



THE ASSOCIATION of  
CORPORATE CREDIT UNIONS

*www.theaccu.org*

Letter of Comment No: 119  
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October 28, 2004

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

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

Dear Mr. Smith:

The Association of Corporate Credit Unions (“ACCU”) 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”).

ACCU is the primary trade association for the nation’s 30 corporate credit unions (“corporates”) located around the country. Corporates provide liquidity, investment products, payments settlement and other financial services to the nation’s federal and state-chartered credit unions.

It is ACCU’s position that the proposed FSP should specifically limit the requirement of an investor to assert the intent and ability to hold the 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 the EITF 03-1, as interpreted, is inconsistent with provisions of Statement of 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 (“AFS”) can be sold in order to meet liquidity needs or as part of an entity’s risk management program. This appears to indicate that FASB 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 cannot be sold. This appears inconsistent with the intent expressed by the Board in SFAS 115.

Regarding the issue of minor impairments, we believe the auditors and financial statement preparers will be able to apply the notion of “minor impairment” without any additional guidance from the FASB. Although, we do believe a threshold of 5% is too low based on historic trends a threshold around 10 % would be more appropriate. Security pricing can experience potential volatility over time and if the threshold is too low it may inadvertently reflect a temporary rather than a long-term change.

When it comes to extending the “minor impairment” to securities under Issue 03-1, we believe FASB should not be limited to just securities in paragraph 16. It should be extended to all investments. All securities, especially those with prepayments will experience potential volatility due to changes in interest rate and/or spread increases on a temporary basis. Paragraph 10 securities values also fluctuate in a similar manner as those in paragraph 16; therefore they should have the “minor impairment” rule.

More important than applying or not applying the “minor impairment” rule, ACCU believes that EITF 03-1 represents an amendment to FAS 115 with regards to the circumstances when an “other-than-temporary” (OTT) write-down must be recognized in earnings. Under EITF 03-1, a company is required to record an OTT write-down if it might sell an impaired security. It is our understanding that under FAS 115, a company is not required to record an OTT write-down as long as it does not plan on selling the impaired security at the reporting date. This is a significant departure from the true OTT concept in FAS 115. Unfortunately, an accounting firm has already interpreted it to mean might sell.

As the securities in the AFS portfolio fluctuate in value, a decline in fair value below the price originally paid means some securities will become impaired.. Typically, if the decline is solely due to changes in interest rates, no impairment charge needs to be made if a company asserts that it has the ability and intent to hold the security for a sufficient period of time to allow for recovery of fair value up to or beyond the cost of the investment. Rather, the value fluctuations of AFS securities are recorded as unrealized gains and losses directly in equity, in an account known as accumulated other comprehensive income (“AOCI”). However, corporates periodically sell some of these impaired securities in order to manage their businesses, and it is not uncommon for them to change their intentions regarding some AFS securities when considering ALM or hedging strategies in light of changes in the market, economy or other predictable factors.

It is because of the sometimes rapidly changing balance sheets of corporates that ACCU advocates for the maximum degree of flexibility for its members. To continue to meet the liquidity needs of its member credit unions as well as ensure regulatory capital

requirements are met, flexibility in investment decision-making is not only needed but required.

The selling of impaired securities seems to be the triggering event for much of the confusion surrounding what we perceive to be a misapplication of EITF 03-1. Many financial institutions are being told by their auditors that the sale of impaired securities will likely lead to a determination that the entire portfolio is “tainted”, because the financial institution appears to have developed a pattern of selling securities for which it previously asserted that it intended to hold until full recovery. We are concerned about the ambiguous meaning that is being attributed to the word “pattern” in this context. This new approach not only threatens the ability of a financial institution to “change” intentions of an “available for sale” security, it would take away much of the flexibility needed to adjust financial strategies to compensate for unanticipated market forces. ACCU believes the EITF needs to reevaluate what constitutes a “pattern” when selling below market value securities and better define when such a pattern would warrant the remainder of the portfolio being declared “tainted.”

For the reasons stated above, we believe that the entire EITF 03-1 should be put on hold until the significant questions generated by varying interpretations can be addressed through public comment.

Very truly yours,



Michael F. Canning, Esq., CAE

Executive Director

Association of Corporate Credit Unions