



THE ASSOCIATION of
CORPORATE CREDIT UNIONS



LETTER OF COMMENT NO.

65

October 9, 2008

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

Sent via Email: director@fasb.org

File Reference: Proposed FSP FAS 157-d

Dear Mr. Golden:

On behalf of its member corporate credit unions, the Association of Corporate Credit Unions (“ACCU”) appreciates the 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”).

The ACCU is the primary trade association for the nation’s corporate credit unions (Corporates). Corporates provide investment, liquidity, cash management, risk management, settlement, funds transfer, and numerous payment services as well as safekeeping and custody services to the nation’s federal and state-chartered retail credit unions. As trusted financial solution and liquidity providers to the credit union system, Corporates maintain high quality assets in the form of loans to member credit unions, marketable debt securities, and other investments. Some Corporates hold large portfolios of agency and non-agency residential mortgage-backed securities. As a result, we are particularly interested in the discussions regarding fair values for these instruments in today’s illiquid market.

The examples included in the Proposed FSP are helpful in understanding how the Board views the determination of fair value pursuant to SFAS No. 157. However, given the unprecedented market conditions, simply clarifying the mechanics of fair value determination does not go far enough.

We suggest that the Proposed FSP should amend the definition of fair value for held-to-maturity (HTM) and available-for-sale (AFS) securities to approximate the realizable value of these securities. This change would place investors in 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 and ability to hold the investments is present in both cases. Approximate (or net) realizable value measurement provides a better definition of fair value when recording losses that are deemed other-than-temporary in HTM or AFS securities and it represents a more meaningful measurement of the true economic condition of and risks to the entity, thus lending transparency to the financial statements.

For investment securities classified as trading under SFAS No. 115, exit price represents the most appropriate indication of fair value. Given that trading assets may very well be sold in the near term, the financial statements of the investor should reflect the best available estimate of what would be received upon sale – even though such a determination is a highly judgmental process in today’s environment.

However, the concept of using a fair value based upon an exit price for HTM or AFS securities is inherently flawed in an inactive market when an entity has no intention of selling securities at distressed prices. Further, we do not agree that fair value as defined by FAS 157, particularly when applied in *distressed and inactive markets, is the appropriate method of determining values of assets when the entity intends to hold the securities to a recovery in value or maturity and when it demonstrates the ability to hold the securities and has a history of being able to do so, regardless of whether or not such securities are classified as HTM or AFS.*

While the definition of fair value needs to be amended, at a minimum, the Proposed FSP should allow the 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.

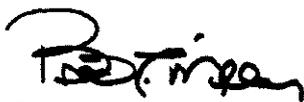
Summary

In light of the unprecedented market conditions that currently exist, and going forward for when markets normalize, it is of paramount importance that the fair value of HTM and AFS securities be reflected at approximate realizable value and, at a minimum, the extreme liquidity risk premiums present today be adjusted to more normal levels when determining the fair value of OTTI recognition. Liquidation, or exit pricing, coupled with the severe liquidity risk premium, distorts the true losses within HTM and AFS securities and penalizes investors in debt securities compared with holders of unsecuritized loans.

Based on the SFAS No. 157 definition of fair value, it must be determined whether or not a transaction conducted at a price that includes a current severe liquidity risk premium represents an “orderly transaction.” While it may be true that the price a seller would receive under current market conditions would include such a liquidity risk premium, a seller would only accept such a risk premium upon sale if it had no other options (*i.e.* it was a forced sale). To sell at such a level willingly, when the amount the investor would expect to collect if it held the security was significantly higher, would not be logical. Such sales could be the result of *forced regulatory divestitures or due to financial difficulties (such as the immediate need for critical liquidity)*. In any event, sales at levels that include current severe liquidity risk premiums do not represent “orderly transactions.” As a result, unusually high liquidity risk premiums in an inactive market are unwarranted in the determination of fair value.

The ACCU appreciates the opportunity to comment on these important issues. If you would like to discuss any of these points, please feel free to contact me at (202) 508-6731.

Sincerely,



Executive Director