FHLBank ATLANTA
A FEDERAL HOME LOAN BANK

Richard A. Dorfman
President and
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November 26, 2008

Ms. Florence Harmon
Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

RE: File Number 4-573, Study of Mark-to-Market Accounting

Dear Ms. Harmon:

The Federal Home Loan Bank of Atlanta ("Bank") appreciates this opportunity to provide comments to the Securities and Exchange Commission ("SEC") regarding its 90-day study on mark-to-market accounting. The Bank supports the goal of providing users of financial statements with relevant, reliable, and transparent financial information.

Generally, we believe that mark-to-market accounting accomplishes this goal. However, when financial markets become dislocated and illiquid, fair value accounting's interaction with other accounting rules can have unintended consequences. This can result in misleading information, destruction of capital, and financial results that do not reflect the underlying transactions. These unintended results may be most pronounced when assessing other-than-temporary impairment in an illiquid market.

Other-Than-Temporary Impairment – A Real Life Example
One has to look no further than the Bank's Form 10-Q for the period ending September 30, 2008 for an example of how punitive the current accounting rules can be. Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* ("SFAS 115") requires a company to record a other-than-temporary impairment when it is probable that a company will be unable to collect all amounts due according to the contractual terms of a debt security.

During the third quarter of 2008, the Bank identified three securities in its held-to-maturity portfolio for which the Bank concluded it was probable it would incur credit losses at some point in the future. Total credit losses for these three securities are estimated to be $44,000 and are expected to first occur between 2025 and 2032. The fair value of these held-to-maturity securities has significantly declined due to illiquidity in the mortgage-backed securities markets. Because SFAS 115 requires the cost basis to be written down to the securities' fair value, the Bank recorded an other-than-temporary impairment charge of $87.3 million related to these three securities.

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The above example exposes the flaws in the current accounting model where fair value accounting interacts with a company's other-than-temporary impairment assessment. A relatively minor credit loss can result in a grossly disproportionate impairment charge. In an illiquid market, the securities' fair value generally does not reflect the economic value or "true" fair value of the investments. In the Bank's case, the third quarter impairment charge was nearly 2,000 times the estimated credit losses.

Simply Increasing Disclosures Is Not the Answer

Some have argued against changing current accounting rules. Rather, they say, merely increasing disclosure would provide the necessary transparency. This argument ignores the fact that the lending capacity and many other activities that financial institutions engage in are driven by capital, not transparent disclosures. Increasing financial statement disclosures does not address the facts that:

- Other-than-temporary impairment charges are often vastly disproportionate to economic losses.
- A significant amount of financial institutions' lending capacity is being diminished, not by economic losses, but by technical accounting rules.
- Subsequently, financial institutions are often forced to sell investment assets at distressed prices to raise funding. This ultimately further distorts fair values reported by other entities.

Recommendations

While not all-inclusive, the Bank believes the following recommendations would help reform some of the inconsistencies within the current accounting model:

- For held-to-maturity securities, modify the accounting rules for other-than-temporary impairment recognition to be more closely aligned with the discounted cash flow guidance found in Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan.* Doing so would better correlate the accounting treatment with the "true" economic losses and the nature of held-to-maturity securities.
- Allow for the recovery in fair value of previously impaired securities to be recognized as realized gains. This would align the other-than-temporary accounting model closer to fair value concepts and eliminate the downward bias in the current accounting model.
- Direct the Public Company Accounting Oversight Board to issue more specific audit guidance related to other-than-temporary impairment and fair value. In some instances auditors have advised companies to be more than conservative in their fair value methodology. More specific audit guidance would help provide a more consistent audit approach.

We appreciate the efforts the SEC is making related to this important matter and the Bank supports the SEC's efforts for complete and fair disclosures. The Bank relies on the global bond markets for funding and we make sincere efforts to provide investors with disclosures that are clear and transparent. However, as shown in the above example, the current accounting rules can have serious, unintended consequences which are not representative of the Bank's results of operations and capital position. This results in presenting the financial markets with information that is inherently misleading and which can be misinterpreted.

Thank you for the opportunity to comment on the subject. Because of current market conditions, it is very important that new guidance be issued prior to December 31, 2008. If you wish to discuss this matter further, please do not hesitate to contact me at (404) 888-8482.

Sincerely,