

30 March 2009

Mr. Robert Herz,
Chair, Financial Accounting Standard Board
Financial Accounting Standard Board
401 Merritt 7
P.O Box 5116
Norwalk, CT 06865-5116

Re: Comment Letter on FSP-FAS 115-a, FAS 124-a and EITF-99-20-b: Recognition and Presentation of Other than Temporary Impairments (OTTI)

Dear Mr. Herz,

The CFA Institute Centre for Financial Market Integrity (CFA Institute Centre),¹ in consultation with its Corporate Disclosure Policy Council (CDPC)², appreciates the opportunity to comment on the FASB's proposed Staff Position FAS 115-a, FAS 124-a and EITF-99-20-b, *Recognition and Presentation of Other Than Temporary Impairments*. This comment letter is one of the two letters we are issuing in response to the package of financial instrument accounting amendments proposed by the Financial Accounting Standards Board (FASB) as part of its response to the credit crisis. The other letter focuses on FASB Staff Position FAS 157-e, *Determining Whether a Market is Not Active and a Transaction is Not Distressed*.

The CFA Institute Centre represents the views of its members, including portfolio managers, investment analysts, and advisors, worldwide. Central tenets of the CFA Institute Centre mission are to promote fair and transparent global capital markets, and to advocate for investor protection. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality. The CFA Institute Centre also develops, promulgates, and maintains guidelines encouraging the highest ethical standards for the global investment community through standards such as the *CFA Institute Code of Ethics and Standards of Professional Conduct*.

¹ The CFA Institute Centre for Financial Market Integrity is part of CFA Institute. With offices in Charlottesville, VA, New York, Hong Kong, Brussels and London, CFA Institute is a global, not-for-profit professional association of more than 94,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 131 countries, of whom nearly 83,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 136 member societies in 57 countries and territories.

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The Council is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the Council provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

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EXECUTIVE SUMMARY

Under current guidance in Statements 115 and 124 and related interpretations, a company is required to consider relevant factors in determining whether an impairment of a debt or equity security is considered to be other than temporary, and, if so, a loss is recognised in earnings. The FSP FAS 115-a, FAS 124-a and EITF 99-20-b would:

- Modify the criteria to assess whether a security is impaired on an “other than temporary basis.” The current criteria require management to assert 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 proposed criteria would require 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. The proposal would not change the requirement for management to consider the severity and duration of any impairment and the financial condition and near-term prospects of an issuer.
- Bifurcate other than temporary impairment losses into two categories: the amount of the impairment related to credit losses and other factors. The amount related to credit losses would be recognized in earnings and the amount related to other factors would be recognized in other comprehensive income.
- Require impairments recognized in other comprehensive income for held-to-maturity securities to 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 unless there is a subsequent other-than-temporary impairment that is recognized in earnings.

In our response to the FSP, we:

- State our concerns about the FASB flouting its own due process provisions. This move follows a similar amendment of EITF 99-20 and it is these precedents that we question.
- Reiterate our often expressed view that financial purposes are intended to provide useful information to investors. Regulators can, and in some instances do require accounting standards that help them perform their function. Nevertheless, regulatory requirements should not constrain the provision of information required for transparency to investors.
- Ask that the Board avoid piecemeal changes that effectively gut the transparent application of fair value measurement and instead focus on a comprehensive standard that would allow greater use of fair value so as to enhance the relevance of reported information about financial instruments and reduce the complexity of financial instrument accounting.

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- Raise the question as to whether the FSP's proposal of the new, negative assurance indicator for recognizing other than temporary impairments is any more operational than current requirements. It is not clear that a user/investor and an auditor can assess (1) the absence of an intent to sell a security prior to recovery and (2) whether it is "more likely than not" that the company will sell the security. The negative assurance only increases preparers' discretion to and likelihood of ignoring impairments.
- Raise concerns about applying the proposed impairment indicator to equity securities.
- Observe that the proposed amortization of impairment for non-credit losses for held to maturity securities distorts the information content of accumulated other comprehensive income (AOCI). The amortization approach **seems precise but is essentially arbitrary and with no economic meaning.**
- Only support the voluntary disclosure of bifurcated fair value impairments in the notes (i.e., split credit risk from other fair value components e.g., liquidity risk)-despite serious reservations about the ability of management to bifurcate the source of declines in fair value. We are not convinced that the Board has met the standard of benefits exceeding costs of the analytical work for bifurcation that would be required of management, users and auditors. We propose that this disclosure be made in the notes. We concurrently observe the importance of the financial statement project to improve the transparency of comprehensive income items and reduce the tendency to treat the comprehensive income statement as peripheral.
- Highlight a range of application and investor interpretation difficulties associated with attempting to split credit and liquidity risk components for measurement purposes.
- Propose appropriate interim measures including a range of disclosures to help users evaluate the extent to which financial statements faithfully represent the economic reality of the performance of investments held by financial institutions.

GENERAL COMMENTS

Due Process

We reiterate the concerns about due process contained in our comment letter in response to FSP 157-e. The absence of adequate due process and failure to provide the basis for conclusions when amending a standard that has been applied for 15+ years is contrary to the FASB's mission. It is incredible that such a significant change to current literature can be proposed without being rooted in a sufficient conceptual basis.

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It is true that investors have been requesting an improvement in current financial instrument accounting. However, the proposals in FSP 115-a, will cause a reduction in quality of existing accounting literature and they will likely yield less relevant information. Unfortunately, the proposals in this FSP are part of the recent trend of piecemeal changes based on rushed due process, an example being the amendments made to EITF-99-20. These recent changes are inconsistent with the long term goal of improving financial reporting transparency through the greater use of fair value for all financial instruments. The proposal would also increase (1) the complexity for all parties – preparers, auditors, and users and (2) costs without providing commensurate benefits.

We strongly oppose the Board’s response to modify the current indicator for considering an impairment to be other than-temporary. If the proposals are adopted on the accelerated timetable and with the limited due process anticipated, we believe the FASB will compromise its standing as an independent standard setter. We also believe these decisions would have adverse contagion effects as they are likely to be adopted by the IASB under the guise of “convergence”. It will fuel the race to the bottom that would be antithetical to the FASB’s stated precepts that underlie the fulfilment of its mission. Continuing on the path of politicised standard setting that caters for special interests, the Board would find it extremely difficult to maintain its credibility as an independent standard setter. The Board would find itself complicit in engaging in trial and error policy interventions that fail to balance stakeholder interests or to benefit from expert opinion. This hastily developed FSP cannot be characterised as best practice guidance.

Also troubling is that no basis for conclusions is provided to assist stakeholders in their evaluation of the alternatives considered by the Board and the reasons for selecting one approach while rejecting others. While some insight is provided by reading the dissenting opinions, the FSP fails to sufficiently convey the conceptual reasoning underpinning the Board’s final decision.

We are aware that affected parties often rally political intervention as a means to undermine the deliberative due process of accounting standards setting. That is the context of accounting standards setting. However, investors have been harmed in the past when the FASB has acceded to such pressure. We urge the Board not to accede to these political pressures again.

Finally, in light of the substantive complexity of the amendments to well-established and critical accounting literature, the 15-day comment period and 1-day comment analysis severely constrains the ability of constituents to develop comprehensive responses to the proposal, fails to ensure that affected constituents are sufficiently informed on all aspects of the proposal, raises uncertainties as to the depth of analysis or understanding of any constituent input received, and calls into question the quality of implementation that will occur.

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Overall Observations

Investments in debt and equity securities accounted for as available for sale, held to maturity, cost or equity methods are subject to OTTI tests. OTTI comprises a significant component of the write-downs of financial institution assets. For example, the SEC ‘study on mark to market accounting (page 92-93) notes that OTTI comprised the largest component of total impairment charges at 5% of total equity for the first 3 quarters of 2008.

Recommendation 4 of the SEC study proposes that the impairments for financial assets should be readdressed. As noted in the report, a large portion of financial institutions’ investment portfolios consist of securities that are classified as available for sale and loans reported at amortized cost, which are subject to challenging judgments that determine when such losses are reported in the income statement. Current financial instrument accounting includes a myriad³ of impairment approaches that require the subjective application of management judgment and thus result in the distortion in timing of recognition of fair value losses as well as loss of comparability. A study⁴ by Credit Suisse about OTTI that focused on 362 companies in the S&P 500 during 2007 showed that there was \$82 billion of unrealised losses relating to securities for which their fair values were lower than their amortised costs. This study shows the scale of uncertainty about when such losses are recognized in core earnings. Table 1 in the appendix shows the potential for significant OTTI charges in several key institutions based on the analysis of “available for sale” (“AFS”) securities with unrealised losses of longer than 12 months (i.e., underwater securities). For some institutions the potential OTTI loss exposure fell into the 28% to 40% range of tangible common equity.

OTTI is an accounting convention that has many flaws. In addition to subjective aspects of determining when to recognize losses, there is the asymmetrical treatment of gains and losses. The variation of loss to tangible equity ratios across institutions, shown in Table 1, could reflect the variation of asset quality for these institutions, but it could also be due to the inconsistent and subjective application of OTTI conventions.

As we have repeatedly stated, the adoption of fair value for all financial instruments is the best approach to reducing complexity of current financial instrument accounting, combined with improvements to financial statement presentation as we recommended in our Comprehensive Business Reporting Model (CBRM). In our 30 December 2008 comment letter, on FSP EITF Issue No. 99-20-a, we noted that:

- We strongly support the development and use of a single impairment model for financial assets until fair value is used to recognize and measure changes in such assets.

³ The SEC mark to market study identifies at least 4 approaches to impairment currently in application

⁴ In Search of Other Than Temporary Impairments- Credit Suisse-19th March 2008

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- CFA Institute strongly endorses a comprehensive project that would propose standards to require the use of fair value for all financial instruments with changes in fair values included in the determination of net income. Such a project would eliminate the need for subjective impairment evaluations. In light of the current economic climate, we believe that the FASB and the IASB should work diligently to complete such a project in the coming year.
- Impairment models are by their nature inconsistent with fair value financial reporting models. While impairment models may be temporarily acceptable for asset classes with severe measurement problems (e.g., goodwill and other intangible assets resulting from acquisitions), they are inherently subjective. Impairment accounting reduces comparability as different preparers may make different judgments even when economic facts are identical. Consequently, we believe that the standard setters should be seeking a comprehensive solution to the accounting for financial instruments rather than making patch-work changes to the impairment models for financial instruments that effectively move financial reporting away from fair value.

Regulatory capital determination and impairment

We reiterate our often expressed view that financial statements are intended to provide useful information for investors. Regulators can, and in some instances do require accounting standards that help them perform their function. Nevertheless, regulatory requirements should not constrain the provision of information required for transparency to investors.

The political pressure to amend the impairment rules emanate from the perceived link between impairment of assets and capital erosion. Capital erosion can occur because of a) real economic impairment, and b) flawed capital adequacy rules. The FDIC should be charged with providing capital relief by amending flawed capital adequacy rules.

COMMENTS ON PROPOSED AMENDMENT TO OTTI ELIGIBILITY INDICATOR: EFFECT ON RECOGNITION AND MEASUREMENT

Under current literature⁵, consideration of OTTI for debt and equity securities requires an assessment of the:

- intent and ability to hold to maturity,
- extent and severity of impairment, and
- financial condition and near term prospects of the issuer.

The alteration of the first indicator is based on the inaccurate premise that it will be more operational. The FSP does not articulate how the enhanced operational attributes would result from this alteration and thus there appears to be a quantum leap of logic in coming to this

⁵ FAS 115-a, FAS 124-a and EITF 99-00

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conclusion. It reduces the usefulness, relevance, comparability and quality of the accounting. The FSP merely asserts operationality and benefits rather than providing a conceptual basis for these characteristics.

It may have been a difficult judgement to determine intent and ability to hold a security to maturity. The proposed criteria are at least equally difficult to apply and in addition it has the pernicious effect of only increasing the probability and ability to avoid write-downs to fair value. The net effect is likely to be a significant relaxation of the impairment trigger requirements and, correspondingly, reduced frequency and quality of financial asset revaluations.

Treatment of equity securities

We are confounded by the proposal to apply the new impairment indicator to equity securities. Unlike debt instruments that have contractual cash flows, it is impossible to meaningfully assert that an equity security will recover to cost value. Hence the indicator is not operational for equity securities.

The proposal is counterintuitive and innately illogical to investors in the capital markets whose portfolios reflect the consequence of holding equity securities that have changed. The approach simply does not correspond to how investors routinely measure the value of their portfolios. It would require that no losses be recognized on equity holdings as long as investors do not intend to sell those securities prior to recovery. In the eyes of investors, the adoption of the proposed accounting approach will undermine the credibility of reported financial data as an input of assessing the economic condition of financial institutions.

In addition to these concerns, we believe that comparability will suffer (two companies holding a security may evaluate intent and the “more likely than not” criterion differently) over time, and within a company, successive managers may evaluate the criteria differently. We also believe that it is important to know the fair value regardless of intent. Consider a company that holds securities subject to this amended standard and meets the two criteria resulting in no recognition of a decline in fair value. Such a company overstates current income and may continue to carry an impaired investment that it will not divest resulting in lost opportunities to recoup (and potentially earn a higher future return) the losses by switching to a better, higher-returning investment. An investor needs to know this as well and has a right to be informed about a poorly-performing investment that management has opted to retain in order to obtain the dubious benefit of not reporting a decline in value that has occurred.

DISAGGREGATION OF CREDIT AND LIQUIDITY RISK LOSSES

The proposal addresses the calculation of OTTI charges for assets held as “available for sale” (“AFS”) and those “held to maturity” (“HTM”). The proposal suggests measuring impairment for such assets using fair value as is done currently, but separating any resulting price declines into two categories: credit loss and all other factors. Losses due to credit factors would be

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included in earnings, while losses due to other factors would be included in other comprehensive income. Credit losses would not be measured based on the market's assessment of credit deterioration, but would be rooted in an incurred loss approach reflecting only a portion of the impairment due to credit deterioration.

We are opposed to the proposed bifurcation and recognition of only the credit risk component of fair value losses through the income statement. In principle, the disaggregation of the risk factors that influence fair value including credit risk and liquidity risk should have information content for investors. However, that information content presumes that the measure assigned to the risk factors is derived from a market perspective. **As we understand the FSP, the loss reflecting the credit component will be based on management's assessment of incurred losses as opposed to a market-based measure of expected losses. As such, we see little incremental information being provided to the market by this "bifurcation." The separation of credit risk through recognition and measurement as proposed will reduce the overall quality of financial reporting information.**

Disclosure and Presentation

We would not oppose the voluntary disaggregation of credit and liquidity risk losses through disclosure in the notes when management believes that such disclosure would enhance understanding of their operations. No accounting standard is required to permit such disclosure—preparers have ample scope to include such disaggregation in Management's Discussion and Analysis of the Results of Operations and Financial Condition. **While we do not support the proposed bifurcation between credit and non-credit related losses, if the Board requires this reporting, it should concurrently require the disclosure of the methodology and assumptions used to derive each component of the total impairment loss.**

The proposed separate reporting of credit and liquidity risk losses also reinforces the importance of and need to implement the financial statement presentation project to ensure greater transparency of items included in AOCI. The pressure to separate changes in fair value into two components is a by-product of comprehensive income being seen as a peripheral statement relative to the income statement.

Amortisation of HTM non credit risk losses

The FSP would require that the portion of an impairment recognised in other comprehensive income for held to maturity securities be amortised 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.

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This proposal is flawed in many respects because:

- The proposed amortization simply expands the arsenal of approaches being provided to preparers to defer economic losses.
- It will further lower the information content of AOCI and constrain the interpretation of AOCI fair value losses as it will constrain users' ability to reconstruct the full fair value income effects.
- The reported amortized losses are likely to resemble pension expense actuarial gains and losses. **Similar to the difference between the actual return and the expected return, it is seemingly precise but essentially arbitrary and with no economic meaning.**
- With the current state of financial statement presentation, there is the likelihood of preparers obfuscating information content through inappropriate aggregation in AOCI. For example, they could aggregate HTM non-credit losses with AFS non-credit losses or simply aggregate with other AOCI items.
- It compounds the asymmetrical accounting shortcoming of OTTI where impairment reversals are ignored. The amortization approach spreads the effect of single period write down to multiple periods in the AOCI.

Effect on application and user Interpretation

Though the basic concept is explained in the draft FSP, the proposed separation of credit risk losses has the potential to distort the portrayal, and hence lead to misinterpretation by investors, of reported losses. We identify four areas where these could arise; these include: a) misstating the effect of a single risk factor on fair value, b) ignoring correlation of other risk factors with credit risk, c) assuming non-credit risk factors are transitory, and d) misinterpretation due to inconsistencies of impairment measurement basis.

a) Misstating impact of single risk factor on fair value

The proposal makes an underlying assumption that it is possible to price and segregate credit risk or credit losses from other factors affecting fair value. While there has been much academic research quantifying the effects of different factors on value, there is yet to be specified a model that reliably captures the impact of different factors on observed values. At best, existing models point to several contributing factors and estimate (with error) the effects they may have on asset prices. In the end, a single price is the observable result, and separating the underlying factors is error-prone.

b) Ignoring correlation of other risk factors with credit risk

The FSP would also misrepresent a financial institution's performance. It is worth noting that a financial institution's business model can, in part, be decomposed into different activities including asset/liability management, interest rate yield curve speculation and credit risk intermediation including origination, hedging and risk transfer activities. Amidst this range of activities, there is an interaction of credit, interest rate and liquidity risk factors and these interactions have an effect on the value of underlying financial assets and liabilities. Hence to include only the effects of credit risk losses in earnings would result in only a partial depiction of how well a financial institution is conducting its core business activities. In addition, this proposed presentation approach would result in a loss of transparency about whether and how these risk factors correlate.

Separating "credit risk" from "other factors" that contribute to an asset's fair value is complex as other factors may contribute to or be correlated with credit risk, resulting in an unclear distinction between factors traditionally thought of as credit risk and other factors, which raises questions of representational faithfulness as to the amount being presented as credit loss. Different factors that might contribute to, or be correlated with, credit risk include the following:

- Volatility risk. The events of the past several months have highlighted how volatile financial markets can be. Recent events also suggest that the correlation between stock price volatility and default risk can be high, especially during turbulent conditions. At a large number of financial institutions, stock prices became increasingly volatile before the institutions experienced credit issues (or would have, had they not received government assistance). Media coverage confirms that the increasing uncertainty surrounding these assets led to a flight of investment capital from the financial institutions, and ultimately to their financial distress.
- Illiquidity risk. Likewise, increased illiquidity may be an indicator of increased credit risk. Consider structured investment vehicles ("SIVs"), which in late 2007 experienced credit events due to deteriorating asset prices and structural characteristics. As investors became unwilling to "roll" the SIVs' commercial paper programs, the SIVs were unable to pay back the commercial paper holders, and were either subject to restructuring or had to be "bailed out" by their sponsors. In some sense, the elevated level of illiquidity may have caused the credit events for these vehicles.
- Tail risk. Some definitions of credit risk (especially in the context of corporate bonds) relate to "expected" cash flows. That is, any expected loss of principal (or even any contractual payments) would be considered credit loss. However, for some structured products (e.g., CDOs) and other high-leverage instruments, this definition may understate credit risk. For example, assume a corporate bond has an expected default

rate of 5% and an expected loss given default (“LGD”) of 20%. Then the expected loss might be stated as 1%. Consider a CDO with an expected default rate of 2%, but an expected LGD of 50%. The expected loss on this instrument might also be stated as 1%. However, the CDO has more credit risk than the corporate bond, and would likely be valued lower. The CDO exhibits “tail risk” if a default occurs, it is likely that investors will lose far more on the CDO investment than on the bond. This risk may be considered a component of credit risk.

c) *Assuming non-credit risk factors are transitory*

The FSP implies that credit risk is permanent while other factors are temporary and may reverse as the asset ages. Thus the FSP relies on the underpinning assumption that the adverse effect of liquidity risk on the realizability of cash flows of debt and equity instruments is transitory and confined to current market conditions. This overlooks the fact that current market indicators are the most objective indicators of likely future market condition risk premia, and thus provide a better basis to value financial instruments compared to the opinions of management that are likely to have an optimistic bias. Moreover, ignoring or assigning a lower prominence to the liquidity risk component of impairment does not reflect economic reality, which shows that the current crisis may have had an irretrievable and negative effect on the viability of certain structured debt products. Deferring the recognition of impairment losses related to liquidity risk is simply a deferral of economic losses and, therefore, a distortion in the portrayal of the pattern of value creation by financial institutions.

d) *Misinterpretation of credit losses due to the measurement basis*

As we understand the FSP, the loss reflecting the credit component will be based on management’s assessment of incurred losses as opposed to a market-based measure of expected losses. If an incurred loss model is applied, then estimates of loss would not capture asset classes whose fair value declines are thought to be driven by market participants’ expected future declines. Consider that commercial mortgage-backed securities (“CMBS”) values have dropped significantly over the past year, and even though delinquency rates have been rising, actual default experience is still low by historical standards. However, most market participants believe that at least a portion of the value decline is due to expected future credit losses.

Not only is the proposal difficult to develop in concept, but the nuances of estimating credit risk or credit losses make such an analysis extremely difficult and poses misinterpretation risk to investors.

If the intent of this proposal is to help synchronize the accounting standards for loans and bonds, we would instead suggest amending FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* and other related accounting standards that relate to accounting for loans. Specifically, we would advocate applying fair value accounting to loans, as the increased

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informational content disclosed to investors and regulators would serve to increase market transparency and the accounting treatment for loan investments would be brought closer to parity with the accounting treatment for bonds.

LIKELY CONSEQUENCES OF AMENDMENTS ON FINANCIAL REPORTING INFORMATION

The combination of these proposals is likely to lead to:

- Increased earnings management opportunities. There are lessons to be learned from disclosure of goodwill impairments. The findings in Table 1 could mirror the variation in asset quality for these institutions, but it could also be an indication of earnings management through inconsistent and subjective application of OTTI conventions. A study⁶ of the 50 largest US banks that used goodwill impairment as a proxy to judge management subjectivity, shows that despite the spate of acquisitions made during the credit bubble that generated goodwill, and despite a significant number of banks traded below their book value, the goodwill impairment appears understated (i.e. less than 10% in 30% of these banks).
- Increases in the probability of earnings surprises and restatements.
- Reduced comparability of financial statements due to greater subjectivity in the determination of impairments. The variation of the losses as a percentage of tangible common equity shown in Table 1 of the appendix shows that it is likely that there is wide diversity in the practice of impairment accounting and this will be exacerbated by the proposed changes.

PROPOSED INTERIM MEASURES

We are strongly opposed to both the modification of the indicator to test eligibility for OTTI and the bifurcation of impairment losses into credit risk and non-credit risk components. However, if these proposals are implemented, we would request the following disclosures:

- Additional impairment-related disclosures are imperative to enable investors to understand the changes in fair value and how those changes are being incorporated into earnings. These disclosures include:
 1. A roll-forward by detailed class of instrument (in at least the detail that current Statement 115 disclosures are provided), that identifies

⁶ Disclosure Insight: DI Report: Bank Goodwill Impairment Study, March 18th, 2009

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- i. the beginning balance of impaired securities (cost, credit loss recognized, other FV marks);
 - ii. Changes in each of the classes of instruments in the beginning balance, with any disposals, settlements or bankruptcies reported separately; and
 - iii. New impaired assets added during the period.
2. A tabular format by asset class showing the cash collected during the period on those assets separately identified by amounts for principal, interest, dividends, late fees, and other. This will help investors make judgments about the carrying value of such assets and the extent to which they are being realized in cash.
3. Regarding the ability to hold equity securities until they recover, investors should be informed of the time period that management envisions it will be necessary to hold these impaired securities until they are expected to recover their value.
4. The disaggregation of HTM from AFS impairment amounts and disclosure of unamortized fair value portions of HTM securities.

While not currently proposed in the FSP, we believe that there should be no provision in the transition to the FSP's guidance that would permit reclassification from held to maturity to AFS.

In addition, transition should be prospective only. Retrospective adoption to periods that have already ended should not be permitted. If retrospective adoption is determined to be preferable, it should not be optional. This FSP will substantively change measures of performance for all entities; electing which period its provisions are first applied undermines comparability.

CLOSING REMARKS

In conclusion, we believe that both hastily developed FSP proposals are primarily a result of political pressures and are not a faithful reflection of the outcome of other consultative processes related to the credit crisis such as the Financial Crisis Advisory Group (FCAG). Under these very difficult and testing circumstances, **CFA Institute would advise the FASB to act with the sound professional judgment that is required of an *independent, competent and accountable standard setter*. It is only on this basis that the FASB will safeguard its legitimacy, relevance and credibility in the eyes of investors.**

If you, other board members or your staff have questions or seek further elaboration of our views, please contact either Vincent T. Papa, CFA, by phone at +44.207.531.0763, or by e-mail at vincent.papa@cfainstitute.org, or Patrick Finnegan, CFA, by phone at +1.212.754.8350, or by e-mail at patrick.finnegan@cfainstitute.org.

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Sincerely,

/s/Kurt N. Schacht

Kurt N. Schacht, CFA
Managing Director
Council

/s/ Gerald I. White

Gerald I. White, CFA
Chair, Corporate Disclosure Policy

cc: Corporate Disclosure Policy Council

Hon. Harry Reid, Majority Leader
U.S. Senate

Hon. Christopher Dodd, Chairman
U.S. Senate Committee on Banking,
Housing and Urban Affairs

Hon. Timothy Geithner, Secretary
U.S. Department of the Treasury

Hon. Mary Schapiro, Chairwoman
U.S. Securities and Exchange Commission

Ms. Elisse B. Walter, Commissioner
U.S. Securities and Exchange Commission

Mr. James Kroeker, Acting Chief Accountant
U.S. Securities and Exchange Commission

Hon. Nancy Pelosi, Speaker
U.S. House of Representatives

Hon. Barney Frank, Chairman
U.S. House Committee on Financial
Services

Ms. Kathleen L. Casey, Commissioner
U.S. Securities and Exchange
Commission

Mr. Luis A. Aguilar, Commissioner
U.S. Securities and Exchange
Commission

Mr. Troy A. Paredes, Commissioner
U.S. Securities and Exchange
Commission

Michael Dunn, Acting Chairman
Commodities Futures Trading
Commission

APPENDIX 1

Table 1: Below is a list of available for sale items with unrealized losses of greater than 12 months.

\$ millions	Fair value-AFS under water>12 months	Underwater securities losses	After tax losses	% Losses (12 months)/ Tangible common equity
Citigroup	21,434	3,336	2,168	3%
Bank of America	17,037	4,459	2,898	8%
JP Morgan Chase	1,562	438	284	0%
Wells Fargo	5,298	4,188	2,723	9%
US Bancorp	9,649	2,184	1,420	20%
GE Capital	10,845	3,500	2,275	9%
AIG	92,368	19,986	12,991	28%
Fannie Mae	31,290	11,474	7,458	-20%
Freddie Mac	101,110	36,042	23,427	-39%

Source: 'The Analyst's Accounting Observer'