

October 29, 2004

Letter of Comment No: /3/ File Reference: EITF03-1A

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

RE: FSP EITF Issue 03-1-a

Dear Mr. Smith:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I am responding to the Financial Accounting Standards Board request for comment on Proposed FSP EITF Issue 03-1-a, which provides guidance for the application of paragraph 16 of EITF Issue 03-1 to debt securities that are impaired because of interest rate and/or sector spread increases.

EITF Issue 03-1 provides guidance on the meaning of the phrase other-than temporary impairment and its application to several types of investments, including debt securities classified as held-to-maturity and available-for-sale under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. Paragraph 16 of Issue 03-1 provides separate guidance with respect to determining whether an investment that cannot be prepaid is other-than temporarily impaired. EITF Issue 03-1-a clarifies that a minor impairment caused by interest rate and/or sector spread increases can be considered temporary and will not create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery.

Specifically, FASB has requested comments on whether financial statement preparers and auditors will be able to apply the notion of a "minor impairment" without any additional guidance from FASB. NAFCU agrees that minor impairments can be considered temporary without further analysis because normal interest rate and/or sector spread volatility eliminates the impairments. NAFCU does not support defining a minor impairment by creating a bright-line test as NAFCU feels a bright-line test could create artificial assumptions about the volatility of the interest rate. The degree of volatility is relative to the characteristics of the security and the institution's asset-liability management practices. However, NAFCU does support FASB providing guidance and

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examples of minor impairments for different types of securities, in order to achieve uniform compliance with the standard.

NAFCU also supports the position that there are circumstances that do not call into question the investor's ability or intent to hold securities to recovery when the investor has sold another security that it had previously asserted its ability and intent to hold to recovery. There could be unexpected changes in liquidity needs of the credit union, or unexpected increases in interest rates that would require a credit union to divest itself of certain securities, but not all securities in a portfolio. NAFCU believes this type of portfolio management should be permitted to continue without fear of a "taint" on the entire class of securities.

NAFCU would like to thank you for this opportunity to share its views on the proposed guidance. Should you have any questions or require additional information please call me or Carrie Hunt, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 234.

Sincerely,

Fred R. Becker, Jr.

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President/CEO

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