



Credit Union National Association

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December 30, 2008



LETTER OF COMMENT NO. 267

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

RE: Amendments to the Impairment and Interest Income Measurement  
Guidance of EITF Issue No. 99-20

Dear Mr. Golden:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's) proposed staff position *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20*, EITF 99-20-a. By way of background, CUNA is the largest credit union trade organization in this country, representing approximately 90 percent of our nation's 8,200 state and federal credit unions, which serve approximately 92 million members. Our letter was developed in coordination with CUNA's Accounting Task Force, chaired by Scott Waite, who is a member of the Financial Accounting Standards Advisory Council.

### Summary of CUNA's Views

- CUNA generally supports this proposed FASB Staff Position (FSP).
- We fully support the Board's underlying objective of increasing consistency in determining whether other-than-temporary-impairment (OTTI) of a security has occurred.
- However, we feel that EITF 99-20-a does not go far enough in addressing certain problems with OTTI models.
- Overall, we are encouraged by this FSP and believe holders of securities covered by EITF 99-20 will benefit from these proposed changes in the current dislocated market, but we believe its long-term effects are less certain.



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- The general topic of impairment testing and measurement should be addressed as quickly as possible. This includes the subject of recognizing only a credit loss component versus recording performing assets at fair value when there is an intent and ability to hold them, particularly in dislocated markets. In these instances, impairment should be recognized in the amount of the probable loss of contractual cash flows. This approach would more closely align with the model developed by the International Accounting Standards Board.

### **Discussion of CUNA's Views**

As noted in FSP EITF 99-20-a (*this FSP*), U.S. Generally Accepted Accounting Principles currently include two different models for determining whether an available-for-sale or held-to-maturity debt security is other than temporarily impaired -- either EITF 99-20 or Statement No. 115 (FAS 115).

Under EITF 99-20, impairment is based on an evaluation of whether there are any adverse changes in the estimated cash flows that a market participant would use in determining the current fair value. Alternatively, FAS 115 classifies impairment as other-than-temporary if it is probable that the investor will be unable to collect the entire amount due according to the contractual terms of the debt security. In both cases, impairment is recorded based on current fair value and cannot subsequently be reversed based on future changes in cash flows.

FSP 99-20-a will shift the determination of impairment from market participants' assessment of cash flows to management's assessment. In so doing, FSP 99-20-a will allow impairment testing to be identical with FAS 115 for determining the impairment amount of a security. Because EITF 99-20 dictates accounting treatment for lower credit quality securitized transactions, including residential and commercial-backed securities, FSP 99-20-a will likely prevent the marking down of many of these securities to the lower fair value. CUNA supports this change and believes it will, at least in the short-term, have a positive effect on the books of those holding these securities in this dislocated market. Additionally, we believe the international model of impairment testing offers the advantage of greater simplicity, and we encourage the Board to consider adopting it as soon as possible.

As noted above, once a security is determined to be other-than-temporarily-impaired, both FSP 99-20-a and FAS 115 require it to be written down to fair market value. Our recent letter to the Securities and Exchange Commission (SEC) addressed our concerns that OTTI models require securities to be written down. This is an issue we also encourage FASB to address as expeditiously as possible.

Lastly, we commend the Board for adding "Recoveries of OTTI" to its agenda in an effort to address the probability of recovering previous other-than-temporarily-impaired securities. We plan to comment on this and other scheduled proposals in the coming weeks.

Thank you for the opportunity to express our views on this important proposed Staff Position regarding the recognition of impairment. If you have questions about our letter, please do not hesitate to give Senior Vice President and Deputy General Counsel Mary Dunn or me a call at 202-508-6743.

Sincerely,

A handwritten signature in black ink that reads "Luke Martone". The signature is written in a cursive style with a horizontal line extending from the end of the name.

Luke Martone  
CUNA Regulatory Research Counsel

cc: Mr. Scott Waite, Patelco CU SVP-CFO