



October 9, 2008

Via Email: director@fasb.org

Mr. Russell G. Golden
FASB Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5166

File Reference: Proposed FSP FAS 157-d

Dear Mr. Golden:

West Virginia Corporate Credit Union appreciates this opportunity to comment on the proposed FASB Staff Position No. FAS 157-d, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active* (the "Proposed FSP").

West Virginia Corporate Credit Union is a corporate credit union providing investment and financial products to its 116 member credit unions. Although we have no direct holdings in marketable securities that are impacted by the proposed staff position, we have an extreme interest in the accounting rules under consideration.

Our interest is as follows: We hold capital investments and other deposits with U.S. Central Federal Credit Union. U.S. Central Federal Credit Union, as a liquidity provider to the credit union system, manages a balance sheet of approximately \$40 billion, with a higher concentration of assets invested in marketable debt securities than most financial institutions of a similar size. With their sizable holdings of non-agency residential mortgage-backed securities (RMBS), and our exposure to U.S. Central FCU, we are particularly interested in the discussions surrounding the determination of fair value for financial reporting especially in these times of market illiquidity.

The example in the proposal provided was helpful and instructive. However, given the unprecedented market conditions that we are experiencing, we do not believe that the FSP goes far enough. Please consider the following changes to the definition of fair value:

 For available-for-sale securities where management has demonstrated the intent and ability to hold to recovery, the FSP should allow current severe liquidity risk premiums to be adjusted in the determination of fair value to levels observed during periods of normal market activity. Credit risk

- premiums should continue to be based on the best available information from market participants.
- 2. For held-to-maturity (HTM) securities, the FSP should allow, at a minimum, current severe liquidity risk premiums to be adjusted in the determination of fair value to levels observed during periods of normal market activity. This is of great importance when determining the amount of potential other-than-temporary impairment (OTTI) charges. Credit risk premiums should continue to be based on the best available information from market participants.
- 3. The FSP should consider amending the definition of fair value for HTM securities to approximate realizable value. This would place investors in HTM debt securities on equal footing with entities that hold loan portfolios for investment. Securitized loans should not be treated differently than unsecuritized loans when the intent to hold to maturity is present in both cases.

We believe that in light of the unprecedented market conditions that currently exist, consideration should be given to these suggestions. Our views and our reasoning for them are discussed below.

Are current severe liquidity risk premiums reflective of fair value?

We believe that it is inappropriate to include the current severe liquidity risk premiums in the calculation of fair value. It is our view that the "orderly transaction" exchange value described in SFAS No. 157 should not include the liquidity risk factor that would be present in a forced sale in periods where the markets are as dislocated as they are in the current environment.

When is exit price an appropriate reflection of fair value?

For investment securities classified as trading under SFAS No. 115, exit price represents the most appropriate indication of fair value. However, for securities classified as available-for-sale (AFS), exit price is not always the most appropriate indication of fair value.

Our understanding is that the current consensus interpretation of the other-than-temporary impairment (OTTI) guidance, investors with securities in unrealized loss positions must demonstrate their intent and ability to hold the positions to recovery, which in some cases, may be maturity. If an investor has demonstrated such intent and ability to hold the security, an exit price that incorporates a severe liquidity risk premium resulting from unprecedented market inactivity does not appear to be appropriate. We understand that liquidity risk premiums in active markets are appropriate components of fair value calculations and can vary by asset class. However, it seems that the risk premiums assessed in periods of extreme illiquid market conditions are unreasonable and should not be applied to the fair value calculations of the securities that meet the test of intent and ability to hold to recovery / maturity.

The distinction could be made within the AFS securities held by an investor between the group for which the investor has demonstrated its intent and ability

to hold to recovery and those for which the investor has not. AFS securities for which the investor has not demonstrated its intent and ability to hold to recovery should be valued at the best available estimate of exit price, similar to trading securities. For those AFS securities where the investor has demonstrated its intent and ability to hold to recovery, an adjustment should be made to the liquidity risk premium to reflect more normal market conditions. In both cases, fair value should continue to incorporate the best available estimate of all other factors.

The use of exit pricing with regard to securities classified as HTM is of particular concern. While HTM securities are not carried on the balance sheet at fair value. the determination of their fair value is of tremendous importance when an unrealized loss is considered to represent an other-than-temporary impairment. Provided that following recognition of the impairment charge, the investor continues to possess the intent and ability to hold the security to maturity, there is no reason to write the security down to an exit price reflecting an illiquid market. It is even questionable as to whether writing an HTM security down to fair value is appropriate at all, given that a portfolio of loans held-for-investment similar to those underlying the security would be essentially accounted for at realizable value through the process of loan loss reserving. It is of paramount importance that the extreme liquidity risk premiums present today be adjusted to more normal levels when determining the fair value of HTM securities for OTTI recognition. Otherwise, the liquidity risk premium distorts the true losses within the security and penalizes investors in debt securities compared with holders of un-securitized loans.

Summary

For a fair presentation of fair values, the Proposed FSP should distinguish between two different categories of securities. With regard to HTM or AFS securities for which the investor has the intent and ability to hold to maturity or recovery, the focus should be fair values that reflect normal liquidity risk premium levels. For trading securities and AFS securities for which the investor does not have the intent or ability to hold to recovery, the focus on exit values, incorporating the current severe liquidity risk premiums, is appropriate.

The West Virginia Corporate Credit Union appreciates the opportunity to comment on these important issues.

Sincerely,

Charles E. Thomas, President / CEO WV Corporate Credit Union 304-485-4563