



Credit Union National Association

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LETTER OF COMMENT NO. 268

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April 1, 2009

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

RE: Proposed FSP FAS 157-e: Determining Whether a Market Is Not Active and a Transaction Is Not Distressed

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 (FSP) 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*. We commend the FASB for addressing this issue, as well as the proposed FSP on impairment, in a timely fashion. By way of background, CUNA is the largest credit union trade organization in this country, representing approximately 90 percent of our nation's 8,000 state and federal credit unions, which serve approximately 91 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 supports the proposed FSP, as well as the FASB's underlying objective to increase the accuracy of fair value measurement.
- The effective date of March 15, 2009 is operational. However, we strongly encourage the guidance be retroactive to December 31, 2008.
- The FSP will meet its objective to improve financial reporting by addressing fair value measurement application issues related to determining whether a market is not active and a transaction is not distressed.
- The proposed two-step model is understandable, and the factors listed in step one that indicate that a market is not active are appropriate.



- These proposed amendments to FAS 157 are necessary and would prove very helpful.

Discussion of CUNA's Views

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, establishes a single definition and framework for measuring fair value in U.S. generally accepted accounting principles (GAAP). FAS 157 states that fair value measurement assumes that the asset or liability is exchanged in an orderly transaction. Generally, fair value measurement works well in normal market conditions.

In response to constituent concern over the application of fair value in an illiquid market, the FASB issued this proposed staff position. FSP 157-e would employ a two-step process to aid practitioners in determining whether a market is not active and whether a transaction is not considered distressed.

The first step includes a non-exhaustive list of factors that indicate a market is not active for a certain asset; CUNA believes these factors are appropriate and understandable. Once a reporting entity has "evaluated all factors and considered their significance and relevance," it is to then use its judgment to determine whether the market is active. CUNA supports the use of management's assertion in considering these factors. If the entity determines the market to not be active, it then proceeds to step two.

Step two presumes that a quoted price is associated with a distressed transaction unless certain factors are evident. If it is determined that the quoted price is associated with a distressed transaction then use of a valuation technique other than one that uses that quoted price without significant adjustment is required.

CUNA supports this necessary FSP, which will likely be very helpful in determining whether a market is not active. We agree with the FASB's assertion that this is simply application guidance for the existing standard, as this FSP does not add anything not already in FAS 157. We believe an existing lack of clarity in this area has caused many practitioners to take an unnecessarily conservative approach in measuring fair value.

If adopted, the analyses involved with this FSP may increase the costs to reporting entities. However, we believe the potential cost-saving benefits would most-likely outweigh any increased operational costs.

CUNA believes that the March 15, 2009 effective date is operational. However, due to the unprecedented period of market inactivity for many asset classes, we *strongly* encourage the FASB to make it retroactive to December 31, 2008. It is apparent that Congress has been concerned with valuation issues since at least mid-2008, when it tasked the Securities and Exchange Commission (SEC) with conducting a study on mark-to-market accounting. Therefore, retroactive application for financial statements ending in 2008 appears appropriate and likely in line with the intent of Congress.

Thank you for the opportunity to express our views on this important proposed staff position regarding fair value. 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
Regulatory Research Counsel