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March 25, 2005

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5166

Letter of Comment No: 243
File Reference: EITF 03-1A

Mr. Lawrence Smith
Chairman of Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5166

Via E-mail: jerichter@fasb.org

Re: FSP EITF Issue 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"

Dear Mr. Herz and Mr. Smith,

On behalf of the Credit Union National Association (CUNA) and the Association of Corporate Credit Unions (ACCU), it is a pleasure to provide some additional commentary regarding this proposed FASB Staff Position (FSP) on the application of Paragraph 16 of Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments".

CUNA represents 90% of our nation's 9,300 state and federal credit unions. CUNA's Accounting Task Force, which is chaired by FASAC member Scott Waite, chief financial officer of \$3.5 billion Patelco Credit Union of San Francisco, provided input into this letter.



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Additionally, this letter incorporates contributions from Callahan & Associates, Inc. Callahan & Associates is a leading national credit union research and consulting firm specializing in financial publications and analysis software, strategic planning and investment management. A Callahan & Associates' subsidiary is also the general partner of a partnership of 40 credit unions that serves as Administrator of the \$2.2 billion Trust for Credit Unions, the first and largest family of mutual funds created especially for credit unions. Goldman Sachs Asset Management is the Trust's investment adviser and co-distributor along with Callahan & Associates' broker/dealer subsidiary.

Credit Union Investment Practices

Part 703 of the Rules and Regulations of the National Credit Union Administration (NCUA), the federal government agency that charters and supervises federal credit unions and insures savings in federal and most state-chartered credit unions across the country, defines permissible investments for federal credit unions. The overarching characteristics of permissible investments are high credit quality and high liquidity. The set of permissible investments consists mainly of debt securities issued or guaranteed by the U.S. Government and deposits in federally insured depository institutions.

Credit unions may invest in mutual funds only if the fund limits its holdings to securities in which credit unions are authorized to invest directly. Therefore, by definition, mutual funds in which credit unions invest feature high credit quality and liquidity of underlying holdings. As of the 9/30/04 reporting period, 718 credit unions hold nearly \$3.5 billion in mutual funds.

Summary of CUNA's Position

- We urge the Board to provide for a degree of acceptable "minor impairment" for mutual funds that consist solely of debt securities.
- In addition, we encourage the Board to adopt the more flexible qualitative approach to determining an acceptable amount of impairment in a particular portfolio of investment.
- If the board proceeds with changes to the rules, Board should provide an ample transition period as the changes could have a significant impact on the income statements of affected credit unions.
- We request the Board to allow a phase-in period as well as a grandfathering of assets.

Discussion of CUNA's Position

In light of the numerous interpretations of this issue and the tremendous attention this matter has received from the financial services community, we are extremely pleased that the Board has decided to provide clarity relative to the complex issues involved. Most of the contents of this FSP apply to investments covered under paragraph 16. We had an additional concern about an issue not covered under that paragraph which we address as follows:

Fixed-income Mutual funds

As explained above, credit union investments are limited to debt securities. We know of no case in which federal credit unions are permitted to invest in equity securities. Therefore, credit union investment in mutual funds represents indirect ownership of debt securities only, which are subject to price volatility related to changes in interest rates and sector spreads.

Credit unions classify mutual fund investments as "available for sale," capturing fluctuations in market value (positive or negative) in a distinct component of equity on the balance sheet. Therefore, the users of the credit unions' financial statements readily see an institution's net worth. If useful, Scott Waite is prepared to discuss the impact of this proposed treatment and provide specific examples.

EITF 03-01 stated that "investors should not 'look through' the form of their investment to the nature of the securities held by an investee. For example, an investment in shares of a mutual fund that invests in debt securities would be assessed for impairment as an equity security under this Issue." Requiring credit unions to treat bond mutual funds as "equities" would not, we believe, accurately reflect the facts, because the price volatility associated with bond mutual funds is in line with the volatility of bonds that credit unions hold directly and classify as available for sale. The accuracy and reliability of financial statements is not enhanced by mandating two different accounting treatments for direct and indirect investments in similar securities. We strongly urge you to reconsider that rule as it applies to mutual funds that consist of debt securities.

"Minor Impairment"

We are pleased that some Board members support expanding the notion of "minor impairment" to all investments analyzed under Issue 03-1 (to additional investments covered under paragraphs 10-15), acknowledging that normal price volatility due to such factors as changes in interest rates may eliminate impairment.

We were advised that at the September 8th Board meeting, Board member Schipper expressed a very reasonable opinion that debt securities deemed as "equity" investments can and do have "minor impairment" due to fluctuations in interest rates.

We cannot support the Board's conclusion to limit the notion of "minor impairments" to directly held debt securities analyzed for impairment under paragraph 16 that are impaired because of interest rate and/or sector spread increases. We would encourage the Board to provide for a degree of acceptable "minor impairment" for mutual funds that consist of debt securities.

Qualitative Approach

In addition, we would like to encourage the Board to adopt the qualitative approach to determining an acceptable degree of impairment in a particular portfolio of investments. Under the "bright line" test approach, a specific debt security might be "under water" more than a fixed percentage (such as 5%) and, therefore, cause the entire portfolio to be considered permanently impaired. In contrast, the qualitative approach allows for individualized determination of impairment of each security in the portfolio. Under this qualitative approach, each investment in a portfolio is allowed a measure of tolerance depending on its unique characteristics. We feel the flexibility provided in the qualitative approach is more appropriate.

Transition to Update Rules

If the board proceeds with changes to the rules, we would urge the Board to provide an ample transition period as the changes could have a significant impact on the income sheets of effected credit unions. We would also request the Board to allow phase-in period as well as a grandfathering of assets.

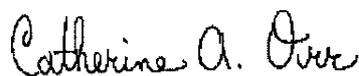
Thank you for the opportunity to comment. If you have any questions about this letter, please contact either of us at (202) 638-5777.

Sincerely,

Mary Mitchell Dunn



Associate General Counsel
Credit Union National Association



Catherine Orr
Senior Regulatory Counsel
Credit Union National Association