

REQUESTS FOR COMMENTS

Introduction

The Board has directed the FASB staff to issue two proposed FASB Staff Positions: Proposed FSP EITF Issue 03-1-a, which provides guidance for the application of paragraph 16 of EITF Issue 03-1 to debt securities that are impaired because of interest rate and/or sector spread increases, and Proposed FSP EITF Issue 03-1-b, which delays the effective date of Issue 03-1 for debt securities that are impaired because of interest rate and/or sector spread increases.

The FASB staff invites comments on all matters in these proposed FSPs, particularly on the specific issues discussed below. Respondents are encouraged to comment on those issues and on any additional issues. It would be helpful if comments explain the reasons for the positions taken and include any alternatives the Board should consider.

Minor Impairments

Issue 1: The Board considered defining *minor impairment* as an impairment of 5 percent or less. Some Board members believe that minor impairments can be considered temporary without further analysis because normal interest rate and/or sector spread volatility is expected to eliminate a minor impairment. Some Board members disagree with defining *minor impairment* as an impairment of 5 percent or less because that definition embodies assumptions about the volatility of the applicable interest rate. Others prefer that the guidance not provide a “bright-line” test. For these reasons, the Board generally supported the notion that minor impairments can be considered temporary and did not support including either additional guidance or a numerical threshold to be used in determining whether an impairment is minor. Do you believe that financial statement preparers and auditors will be able to apply the notion of “minor impairment” without any additional guidance from the FASB? If not, do you believe that the Board should specify a numerical rule or threshold and, if so, what would that rule or threshold be?

Limiting the Notion of Minor Impairments to Debt Securities Evaluated for Impairment Pursuant to Paragraph 16 of Issue 03-1

Issue 2: The Board generally believes that it is appropriate to limit the notion of “minor impairments” that would not create the need for an ability and intent assertion to debt securities analyzed for impairment under paragraph 16 that are impaired because of interest rate and/or sector spread increases, since, absent a sale prior to recovery or maturity, such impairments will be recovered. Because the same cannot be said for debt securities that can be contractually prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost and equity securities, the Board generally does not support extending the exclusion to investments analyzed for impairment under paragraphs 10–15 of Issue 03-1. However, some Board members support expanding the notion of “minor impairments” to all investments analyzed under

Issue 03-1 because they acknowledge that normal price volatility may eliminate an impairment. Do you support the Board's conclusion to limit the notion of "minor impairments" to debt securities analyzed for impairment under paragraph 16 that are impaired because of interest rate and/or sector spread increases? If not, why?

Comment Period

The comment period for Proposed FSP EITF Issue 03-1-a ends October 29, 2004, while the comment period for Proposed FSP EITF Issue 03-1-b ends September 29, 2004. The shorter comment period for Proposed FSP EITF Issue 03-1-b is due to the need to delay the effective date of Issue 03-1 for interest-rate-impaired and/or sector-spread-impaired debt securities as soon as possible. The FASB staff encourages constituents to submit comments related to Issue 2 as soon as possible.

PROPOSED FASB STAFF POSITION

No. EITF Issue 03-1-b

Title: Effective Date of Paragraph 16 of EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments”

Comment Deadline: September 29, 2004

Background

1. The FASB staff has issued a proposed Board-directed FSP EITF Issue 03-1-a, “Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.”” The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely because of interest rate and/or sector spread increases and analyzed for other-than-temporary impairment under paragraph 16 of Issue 03-1.

FASB Staff Position

2. The Board has directed the FASB staff to delay the effective date for the application of paragraph 16 of Issue 03-1 debt securities that are impaired solely because of interest rate and/or sector spread increases. This delay of the effective date will be superseded concurrent with the final issuance of FSP EITF Issue 03-1-a.