

# Federal Farm Credit Banks Funding Corporation

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January 15, 2009

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: Proposed FSP FAS 107-a

LETTER OF COMMENT NO. 2.2

Re:

"Disclosures about Certain Financial Assets: An Amendment of FASB

Statement No. 107"

### Dear Director:

On behalf of the Banks and Associations of the Farm Credit System (System), we welcome the opportunity to express the System's views with respect to the proposed FASB Staff Position on disclosures about fair value of financial instruments.

## Background Information about the Farm Credit System

The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Through its five Banks and 93 Associations, the System provides sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. The Associations are cooperatives owned by their borrowers, and the Banks are cooperatives owned by their affiliated Associations or principally owned by cooperatives and other eligible borrowers. As of September 30, 2008, the System's combined assets totaled \$208 billion, with \$157 billion of the assets consisting of net loans, and liabilities of \$180 billion, with \$159 billion of the liabilities being Systemwide debt obligations that are publicly traded.

The comments that follow are the result of consideration of issues related to the disclosure requirements proposed by the FASB Staff. Some System institutions may be submitting comments separate from this letter in order to address specific issues not discussed or to clarify or emphasize positions expressed herein.

# **General Comment**

We agree with the goal to increase the comparability of information about certain financial assets that have related economic characteristics but have different reporting measurement

attributes. However, we do not believe the proposed FSP, as currently written, achieves that goal.

We believe it is unreasonable for the FASB to put forth this FSP that would be effective for interim and annual reporting periods ending after December 15, 2008. There has not been sufficient time for management of each System institution to fully evaluate the disclosure requirements and the availability of the data needed to comply with the proposed disclosure requirements. In addition, we combine financial information from nearly 100 entities. To comply with the increased disclosure requirements, we would need to develop guidance for our entities that would promote and ensure consistency of application. Simply put, there would not be adequate time to comply with these requirements for the year ended December 31, 2008.

# Comments on FASB Proposed Questions

The following comments relate to the issues as set forth in the proposed FSP:

Issue 1: Do you believe that requiring disclosure of different reporting measurement attributes ... would (a) improve the quality of information provided to users of financial statements and (b) increase the comparability of financial statements under GAAP and IFRS?

We believe disclosure of different reporting measures for certain financial assets may improve the quality of information provided by reflecting the current market's required return (fair value) and the required return of the bank (incurred loss amount) on the same assets, assuming the returns for the entity are, generally, the contractual terms of the asset. This type of disclosure would indicate the performance of invested resources, even in dislocated markets, and hence the prudence, or lack thereof, of management's investment of those resources. However, we remain unconvinced that the benefit of providing this information exceeds its cost in markets that are not in dislocation or otherwise inactive/illiquid.

Issue 2: Do you agree that the proposed disclosures should not include financial assets measured at fair value in the statement of financial position with changes in fair value recognized through earnings? ... Should financial assets measured at the lower of cost or fair value be included within the scope of this FSP?

We agree that the proposed disclosures should not include financial assets carried at fair value with changes in fair value recognized through earnings. Since the assets would already be at fair value, there would be no point in showing the incurred loss amount because it should be the amount recorded in earnings.

Issue 3: Do you believe that requiring disclosures of the pro forma income from continuing operations for financial assets within the scope of this proposed FSP as if those financial assets were carried (a) at fair value with changes recognized in earnings and (b) at the incurred loss amount with changes recognized through earnings would improve financial reporting?

No. We do not believe pro forma income from continuing operations should be required. Given the proposed tabular disclosure, a reader could perform those pro forma calculations themselves if needed.

Issue 4: Would including separate reconciliations of reported income from continuing operations to the proposed pro forma adjusted income from continuing operations under both a fair value basis and an incurred loss basis for financial assets within the scope of this FSP be useful?

No. Given the proposed tabular disclosure, this information would be readily determinable if considered useful.

Issue 5: Do you believe the provisions of this proposed FSP should be effective for interim and annual reporting periods ending after December 15, 2008? Do you believe that the disclosures in this proposed FSP should be provided on a comparative basis...?

No. We do not believe the provisions of this proposed FSP should be effective for December 31, 2008. Gathering the relevant incurred loss estimates could involve time constraints for many year-end filers who are already stretched thin during this time of year.

Issue 6: Are all of the disclosures in this proposed FSP operational based on the proposed effective date?

The proposed effective date is not reasonable and the additional disclosures proposed in numbers two, three and four above need to be fully vetted for relevancy to determine whether they truly improve financial reporting.

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We appreciate this opportunity to respond and hope our comments prove useful to the Board. If you have any questions with respect to the contents of this response, please call me at (201) 200-8071.

Respectfully,

H. John Marsh, Ir.

H. John Marsh, Jr. Managing Director -Financial Management Division