

September 23, 2010

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 06856-5116

File Reference: No. 1810-100 – Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

Executive Summary

System United Corporate Federal Credit Union (SunCorp) is a \$2.6 billion cooperative financial institution serving credit unions throughout the United States. SunCorp holds over \$800 million in marketable securities with the remainder of our balance sheet in short term loans and money market instruments. As a liquidity provider to member owners, SunCorp historically classifies all securities as available for sale to ensure the ability to provide liquidity, while in practice SunCorp generally holds to maturity nearly all financial instruments.

We encourage the Financial Accounting Standards Board to develop a uniform financial instrument accounting framework to create comparable financial presentation for the users of financial statements. We are commenting on selected parts of the Proposed Accounting Standards Update: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (ASU). We encourage the Board to consider alternatives that meet the need for earlier recognition and reserving for losses, while preserving the comparability and consistency that is critical to financial reporting.

The basis of our response is based on the objective stated in the proposal:

"The main objective in developing this proposal is to provide financial statement users with a more timely and representative depiction of an entity's involvement in financial instruments, while reducing the complexity in accounting for those instruments."

While we applaud the objective, we disagree with several of the fundamental proposed changes to reach that goal.

Comparability of financial statements is one of the keys to evaluating the performance of any company or instrument. Yet the proposed solution appears to place no interest in the business model of the company or the financial presentation that would best fit their circumstance. In the case of a depository financial institution, the use of fair value may have little relevance to the nature of how the business acquires, holds and disposes of assets or liability. Nearly all credit unions and community banks do not actively buy and sell loans or investments, yet, under the proposed ASU, they will be required to account for those same assets as though they actively buy and sell. We recommend the adoption of IASB IFRS proposed standards for application of both fair value and impairment of financial instruments, which would allow depository financial institutions to continue their normal business of acquiring and holding assets to term.

We do not support the continued push toward fair value as the basis for recording the financial position and results for nearly all financial instruments. As a producer and user of financial statements, we believe consistency and comparability are critical to understanding the financial performance of counterparties and investors. We read the ASU as creating neither consistency nor comparability, as the use of fair value to record nearly all financial instrument values and the resultant change in fair values period to period will create highly cyclical and volatile financial statements. Although volatility is great for securities traders and very short term investors, it creates increased risk premiums and uncertainty for long term counterparties. We believe the ASU should be altered to include the recognition of fair value and impairment methods through the use of footnotes versus on the face of the financial statements as proposed.

Classification and Measurement of Financial Instruments

The use of fair value as the only model for measuring the value of all financial instruments does a disservice to users of financial statements in that it assumes the business activities and business models benefit from this treatment: this is simply not the case. We oppose the use of fair value as the primary measure of a financial instrument. Nearly all depository financial institutions acquire deposits and assets to hold both of the instruments to contractual term. The implication of fair value is that these entities actively buy and sell loans, deposits, investments, derivatives and the like to generate profits from those activities, when in fact most of the transactions that are executed are to mitigate risks or align the entire balance sheet for changes in the overall risk position of the entity and are done infrequently.

The intent of portfolio sales should be viewed based on the intent of the transaction, not the frequency of the actions. For entities that focus on market making activities and short term trading strategies the use of fair value may make sense; but, as for SunCorp's business model, we utilize sales and purchases of financial instruments as a risk mitigation strategy to remove credit, interest rate or duration mismatches within the liability structure. We agree with the IASB's approach and encourage FASB to move away from fair value as the only value that matters. FASB should allow the business to determine the best method to record on the face of the financial statements, while disclosing all relevant fair value information within the footnotes of the statements.

The estimates used to create the fair value and prospective loss measurement as proposed will result in higher use of Level 3 fair value estimates for presentation. The

higher use of Level 3 estimates will result in regulators, audit firms and companies engaging more consultants to validate the Level 3 estimates. Although the use of outside vendors is common practice for large financial institutions, this will lead to cost burdens for smaller, less complex institutions with little to show for it.

Credit Impairment and Recognition

We agree with the need to recognize losses sooner. We agree that many of the proposed changes to recognizing losses have merit if slightly altered and removed from the use of fair value estimates.

We support the recognition of credit impairments and the reversal of credit impairments in the same manner to reflect changes in ongoing estimates of expected cash flows. The use of recent historical losses as the basis for loan loss reserves does not make sense if economic and industrial cycle leads management to underestimate losses. The prior application of incurred loss models combined with historical loss rates lead some auditors to question judgments concerning the amounts placed into loss reserves that would be higher based on worse economic expectations. After the financial crisis of 2008 and 2009, most regulators and auditors encouraged higher loss recognition as the reality of 2007 and 2008 became apparent, creating a pro-cyclical delayed loss recognition. Had judgment been applied versus historical models, loss reserves may have been bolstered sooner and the impact to some firms may have been mitigated. We encourage the use of judgment when evaluating loss reserves, but not as proposed.

We disagree with the proposal's view that loss reserves are based on economic and historic loss rates that are static. Although a static business environment exists in theory, in reality it has never been proven. In fact, the economic cycle is dynamic: after all it is called a cycle because it moves up and down. The approach of holding assumptions static is nonsensical when the proposal recognizes there is a cycle.

We request early adoption of the reversal provision, as the financial projections used to create impairments during the height of the financial crisis of late 2008 and early 2009 have not materialized. Despite the much publicized "end of the world"; the financial world has apparently not imploded since we are writing this letter. We see the need to allow reversal of excess accrued Other Than Temporary Impairment charges as the proper method for recording improvement in expected outcomes.

Economic and Feasibility Impact for Smaller Financial Institutions

The application of the ASU for most depository financial institutions will be problematic as the legacy sub-ledger loan and deposit systems are built around incurred loss models and are not built to apply prospective loss estimates. We believe the application of the ASU will result in implementation costs that outweigh any proposed benefit of the ASU or, worse, create manual calculations methods that will lesson consistency and lead to errors in reporting. Given the fixation on financial controls that was created through Sarbanes Oxley, the allowance of manual process could result in delayed financial reporting until automated systems can be redesigned to retrofit prior recorded financial instruments to meet the prospective impairment methods.

The impact to our member credit unions will be hard to create and difficult to implement systems and controls related to producing GAAP qualified statements, as required by the National Credit Union Administration the principal regulator for credit unions in the United States. Most loan and deposit sub-ledgers are built around cash reconciliation and income recognition under an accrual basis driven by the acquisition rate of the underlying promissory note or deposit. The proposed nature of the prospective/fair value impairment model boggles the mind. Most systems cannot perform specific identification loan accrual and reconciliation on a fair value on a prospective basis. The use of pool accounting will require pool entries be made and handled in manual spreadsheets or other non integrated systems, which adds further room for error and application problems or, worse, offering more room for manipulation of results. The proposed rule should be reconsidered to make the method comparable and consistent with current practices.

If, after additional consideration, the Board decides to proceed with the proposal in its current form, we would recommend changing the provision to allow institutions with \$1 billion total assets to less than \$10 billion in total assets an additional 4 years to implement these changes. We would also recommend the Board commission a study to determine the cost associated with implementing these fair value changes.

The credit unions that utilize our services will not benefit from the proposed changes to prospective loss recognition or fair value. In fact, the proposed changes will result in two sets of books: One for management (historic cost basis/incurred loss) in order to make decisions about performance and effectiveness of prior strategies and one for GAAP purposes (fair value/prospective loss basis) for the general public. The use of fair value is not common practice in institutions that hold financial instruments to contractual term. Many of our members have never sold or purchased a large pool of loans from another financial institution and have little reference for creating fair value estimates. The use of current acquisition cost will be the basis for evaluating the previously written financial instruments, but will not change the underlying cash flows or historic performance parameters surrounding credit, liquidity, and basis or market risk.

Cost of Capital Will Increase

The cost to change internal risk scoring models for counterparties will change as the majority of SunCorp's counter party risk is with credit unions, other depositories and investment banking firms. The resulting volatility of financial results and capital positions will cause SunCorp to limit credit, increase risk premiums or increase underwriting costs to adjust for the new financial framework. We estimate the friction costs of higher risk premium associated with the ASU makes for bad policy: accounting or otherwise.

SunCorp, as a provider of credit to these institutions, will rely on those GAAP statements for determining capital and financial performance without historical comparability. The development of credit unions' strategies are seen over longer periods of time than a quarter to quarter basis; however, if we need an estimate of liquidation at the reporting period we could utilize the Level 3 fair values from our members and be 10 percent confident the estimates are accurate using the proposed presentation. Please return to an historic cost and incurred loss model for financial instruments with some changes to impairment recognition modeling that allows for judgment of probable outcomes, while

allowing fair value and credit loss methodology be disclosed in the footnotes of the statement.

Regards,

N. Brandt Peterson

Executive Vice President and Chief Financial Officer System United Corporate Federal Credit Union