

SHITE 100 9701 RENNER BLVD

LENEXA, KANSAS 66219 Tel: (913)227-6000

TOLL FREE: (888)872-0440 FAX: (913)438-1564

WWW.USCENTRAL. COOP

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 06856-5116

LETTER OF COMMENT NO.

46

File Reference: Proposed FSP FAS 107-a

Dear Mr. Golden:

U.S. Central Federal Credit Union ("U.S. Central") appreciates the opportunity to comment on the proposed FASB Staff Position FAS 107-a, *Disclosures about Fair Value of Financial Instruments* (the "FSP").

U.S. Central is a wholesale corporate credit union providing investment and financial products and services to its 26 member corporate credit unions. U.S. Central and its corporate credit union members comprise the Corporate Credit Union Network, which provides investments and financial products and services to the nation's more than 8,000 natural person credit unions. U.S. Central, as a primary liquidity provider to the Corporate Credit Union Network, manages a balance sheet of approximately \$40 billion. We have addressed the six questions specifically posed by the Board in the FSP at the end of this letter. First, we will provide our proposed solution in response to the SEC's directive to the FASB to solve the problem of multiple impairment models.

The Problem

The underlying problem is that there are a number of impairment models under GAAP, and the application of each can result in widely divergent answers.

The SEC directed FASB to "expeditiously" address issues arising from the application of the impairment model in SFAS No. 115 in its letter dated October 14, 2008. In addition, in its report to Congress on December 30, 2008, the SEC states, "The Staff recommends that the FASB reassess current impairment accounting models for financial instruments. The evaluation should consider the narrowing of the number of models that currently exist in U.S. GAAP." It went on to say, "During the course of our study, the accounting

Mr. Russell G. Golden January 15, 2009 Page 2 of 4

for impairment was identified as one of the most significant areas of necessary improvement."

Excerpted directly, with emphasis added:

One of the most significant concerns expressed in this area is the fact that under existing U.S. GAAP, there are multiple sets of impairment rules for financial instruments. The model applied often depends on the characteristics of the financial instrument at the date of acquisition, and the models are not always consistent with the reporting of impairments for other non-securitized investments (such as direct investments in mortgage loans). In the absence of uniform accounting treatment for impairments, investors are provided with information that is not recognized, calculated or reported on a comparable basis.

Further, the treatment of impairments for investments under U.S. GAAP is not consistent with the reporting of impairments under IFRS. U.S. GAAP also requires that once an impairment is recorded, future increases in value (e.g., when the market price recovers) cannot be reported in income until the security is sold. IFRS currently requires, for certain investments, the recognition of increases in value in income when prices recover. The Staff believes that a reconsideration of impairment standards should also include a reconsideration of this preclusion.

Further, the Staff notes that the Boards have already initiated efforts to address this concern.

The development of a single model addressing the accounting for impairments could reduce the complexity and increase the comparability of financial statements. The FASB should evaluate the need for modifications (or the elimination) of current OTTI guidance to provide for a more uniform system of impairment testing standards for financial instruments. While there are a number of alternative models that the FASB should consider, several commenters have suggested the development of a model that would require recognizing impairments through income related only to credit losses (calculated on an incurred loss basis consistent with impairments on loans), while the remaining decline in fair value of an investment (the portion that is not related to incurred losses) would be recognized in OCI. The Staff believes that this model has the potential to provide investors with both fair value information as well as transparent information regarding the cash flows management expects to receive by holding investments, rather than through accessing the market currently. That is, such a model would appear to help bridge the gap between the current fair value and the value expected from holding investment positions until markets return to normal liquidity levels.

Mr. Russell G. Golden January 15, 2009 Page 3 of 4

Proposed Solution

The FASB has chosen to address the clear SEC directive in small steps—the changes to EITF 99-20, the disclosures proposed by FSP 107-a, and future plans to look at OTTI reversals and loan accounting. But the FASB could have taken more decisive action that is already supported through dozens of letters filed with FASB and the SEC.

It would require the FASB to acknowledge that recording impairment losses through earnings beyond actual projected losses does not make sense. The proposal put forth by the Center for Audit Quality to only recognize impairments related to credit losses through income (described in the SEC report, above) and supported by numerous other comment letters, would be acceptable.

An even more straightforward approach would be to amend the SFAS No. 115 impairment model for debt securities to allow for the write-down of securities determined to be other-than-temporarily impaired to net realizable value – consistent with the impairment model for loans. The fundamental principles underlying ownership of loans and debt securities are the same: an up-front investment in exchange for the right to receive defined principal and interest cash flows over time.

In both cases, there is some risk to the investor that full repayment will not be made. For loans, SFAS No. 114 requires that a reserve be established for amounts deemed uncollectible. But if circumstances change, the reserves can be adjusted up or down. (If OTTI were based on net realizable value, and adjusted up or down, the future project to reconsider the preclusion of OTTI reversals would be unnecessary.)

However, for debt securities, SFAS No. 115 requires impairment to be recorded down to fair value, which currently results in a larger earnings charge due to SFAS No. 157 exit value pricing. Because 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 as payments are received, thereby misstating financial results for several periods.

There is no better example of this senseless destruction of capital under current GAAP than found in the third quarter 10-Q of the Federal Home Loan Bank of Atlanta. For three held-to-maturity securities, they had to take OTTI charges of \$87 *million* for expected credit losses of \$44 *thousand*, estimated to occur between 2025 and 2032—a misstatement of the true economic results by a multiple of nearly 2000. Many more financial institutions, including U.S. Central, will face this disparity when the books are closed for 2008.

Specific Responses to the Six Questions

1. No. SFAS 107 already requires the disclosure of fair value for all financial instruments. In this badly dislocated market, net realizable value exceeds fair

- value, often by a significant amount. Holders of distressed assets already have great incentive to provide estimates of projected incurred losses so as to clarify for readers of their financial statements the entity's true economic position. Requiring such disclosures is not necessary and provides little tangible value.
- 2. Including financial assets already measured at fair value through earnings would add little value. As addressed in item 1 above, entities could voluntarily elect to disclose estimates of projected incurred losses on these assets, and have strong incentive to do so if their intent is to hold the assets despite their classification as trading or held-for-sale.
- 3. No. Stating an earnings number as if all assets subject to this proposed FSP were carried at fair value is equally irrelevant and inflammatory. Even the flawed mixed-model approach to impairment recognition acknowledges that some declines in fair value should not be recorded in earnings. Why require entities to publish pro-forma earnings numbers that will almost certainly direct readers' attention away from management's expressed intent and focus it instead on a liquidation scenario? There is still a premise that financial statements are prepared as if the entity is a going concern. Such "multiple choice" options for earnings in the footnotes would be a source of confusion, not clarification, to financial statement readers. It would be better to record a true net income, by recognizing only credit losses—in other words, writing securities down to net realizable value—when recording other-than-temporary impairment on debt securities which the investor intends to hold to recovery or maturity. The fair value of all financial assets is already a required disclosure under SFAS No. 107 and can be accessed if a reader elects to make adjustments to published net income.
- 4. No. Because the pro-forma earnings disclosures are not useful, reconciliations to published net income also are not needed.
- 5. No. This proposed FSP is not needed 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 are operational. Because this FSP provides little value and should not be finalized, the effective date is not of consequence.

We may be reached at 913-227-6000 if you have questions.

Kathryn E. Brick

Senior Vice President and Chief Financial Officer

kbrick@uscentral.coop

Kury EBuch

Doug Hoelscher Vice President-Finance dhoelscher@uscentral.coop

2