UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF
THE CHIEF ACCOUNTANT

October 14, 2008

Robert H. Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Dear Chairman Herz:

The staff in the Office of the Chief Accountant (OCA) of the Securities and Exchange Commission (SEC) has received a number of inquiries about the application of U.S. GAAP in the current market conditions.

One particular accounting issue that has resulted in challenges to issuers, auditors, regulators and investors is how to assess declines in fair value for perpetual preferred securities (PPS) under the existing other-than-temporary impairment (OTTI) model in Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, ("Statement 115"). PPS securities are often structured in equity form but generally possess significant "debt-like" characteristics. For example, these instruments provide for periodic cash flows in the form of ongoing dividends, contain call features, are rated similar to debt securities and are priced like other long-term callable bonds. However, because these instruments are not required to be redeemed by the issuer, nor are they redeemable at the option of the investor, these securities are classified as equity securities under Statement 115. While Statement 115 provides guidance on the balance sheet classification of these securities, the standard does not specifically address the impact, if any, of the debt-like characteristics on the assessment of other-than-temporary impairment.

Given the hybrid nature of these investments and the uncertainty regarding this issue, OCA, after consultation with and concurrence of the FASB staff, has concluded that it would not object to an issuer, for impairment tests in filings subsequent to the date of this letter, applying an impairment model (including an anticipated recovery period) similar to a debt security. OCA would not object to this treatment provided there has been no evidence of a deterioration in credit of the issuer (for example, a decline in the cash flows from holding the investment or a downgrade of the rating of the security below investment grade) until this matter can be addressed further by the FASB.

OCA would expect an issuer to provide adequate disclosure about their PPS holdings in situations where the cost exceeds the current fair value as required by FASB Staff Position No. FAS 115-1/124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." Disclosure should include sufficient detail to allow investors to understand the information considered in reaching the conclusion that the impairment is not other than temporary and the factors considered in concluding that there was no evidence of credit deterioration in the PPS securities.

The views of OCA expressed in this letter are considered an intermediate step in addressing the practice issues that exist in the application of the OTTI model to PPS. Concurrent with the issuance of this letter, OCA has requested the FASB to expeditiously address issues that have arisen in the application of the OTTI model in Statement 115.

Further questions about these matters should be directed to James Kroeker, Deputy Chief Accountant (202-551-5360), or Paul Beswick, Deputy Chief Accountant (202-551-5364).

Sincerely,

Conrad W. Hewitt

Conrad Hewitt
Chief Accountant

cc: Sam Ranzilla, Chairman, Professional Practice Executive Committee,
Center for Public Company Audit Firms
Ed Yingling, President and CEO, American Bankers Association
Sir David Tweedie, Chairman, International Accounting Standards Board
Mark W. Olson, Chairman, Public Company Accounting Oversight Board