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Mr. Lawrence Smith
Director, TA&I – FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 58
File Reference: EITF03-1A

Re: Proposed FASB Staff Position EITF 03-1-a

Dear Mr. Smith:

U.S. Central Credit Union (U.S. Central) appreciates the opportunity to comment on FASB Staff Position EITF 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*" (FSP 03-1-a or the "proposed FSP").

U.S. Central is a wholesale corporate credit union providing investment and financial products to its 29 member corporate credit unions. U.S. Central and its corporate credit union members comprise the Corporate Credit Union Network which provides investments and financial products and services to the nations 9,400 natural person credit unions. U.S. Central, as a liquidity provider to the Corporate Credit Union Network, manages an investment portfolio of approximately \$35 billion. The size of this investment portfolio fluctuates daily reflecting the net inflows and outflows of cash within the Corporate Credit Union Network as it meets the liquidity needs of the credit union system. U.S. Central is concerned that application of the proposed FSP is likely to result in unintended adverse consequences for the Corporate Credit Union Network and for financial institutions in general.

It is U.S. Central's position that the proposed FSP should specifically limit the requirement of an investor to assert the intent and ability to hold securities in unrealized loss positions until recovery to those situations where the decline in market value below cost is caused by severe credit deterioration. Specifically, we believe that EITF 03-1, as interpreted, is inconsistent with provisions of Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115) and that recognition of other-than-temporary charges for declines in market value caused by changes in market interest rates or sector spreads would result in inappropriate matching of interest income with associated funding costs for financial institutions.

In Paragraph 82, SFAS 115 clearly allows for the possibility that securities designated as available-for-sale can be sold in order to meet liquidity needs or as part of an entity's risk management program. This appears to indicate that the Financial Accounting Standards Board (the Board) intended to provide flexibility to sell available-for-sale securities. However, the requirement for an entity to represent its intent and ability to hold such securities until recovery of an interest-rate related unrealized loss (possibly to maturity) to avoid recording other-than-temporary charges means, effectively, that the securities can not be sold. This appears inconsistent with the intent expressed by the Board in SFAS 115.

In addition, one of the benefits of issuing SFAS 115 cited by the Board (Paragraph 97) was the elimination of Lower of Cost or Market (LOCOM) accounting for marketable securities. The Board specifically referred to such an accounting model as not "evenhanded" because only net unrealized losses are recorded and not unrealized gains. Because other-than-temporary charges under SFAS 115 would not be reversed when decreasing interest rates cause securities to regain value, recording other-than-temporary charges for interest-rate related unrealized losses essentially establishes a form of "permanent LOCOM" accounting, which appears less evenhanded than traditional LOCOM accounting. Again, this appears inconsistent with the Board's intent as expressed in SFAS 115.

Beyond the apparent inconsistencies with SFAS 115, U.S. Central questions the validity of recording other-than-temporary impairment charges at all when the decline in market value below cost is not caused by severe credit deterioration, particularly in the cases of financial institutions. U.S. Central, as a wholesale corporate credit union, purchases marketable securities funded by member share and certificate accounts. In general, unrealized losses on marketable securities resulting from fluctuations in market interest rates are offset by unrealized gains on member accounts (considered liabilities under GAAP), which are not reflected in U.S. Central's financial position under current accounting guidance. Recording interest-related impairment charges on marketable securities ignores completely the funding side of the balance sheet and leads, we believe, to improper matching of interest income and associated funding costs. For example, if a "pattern" of selling securities with interest-rate related losses were deemed to have occurred (thereby calling into question the investor's intent and ability to hold remaining securities in unrealized loss positions until recovery), significant impairment charges could be required under EITF 03-1. Assuming that the securities were not sold prior to maturity, the amount of the impairment charges would be recovered in earnings through increased interest margin in future accounting periods through normal accretion. We believe that this situation would understate earnings in the period in which impairment charges were taken and overstate earnings in all future accounting periods until the securities were liquidated.

In summary, we request that the proposed FSP limit the scope of Paragraph 16 of EITF 03-1 to address only impairment charges resulting from severe credit deterioration.