



Credit Union National Association

cuna.org

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LETTER OF COMMENT NO. 24

April 12, 2007

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

Via E-mail: director@fasb.org

Re: Invitation to Comment – Valuation Guidance for Financial Reporting
File Reference No. 1520-100

Dear Sir or Madam:

The Credit Union National Association (CUNA) appreciates the opportunity to provide our views in response to the Invitation to Comment (ITC) on whether additional and more specific valuation guidance is needed in financial reporting as well as the process for developing that guidance. The ITC specifically asks for feedback concerning: (1) the need, if any, for valuation guidance, including related implementation guidance for financial reporting, the specificity of this valuation guidance, and the duration of standard-setting activities; (2) whether FASB should be solely responsible for providing valuation guidance or whether another organization should be involved; and (3) the process that should be used to issue valuation guidance for financial reporting. By way of background, CUNA represents approximately 90% of our nation's 8,700 state and federal credit unions, which serve nearly 87 million members.

SUMMARY OF CUNA'S COMMENTS

- CUNA supports valuation guidance specifically for financial reporting.
- Valuation guidance should include detailed implementation valuation guidance with some conceptual valuation guidance for extraordinary situations.
- While FASB should be the principal standard-setter for valuation guidance for financial reporting, it should issue valuation guidance with the assistance from an organization structured similar to the FASB's Emerging Issues Task Force.
- In promulgating valuation guidance, FASB should focus at the national level; FASB should coordinate with the International Accounting Standards Board as appropriate.
- Also, FASB should follow due process procedures, including public comment periods for exposure drafts and short turn-around time for projects.



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- CUNA urges FASB to consider the concerns of smaller entities, such as credit unions, in its deliberations on future valuation guidance.

DISCUSSION

This ITC is of importance to the credit union movement in light of the forthcoming FASB final guidance on business combinations for mutuals. That guidance will implement the FASB merger rule that eliminates the pooling-of-interests method of accounting for business combinations and instead mandate the use of the acquisition method of accounting. Use of the acquisition method will require the acquiring credit union to measure and recognize the fair (market) value of the assets and liabilities of the acquired credit union at the acquisition date. In addition, the continuing credit union will have to assess any potential impairment of goodwill and intangible assets (annually at a minimum).

Any new valuation guidance FASB may eventually issue could have a significant impact in a merger on a continuing credit union's balance sheet. FASB valuation guidance would provide standards for acceptable valuation methodology of the merging credit union upon initial merger and periodic revaluation as required thereafter. Financial Accounting Standards Board (FAS) No. 157, *Fair Value Measurements*, issued last year provides financial reporting guidance for measuring assets and liabilities at fair value. Statement 157 defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosures about fair value measurements. However, Statement 157 does not expand the use of fair value as the measurement attribute for financial reporting. Statement 157 provides some measurement guidance, but it does not address many specific valuation issues that preparers, auditors, and valuation professionals currently encounter.

CUNA strongly supports valuation guidance specifically for financial reporting. Much of the existing guidance is overly theoretical and does not provide preparers the tools needed to apply to daily operations in a practical manner. Valuation guidance should be specific, example-oriented, and practical to allow preparers to actually use during implementation. Conceptual guidance should be provided to assist in dealing with unusual situations.

Existing appraisal organizations (preparers, auditors, regulators and investors) are able to provide valuable input into the standard-setting process. As subject matter experts, these organizations can provide viewpoints on the practical application/impact of certain standards. While we think FASB should act as the principal standard-setter, we feel FASB should form an advisory group consisting of experts from a cross-section of appraisal organizations. This group should be structured and function in a manner similar to the Emerging Issues Task Force. The appraisal group should promulgate valuation implementation guidance within the framework of existing authoritative GAAP literature to reduce diversity in practice on a timely basis. As the principal standard-setter, this valuation standard-setting should be part of FASB's budget.

While the advisory group does not necessarily need to be permanent, valuation guidance setting activities should be periodically evaluated for relevance and the need to be updated. Those experts could help identify, discuss, and resolve financial reporting issues as those issues arise in practice.

The process of valuation guidance should be conducted on a national, as opposed to international, level. For valuation guidance to be specific enough to assist preparers in implementation, the guidance needs to be specific to U.S. financial statements and markets. FASB should certainly monitor international developments in this area and work with the International Accounting Standards Board as appropriate.

FASB should also consider the impact of its guidance on small organizations such as credit unions before they are adopted. Many small credit unions have limited resources and may require extended time to comply with any new guidance. There may be compliance issues with the determination of fair value that are unique to smaller institutions. For example, there may be differences of opinion between entities about the fair market value of a particular asset or liability. It is unclear whether in determining the fair values that valuation should be performed by an independent third party. Furthermore, it may be very difficult and/or expensive for a small entity to find an appraiser familiar with its unique aspects. Therefore, we would urge FASB to address these concerns in any valuation guidance that is issued.

Due process is critical for any valuation guidance process that is adopted. Exposing draft standards to stakeholders for a public comment period is important. Projects should be completed as expeditiously as possible so the final standards that are issued are timely.

Thank you for the opportunity to share our comments. If you have any further questions, please feel free to contact me by phone at (202) 508-6743 or by e-mail at corr@cuna.com.

Sincerely,



Catherine Orr
Senior Regulatory Counsel
Credit Union National Association