April 1, 2009

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

Dear Mr. Golden:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants is pleased to offer comments on the FASB's Proposed Staff Positions (1) FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments,* and (2) FSP FAS 157-e, *Determining Whether a Market is Not Active and a Transaction is Not Distressed*.

Accounting standards are a keystone of our financial reporting system and are designed to provide neutral, relevant, transparent information to those who rely on and make decisions based on that information. We appreciate that FASB operates in that spirit, which is one reason why we believe that accounting standards are most effectively set by the private sector FASB.

The current financial crisis highlights the challenges associated with the exit price notion (described in FASB Statement No. 157, *Fair Value Measurements*) in a market that is not active. We encourage the FASB to continue to refine fair value measurement guidance as application issues are identified, and to complete the other related fair value projects currently on its agenda.

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Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

Overall, AcSEC supports the issuance of this FSP. We offer the following comments for the Board's consideration.

- We believe equity securities should not be included in the scope of the FSP. The primary reasons we believe they should be excluded are (1) the changes proposed in the FSP related to including only a portion of the impairment of debt securities in earnings does not apply to equity securities and (2) the changes to the "intent and ability to hold" assertion, as discussed further below, has added significant confusion as to the Board's intentions. Further, the FSP should clarify whether perpetual preferred securities should be treated as debt or equity securities for purposes of this FSP.

- Paragraph A3 amends paragraph 15 of FSP FAS 115-1 to say that "in determining the amount of the total impairment related to credit losses the reporting entity shall use its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument." It further states that the measurement methodology in FASB Statement No. 114, *Accounting By Creditors for Impairment of a Loan*, is *one way* of doing that estimate. We believe that FASB should identify other appropriate methods if it intends that FASB Statement No. 114 is not the only methodology that could be used. Failure to do so in this FSP may lead to inconsistent application and further requests for implementation guidance. Also, we note that the FSP's description of the measurement of a decline in fair value attributed to an increase in the credit risk associated with an instrument may differ from a measurement of a credit loss under FASB Statement No. 114 due to widening credit spreads.

- There is substantial confusion regarding the intent and expectations of FASB proposing a “more-likely-than-not” test (as opposed to the current “intent and ability to hold” test) for determining whether an other than temporary impairment exists. For example, some believe the proposed language is a significant change that will have a great impact and substantially extend the period of time an impairment is considered temporary, while others believe the wording change is not meant to create a significant change in practice as compared to current requirements. We recommend that FASB clarify the intention of the proposed language as it relates to the current literature.

Proposed FSP FAS 157-e

Overall, AcSEC does not support the issuance of this FSP as it is constructed. We believe that the FSP’s *presumption* that transactions in a market that is not active are distressed is inconsistent with the objectives of the fair value measurements standard (FASB Statement No. 157), and the FSP may lead to measurements that ignore observable data and do not represent fair value. We are unable to reconcile the fair value objective in the FSP to the underlying exit price notion embedded in FASB Statement No. 157.

Further, even if the FSP eliminates the presumption, AcSEC believes the practical effects of the FSP could result in ignoring transaction prices in situations in which those prices might be the best representation of an exit price for purposes of measuring fair value. AcSEC also believes that if a level 3 measurement is necessary, the FSP should make clear the objectives of that measurement and illustrate how those objectives are achieved in the FSP example.

AcSEC also is concerned about unforeseen unintended consequences of this FSP. For example, we appreciate that one of the immediate concerns of those calling for this FSP relates to securities and financial instruments tied to mortgages. We are concerned that this FSP might lead to unnecessary, unforeseen accounting issues for financial assets that are not tied to mortgages.

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We appreciate the opportunity to comment on the proposed FSPs. As noted in the opening to this letter, the current financial crisis highlights the challenges with fair value measurements. The Board may wish to acknowledge that (a) the FSPs are designed to be temporary standards during a time of financial crisis and that ultimately these issues will be addressed by the Board in longer term, more comprehensive projects, (b) FASB will continue to address application issues as they develop, and (c) FASB will review the results of the changes from these FSPs in the coming months and years to assess whether they accomplished their objectives. The Board may also wish to explicitly acknowledge that all parties with a voice in the financial reporting system need to (1) support the professional judgments made in good faith by preparers and auditors as they implement and audit, respectively, fair value measurements and (2) invest sufficient resources to produce and verify credible valuation inputs and results. We also encourage the Board to conduct a series of web casts as soon as possible after the final decisions on the direction of these FSPs to assist all interested parties understand the implications.

We are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Jay D. Hanson

Jay D. Hanson
Chairman
Accounting Standards Executive Committee