nothing but confuse readers and serves no real purpose since the income statement effect will be only the credit portion anyway.
- As an example, a \$100 million, AAA originally rated, portfolio of non agency mortgage backed securities could likely have a market price of \$.60 on the dollar but a credit loss of \$500,000. The income statement impact according to the FSP will be to show a gross loss of \$40 million followed by a contra to this of \$39.5 million, thus reflecting the loss of \$500,000 in the income statement. This would be a very poor outcome, and disclosure in the income statement of the actual credit loss, which is real, gets lost by the larger numbers relating to the market price. If in adjusting OTTI guidance, the new guidance in essence permits only the credit loss to run through net income, then we should stick to this new rule and disclose only the credit portion in the income statement, not trying to gross up the income statement. Banks today already how the total market price in OCI so further disclosure in the income statement of the total loss seems unnecessary.
- Further disclosure as proposed on the OTTI charge and methods used to calcualtion seem reasonable as proposed.

Thank you for the opportunity to comment on these two proposals.

Jeffery Aberdeen, Controller CommerceBancshares, Inc.