

April 15, 2007

Technical Director - File Reference No. 1520100 Order Department Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116



RE: Comments on Invitation to Comment on Financial Accounting Standard Board's Valuation Guidance for Financial Reporting

Dear Sir or Madame:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), I am responding to the invitation to comment (ITC) by the Financial Accounting Standards Board (FASB) regarding the need for valuation guidance for financial reporting and the related implementation guidance.

The valuation guidance that is the subject of the ITC is being considered as part of FASB's conceptual framework project. FASB notes in the ITC that there are a number of organizations that issue valuation standards, and the valuations standards presently utilized by the accounting community are standards for a number of different classes of assets, including real property and business valuation. Currently, valuation guidance for financial reporting is not available. Valuation for financial reporting is conducted with the use of these existing standards.

NAFCU appreciates the opportunity to share its comments and commends FASB for its ongoing work on its conceptual framework project. NAFCU and its members actively follow FASB's work and encourage FASB to consider the unique considerations credit unions must weigh when performing valuations, including valuation for financial reporting. Because credit unions are not-for-profit cooperative organizations, valuation issues present unique challenges for the credit union industry. Accordingly, NAFCU provides the following specific comments:

## Need for Valuation Guidance for Financial Reporting

In the ITC, FASB requests comment about whether there is a need for valuation guidance for financial reporting.

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NAFCU and its members appreciate the advantages of valuation guidance. While it is possible that guidance can result in greater consistency and comparability in reporting, it is important to note that the current method is viable. As such, NAFCU is concerned that such guidance may complicate the financial reporting process. Existing guidance applicable to valuation for financial reporting for other purposes has significant benefits, of which flexibility is most notable. Accordingly, NAFCU urges FASB to carefully weigh the risks and costs of issuing valuation guidance against the perceived benefits.

NAFCU encourages FASB to consider the unique circumstances that credit unions, as not-for-profit cooperative organizations, encounter in valuing assets and liabilities, as well as related issues that arise in financial reporting. Credit unions are member-owned financial institutions and, with very few exceptions, can only provide service to their members. Often, credit unions issue loans at below existing market rates and pay dividends (interest) on deposits at above market rates. These are just some of the unique characteristics that, if not considered, valuation of their assets and liabilities will not be accurate. Accordingly, valuation guidance for financial reporting should take into consideration non-profit cooperative structures. If FASB decides to issue such guidance, NAFCU recommends that FASB provide the public with ample opportunity to comment so that NAFCU and its members can review such guidance and evaluate its effects and consequences on credit unions.

## Specificity of Guidance

FASB also seeks comment on the specificity of valuation guidance.

Credit unions offer a wide range of financial products and services. Financial products are unique in their nature. NAFCU believes that if FASB provides valuation guidance, such guidance should be flexible and take into account the unique nature of financial products. Further, credit unions are unique among financial institutions. While NAFCU is not advocating separate guidance for credit unions at this time, NAFCU requests that if FASB does issue guidance, it should take into account small credit unions and provide appropriate exceptions for compliance of smaller institutions.

FASB should also ensure that valuation guidance is flexible and enables financial institutions to most effectively and accurately perform valuation. Alternatively, FASB should issue separate guidance for financial institutions. This could reduce diversity in reporting.

## Fair Value as a Measurement Attribute

FASB's ITC discusses the benefits and concerns associated with determining the measurement attribute for financial reporting. In this context, it refers to FASB Statement No. 157 and the use of fair value as the measurement attribute for financial reporting. NAFCU understands that fair value, defined by FAS 157 as the price that would be received to sell an asset, would be relevant and applicable to the ongoing concern about the purchase and sale of assets, and could be helpful for investors and creditors. However, NAFCU believes that a fair value measurement has diminished relevance for credit unions. Because credit unions are not-

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for-profit cooperative organizations, credit unions manage their net income to invest in their members, usually through higher rates on savings products, lower rates on loans, lower fees and/or added services. Thus, such measurement can lead to a misunderstanding and misinterpretation of financial statements.

Nonetheless, for credit unions' financial reporting purposes, a fair value measurement should take into account not just the exit price, i.e., the price that would have been received to sell the asset, but also the intrinsic value of credit unions' core shares. Thus, NAFCU urges the FASB to incorporate this value, where applicable, in any valuation guidance that includes a fair value measurement.

NAFCU appreciates this opportunity to share its comments on the proposed guidance. Should you have any questions or require additional information please call me or Tessema Tefferi, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 268.

Sincerely,

Fred R. Becker, Jr. President/CEO

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