

January 15, 2009

Via email: director@fasb.org



Mr. Russell G. Golden
FASB Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5166

LETTER OF COMMENT NO.

File Reference: Proposed FSP FAS 107-a

Dear Mr. Golden:

Western Corporate Federal Credit Union (WesCorp) appreciates the opportunity to comment on the proposed FASB Staff Position FAS 107-a, *Disclosures about Fair Value of Financial Instruments.*

The proposed FSP unfortunately fails to address the fundamental issues of multiple impairment models for similar assets and the financial reporting distortions that are created when these multiple impairment models are applied in the unprecedented environment that exists today. This proposal does not, in our opinion, "expeditiously" address issues arising from the application of the impairment model in SFAS No. 115, as directed by the SEC in its letter to FASB on October 14, 2008. Rather, this proposal suggests that additional disclosure somehow solves the very real problems created by recording impairment losses through current losses far in excess of actual probable losses.

A recent example of the absurdity of results obtained under current guidance is highlighted in the third quarter financial statements of the Federal Home Loan Bank of Atlanta. For three held-to-maturity securities, they recorded other-than-temporary impairment charges through current earnings of \$87 million for expected credit losses of \$44 thousand, estimated to occur between 2025 and 2032. It is incomprehensible to suggest that this provides information to readers that even approaches a meaningful level, nor does it reflect the true economic condition of the FHLB as of the third quarter, since the securities in question will be held to maturity and not sold in the current distressed market. In addition, when earnings charges in excess of actual projected losses are recorded on securities, the investor needlessly impairs capital in the near term, only to reverse the excess charges in future accounting periods when the cash flows from the securities are received in the form of higher yields. How can anyone believe that recording a loss of \$87 million, in the real-life example above, is even

acceptable? We, as a profession, should be appalled when accounting guidance results in such gross misstatements.

We continue to believe that similar financial instruments, such as whole loans and securitized loans, should be subject to the same impairment model. In addition, we do not believe that fair value is the appropriate measurement for recording impairment in a distressed market, particularly when there is no intent to sell the assets. In those cases, the current fair value is not a meaningful measurement for recognition. We support the Center for Audit Quality's proposal of recognizing currently in income only those impairments representing probable losses of contractual cash flows, consistent with the impairment model for loans, which more closely represents losses that may actually be incurred.

The proposed FSP solution emphasizes form over substance. Regardless of what information is disclosed in the financial statements, investors will always give more weight to what is actually recorded in the financial statements rather than what is simply disclosed. Excessive losses that must be recorded through the statements of income will always appear to be more alarming compared to the same information disclosed in the financial statements, but not recorded. This type of distortion when caused solely by different impairment models is dangerous and misleading. The rules in effect unfairly penalize institutions that hold significant amounts of mortgage-backed securities when compared to institutions whose assets are composed primarily of loans. This does not result in any comparability between the financial statements of similar institutions even when the associated risk of loss may be the same. Additional disclosure does not solve these problems, particularly when one entity is forced to recognize losses based upon fair values that another entity is required to simply disclose.

Below are our responses to the questions raised in the FSP:

- 1. No. SFAS No. 157 already requires the disclosure of fair value for all financial instruments. Requiring such new disclosures is not necessary and provides little value.
- 2. Including financial assets already measured at fair value through earnings would add little value. Entities already may voluntarily elect to disclose estimates of projected incurred losses on these assets and have a strong incentive to do so, particularly if their intent is to hold until a recovery in values.
- 3. No. Stating an earnings number as if all assets subject to this proposed FSP were carried at fair value is irrelevant and misleading. Even the flawed mixed-model approach used for impairment recognition acknowledges that some declines in fair value are appropriately not recorded in earnings. Today's fair values represent fire sale or liquidation prices, in many cases, and there is still a premise that financial statements are prepared as if an entity is a going concern.

4. No. Such pro-forma information is not useful or meaningful, nor would any reconciliation be meaningful.

5. No. This proposed FSP is not needed, does not solve the fundamental issues and should not be finalized. Rather, meaningful changes to the impairment framework for securities should be made to allow for a true measure of losses to be presented in earnings.

6. Investors in debt securities should have reasonable estimates of net realizable value for assets in their portfolio. As such, the changes to the impairment model for debt securities proposed throughout this document and suggested by numerous respondents, as well as the Center for Audit Quality are feasible and operational.

We appreciate the opportunity to comment on this issue. If you should desire any further clarification on our opinions or wish to discuss any of the points raised herein, please feel free to contact Jim Hayes, Chief Financial Officer or myself at (909) 394-6300.

Regards,

Laura J. Cloherty Laura J. Cloherty, CPA

Vice President, Controller