

March 25, 2009



Via Email: director@fasb.org

LETTER OF COMMENT NO.

35

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

File Reference: Proposed FSP FAS 157-e

Dear Mr. Golden:

Southwest Corporate Federal Credit Union ("Southwest Corporate") appreciates this opportunity to comment on the proposed FASB Staff Position No. FAS 157-e *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed* (the "Proposed FSP").

Southwest Corporate is a federally-chartered corporate credit union whose principal activity is to provide investment, financial and payment products to 1,500 federal and state-chartered natural person credit unions. Southwest Corporate manages a balance sheet of approximately \$11 billion, of which approximately \$4 billion is invested in marketable securities that are classified as available-for-sale. Southwest Corporate is a liquidity provider to natural person credit unions. As such, our investments are generally comprised of marketable securities instead of a portfolio of unsecuritized loans to individuals. Southwest Corporate is a buy and hold institution; however, we historically classify all securities as available-for-sale in order to fulfill our role as a liquidity provider.

The merits of fair value accounting utilizing exit-based pricing have been debated since the issuance of SFAS 157, *Fair Value Measurements*. As early as October 2007, accounting firms were addressing the impact of the illiquid market through the publication of *Measurement of Fair Value in Illiquid (or Less Liquid) Markets*. During the fall of 2008 multiple SEC and FASB round table meetings were held discussing the impact of fair value accounting. These meetings resulted in the publication of guidance from the SEC, *Clarifications on Fair Value Accounting* on September 30, 2008, and the issuance of FSP 157-3 *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* on October 10, 2008. One of the significant criticisms of the current guidance is the requirement to utilize a significant liquidity premium in a distressed market. Southwest Corporate considers that the issuance of this recent guidance as confirming the requirement to utilize a significant liquidity premium in

determining fair value. Valuation services utilize recent activity to determine this discount rate which is contrary to the concept of an orderly market with willing buyers and sellers. Auditors have relied on this matrix pricing as an indication of fair value as it is independent of the organization. The only trading that is actually occurring in the non-agency residential mortgage-backed sector is attributable to entities that have to sell securities in the current distressed market.

SFAS 157 clearly states that “a fair value measurement assumes that the asset or liability is exchanged in an *orderly transaction* between willing market participants.” It goes further to state that *it is not a forced transaction* (for example, a forced liquidation or distressed sell).

SFAS 157 also discusses how companies should calculate the fair value of an asset utilizing present value techniques. Method 1 of the expected present value techniques uses a risk-free rate and risk-adjusted expected cash flows; and Method 2 of the expected present value techniques uses a risk-adjusted discount rate and expected cash flows. The calculation should be influenced by the entity’s intention (hold or sell). This intention should significantly impact the discount rates that are used to value the securities.

FASB had the opportunity to correct this misapplication of SFAS 157 in October of 2008 when FSP 157-3 was issued. A majority of the comment letters discussed the negative impact of utilizing a significant liquidity premium in the valuation. However, the example that was used in the guidance reiterated the requirement to utilize a significant liquidity premium in the valuation. Due to the inclusion of a significant liquidity premium in FSP 157-3, companies have been required to utilize liquidity premiums associated with current limited trading activity even if they are distressed transactions. This is contrary to the guidance provided in the SFAS 157.

1. Is the proposed effective date of interim and annual periods ending after March 15, 2009, operational?

Southwest Corporate believes that FASB should permit a retroactive application of this guidance to December 31, 2008 financial statements. Entities that find retroactive application impractical could elect to apply the guidance on a prospective basis. SFAS 154 *Accounting Changes and Error Corrections* indicates that a change in accounting principle be applied as of the beginning of the earliest period for which retroactive application is practicable. A change in estimate is to be applied prospectively. The guidance in FSP 157-e is more than a change in estimate and is viewed as either a change in accounting principle or a correction of an error. FSP 157-e corrects FSP 157-3 which required a significant liquidity premium to be utilized. Allowing a retrospective application to financial statements would be a responsible action by FASB and would have a significant impact to financial reports. Southwest Corporate views retroactive application as critical.

2. Will this proposed FSP meet the project's objective to improve financial reporting by addressing fair value measurement application issues identified by constituents related to determining whether a market is not active and a transaction is not distressed? Do you believe the amendments to Statement 157 in the proposed FSP are necessary, or do you believe the current requirements in Statement 157 should be retained?

Southwest Corporate believes the proposed FSP is necessary and will improve financial reporting by addressing fair value in a distressed market.

Southwest Corporate believes that it is critical for FASB to further define an orderly transaction. The definition provided in the board handout on March 16 provides additional clarification. A clear definition of an orderly transaction should include the statement that an orderly transaction reflects all risks inherent in the asset, including a reasonable profit margin for bearing uncertainty that would be considered by market participants (that is, willing buyers and willing sellers) in pricing the asset in a non-distressed transaction. It was evident in the board discussions that inclusion of such language in the definition is the intention of the board and this would go a long way to dispel the notion of using a significant liquidity premium.

3. Do you believe the proposed two-step model for determining whether a market is not active and a transaction is not distressed is understandable and operational? If not, please suggest alternative ways of identifying inactive markets and distressed transactions.

Southwest Corporate believes the guidance is understandable and operational when the market is in an obvious state of distress. There is a lack of transparency, however, in the securities market for residential mortgage-backed securities and asset-backed securities. Readily available data sources such as Bloomberg do not provide information on historical trades in these sectors so it is difficult to document the level of trading and the actual price of the last trade. This information is available in the corporate bond market.

In a longer-term project, FASB should consider having only a Level 1 and a Level 3 criteria. While it is currently easy to justify that the credit markets are distressed, there will come a period of time when credit markets are transitioning between distressed to a normal orderly market. It may become more difficult for preparers to ascertain when the markets are functioning in an orderly manner. In reality, using the expected present value techniques should yield a similar value to an orderly market so that there should be only nominal differences in valuation. Thus, presenting the need to distinguish between a Level 2 and a Level 3 valuation would not be necessary. This would prevent an abrupt change in value as an entity moves from Level 3 to Level 2.

4. Are the factors listed in paragraph 10 of the FSP that indicate that a market is not

Mr. Russell G. Golden
Financial Accounting Standards Board
March 25, 2009
Page 4

active appropriate? Please provide any other factors that indicate that a market is not active.

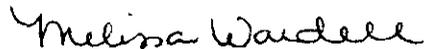
Southwest Corporate believes that the factors listed are appropriate.

5. What costs do you expect to incur if the Board were to issue this proposed FSP in its current form as a final FSP? How could the Board further reduce the costs of applying the requirements of the FSP without reducing the benefits?

Southwest Corporate does not anticipate incurring significant costs in applying FSP 157-e retroactively to December 31, 2008 financial statements. There are significant benefits to improving the fair value measurements currently reported in financial statements.

I appreciate your attention to this matter and to the points raised in this letter. As previously stated, I believe it is critical that FASB permit the FSP 157-e guidance to be applied retroactively. I welcome a discussion at your convenience. Please feel free to contact me at 214-703-7890.

Sincerely,



Melissa Wardell
SVP-Chief Financial Officer
Southwest Corporate Federal Credit Union