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cuna.org

October 9, 2008



LETTER OF COMMENT NO.

81

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-d

Dear Mr. Golden:

The Credit Union National Association (CUNA) has a number of concerns relating to the issue of fair value accounting and the Proposed Staff Position, FAS 157-d, issued to the public on Friday, October 3, 2008 with comments due to the agency only six days later on Thursday, October 9, 2008. CUNA represents approximately 90 percent of our nation's 8,200 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.

Like other financial institutions, federally insured credit unions are required to follow Generally Accepted Accounting Principles, GAAP. This means that for mortgage-backed securities and mortgage servicing rights, for example, credit unions follow FASB Statement No. 157, Fair Value Measurements, in valuing these assets and reflecting them on their financial statements and regulatory call reports.

Also like other institutions and companies, credit unions that have these assets have been concerned about the application of FASB Statement 157 to them in the current uncertain market. As you know, the implications of this statement have raised considerable concerns, particularly when there is no market for such assets or their market price is far below the level at which they would otherwise be valued in a stable economic environment.

To help address these very significant concerns and other issues, Congress passed and the President signed on Friday the Emergency Economic Stabilization Act, which among other things, authorizes the Securities and Exchange Commission to



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suspend the mark-to-market standards and to hold hearings on the application of the standards. CUNA strongly believes that this indicates the severity of the issues within the credit markets as a result of fair value practices.

While the legislation was pending last week, the Securities and Exchange Commission's Office of the Chief Accountant and FASB staff issued a statement together to address issues relating to the application of FASB Statement 157. The release discussed how under the existing FASB Statement 157 management's internal assumptions, such as those based on expected cash flows and risk-adjusted discount rates, may be taken into account when relevant observable data do not exist; how observable data in an inactive market should be considered; and how the use of market quotes should be relied upon less if they do not reflect the result of market transactions.

The statement proposed by FASB is consistent with that earlier release; it contains some useful guidance as we note below in this letter, but we also have serious concerns about its application.

The statement highlights the key principles contained in FASB Statement 157 that are addressed in the proposed FASB Staff Position. To summarize, a fair value assessment reflects the price at which an orderly transaction would occur between market participants on the measure date. However, the application of this key principle raises serious concerns and provides opportunities for the distortion of an asset's value, particularly when the asset is held to maturity.

Another key principle addresses the use of management's assumptions when relevant observable market data are not available. The Staff Position notes that "In some cases an entity may determine that observable market datarequire significant adjustment based on unobservable data...." While this is not a new concept in the context of FASB Statement 157, it is useful and is the type of information that should be included in the Staff Position, should it be approved by FASB.

The FASB Staff position emphasizes that the application of FASB Statement 157 is individualized to each asset and provides an example of how fair value accounting should be applied to a BBB-rate tranche of a collateralized debt obligation, the underlying collateral for which is an un-guaranteed, nonconforming residential mortgage loan.

Under the example, the entity holding the security assesses its value using an income approach based on maximization of observable data and assesses its value using a risk-adjusted discount rate that considers the cash flows of the security and indicative quotes. The proposed FASB Staff Positions concludes that it is appropriate to value this particular asset using the risk-adjusted discount rate. This example is useful.

However, CUNA is concerned that the proposed FASB Staff Position does not go far enough in addressing key issues regarding the application of fair value for performing assets where there is an ability and intent to hold until recovery or maturity. For example, it does not address the concern that many have raised that an asset that can be held to maturity should not be marked to current market prices.

Also, the statements regarding broker quotes can be confusing. The proposed Staff Position states: "[W]hen markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. In weighing a broker quote as an input to fair value an entity should place less reliance on quotes that do not reflect the result of market transactions..." This guidance raises questions regarding how it should be applied, and we are not certain how useful it will be. We also believe that more direction should be provided for the use of risk-adjusted premiums and discounts.

We are also concerned that FASB has not provided much time for stakeholders to review the statement and comment. We realize that this is truly an issue in which time is of the essence. However, just as the Congress took some additional time to help insure important issues were not neglected, we think FASB should have provided more time for entities to reflect on the proposed Staff Position and comment. In light of that, we urge FASB to extend the comment period for one additional week to ensure interested parties have commented and allow those that have already filed a letter to supplement their comments if they desire during that period.

More importantly, however, we feel the issuance of this guidance appears to be an effort on the part of FASB to provide an alternative to the suspension of the FASB Statement 157. While we think that appropriate comprehensive guidance can be useful and may be the answer, we also believe that the SEC should still proceed with its evaluation of the fair value standards under the new Emergency Economic Stabilization Act as expeditiously as possible.

Thank you for the opportunity to comment on these very important issues.

Many Mitchell Dunn

Mary Mitchell Dunn

CUNA SVP and Deputy General Counsel

Cc: SEC Commissioner Christopher Cox

Mr. Scott Waite, Chairman, CUNA Accounting Task Force