



International Swaps and Derivatives Association, Inc.
360 Madison Avenue, 16th Floor
New York, NY 10017
United States of America
Telephone: 1 (212) 901-6000
Facsimile: 1 (212) 901-6001
email: isda@isda.org
website: www.isda.org

March 27, 2009

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

Re: Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments*

Dear Mr. Golden:

The International Swaps and Derivatives Association (“ISDA”) appreciates the opportunity to comment on the proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* (the “Proposed FSP”). ISDA members represent leading participants in the privately negotiated derivatives industry. Collectively, the membership of ISDA has substantial professional expertise and practical experience addressing accounting policy issues with respect to financial instruments.

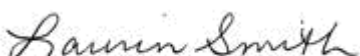
ISDA commends the Financial Accounting Standards Board (“FASB”) for its efforts to address the current issues related to the other-than-temporary impairment model for debt and equity securities within the scope of FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and EITF Issue No. 99-20, “*Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets.*” The Proposed FSP is a significant improvement of the current impairment model for debt securities, which never contemplated the significant disparity between fair value losses and credit losses resulting from the current credit crisis. The Proposed FSP greatly improves the relevance of the financial statements by aligning the impairment in earnings with the impairment in expected cash flows. The Proposed FSP also

provides sufficient transparency in the financial statements for noncredit-related impairments by requiring their recognition in other comprehensive income and by requiring separate presentation on the face of the income statement. Moreover the Proposed FSP will improve the operability of management assertions regarding investment security hold or sell decisions.

ISDA also strongly supports the proposal to require the reporting of credit losses only for securities incurring other than temporary impairments during the current period and expects that the current drafting of this requirement will be operational and feasible for preparers to implement without expending significant cost or effort. Lastly we commend the FASB for permitting preparers to apply the most relevant measurement for the particular asset class when measuring the amount of estimated credit losses as it would not be operational or useful to apply the same methodology for all of the different asset classes. We believe that the proposed disclosures required in paragraph 18A of FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments* (“FSP FAS 115-1”), for the methods and assumptions used to compute the credit loss amount will provide financial statement users with sufficient, decision-useful information necessary to understand the amount of judgment applied by an entity and the consistency with which different assumptions and methodologies are applied.

For the reasons described above, ISDA strongly supports the expeditious issuance of the Proposed FSP. In the paragraphs that follow, we have made certain recommendations for amplifying the consistency between the current requirements for identifying when an other-than-temporary impairment has occurred and the revised approach for recognizing other-than-temporary impairments reflected in the Proposed FSP. We hope you find ISDA’s comments informative and beneficial. Should you have any questions or desire any clarification concerning the matters addressed in this letter please do not hesitate to contact the undersigned.

Sincerely,



Laurin Smith
JPMorgan Chase & Co.
Chair, N.A. Accounting Policy Committee
International Swaps and Derivatives Association
212.648.0909

Paragraphs 12 and 13 of Proposed FSP

ISDA believes that the guidance in paragraph 12 of the proposed FSP is intended to apply to noncredit related impairments and that paragraph 13 is intended to apply to credit related impairments. However, the current drafting of paragraph 12 may be read to require recognition in earnings of the entire impairment amount for credit related impairments, which we understand is not the FASB's intent. Further, since the language in the first sentence regarding the assertion threshold to be met differs from the language elsewhere in the proposed FSP, we believe that confusion regarding the Board's intended assertion requirements may result. We also believe that the requirement to consider other applicable impairment guidance should be referenced in paragraph 12 and 13. We therefore have made conforming changes to paragraphs 12 and 13 [inserted text is underlined and deleted text is ~~stricken~~].

12. If a decline in fair value below the amortized cost exists at the measurement date for a debt or equity security and the entity intends to sell the security or it is more likely than not that ~~an~~ the entity will be required to sell the debt or equity security before recovery of its cost basis, an other-than-temporary impairment exists. In determining whether it is more likely than not that the entity will be required to sell the debt or equity security before recovery of its cost basis, the entity should apply applicable impairment guidance (for example, Statement 115, Staff Position FAS 115-1 and FAS 124-1, EITF Issue No. 99-20, and Opinion No. 18). If an other-than-temporary impairment exists because the entity intends to sell the security or because it is more likely than not that the entity will be required to sell the security before recovery of its cost basis, the entire amount of the impairment shall be recognized in earnings (or the "performance indicator"). The fair value of the investment would become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.

13. If a decline in fair value below the amortized cost exists at the measurement date for a debt security and it is more likely than not that an entity will not sell the debt security before recovery of its cost basis but it is probable that the investor will be unable to collect all amounts due according to the contractual terms of the security, the debt security shall be considered other-than-temporarily impaired. In determining whether it is more likely than not that the entity will be unable to collect all amounts due according to the contractual terms of the security, the entity should apply applicable impairment guidance (for example, Statement 115, Staff Position FAS 115-1 and FAS 124-1, EITF Issue No. 99-20, and Opinion No. 18). The amount of the impairment related to the credit losses shall be recognized in earnings (or the "performance indicator"). The amount of the impairment related to other factors shall be recognized in other comprehensive income (or shall be excluded from the "performance indicator"). The previous cost basis less the impairment recognized in earnings would then become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.

Changes to Paragraph 14 of FSP FAS 115-1

The amendment to paragraph 14 could be interpreted to limit the recognition of an other than temporary impairment to scenarios relating to the intent to sell a security prior to recovery, however, we recognize this is not the only circumstance when an other than temporary impairment may exist, and therefore recommend the edits below. [Inserted text is underlined and deleted text is ~~stricken~~]

b. Paragraph 14:

~~In applying that guidance, questions sometimes arise about whether an investor shall recognize an other than temporary impairment only when it intends to sell a specifically identified available for sale debt or equity security at a loss shortly after the balance sheet date. When an investor has decided to sell an impaired available for sale security and the investor does not expect the fair value of the security to fully recover prior to the expected time of sale, the security shall be deemed other than temporarily impaired in the period in which the decision to sell is made. However,~~ An investor shall recognize an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made. If the investor intends to sell a debt or equity security, or it is more likely than not that the investor will be required to sell the security before recovery of its cost basis, ~~a~~An other-than-temporary impairment of a debt or equity security has occurred if the investor intends to sell the security, or it is more likely than not that the investor will be required to sell the security before recovery of its cost basis.

Changes to Paragraph 15 of FSP FAS 115-1

The following recommended changes are intended to conform the description of the conditions for when an other-than-temporary impairment must be recognized in earnings in paragraph 15 a of FSP FAS 115-1 to paragraph 14. [Inserted text is underlined]

Paragraph 15 a:

- a. If the investor intends to sell the security or it is more likely than not that the investor will be required to sell a debt or equity security before recovery of its cost basis, an impairment loss shall be recognized in earnings (or the “performance indicator” of not-for-profit entities within the scope of the AICPA Audit and Accounting Guide, *Health Care Organizations*) equal to the entire difference between the investment's cost and its fair value at the balance sheet date of the reporting period for which the assessment is made, and fair value becomes the new cost basis of the security. No distinction is made between credit losses (if any) and other factors contributing to the loss.