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September 24, 2010

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

Re: File Reference No. 1810-100

Dear Mr. Golden:

The Evangelical Christian Credit Union welcomes this opportunity to comment on the FASB's exposure draft, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. While we applaud the FASB's desire to provide investors with the most useful, transparent, and relevant information about an entity's exposure to financial instruments, we do not support this proposal.

Formed in 1964, the Evangelical Christian Credit Union (ECCU) now serves 2,000 Evangelical Christian churches, ministries, and schools across the United States and 7,000 consumers, including more than 3,500 missionaries that live in over 100 countries. As a cooperative, non-profit organization, our charter is to promote thrift and savings among our members, create a source of credit for them at rates of interest set by our Board of Directors, and provide an opportunity for our members to use and control their own money on a democratic basis in order to improve their economic and social conditions. ECCU conducts its business for the mutual benefit and general welfare of its members with the earnings, savings, benefits, and services being distributed to our members as patrons.

It is not investors, but our members, Board of Directors, regulators, and other credit unions who are the primary users of ECCU's financial statements.

Loans:

In the credit union business model, member loans are originated and held to maturity. Realizing temporary value changes is not a credit union goal. When the intent is to hold loans (or any other financial assets) for the collection of contractual cash flows, we believe that these assets are properly presented in the statement of position at amortized cost. This method most appropriately reflects the characteristics of these assets as well as the entity's intention to hold to maturity. To report the financial condition of the credit union using fair value is inconsistent with how the credit union is managing its assets and may mislead the readers of the financial statements into thinking that the assets are being held for sale.

ECCU lends primarily to Evangelical Christian churches, schools, and ministries. The vast majority of these loans are commercial, real estate secured, and owner-occupied. Each loan is unique and requires comprehensive underwriting to understand the member, including its mission, ministry, and donor base. Because of the uniqueness of each loan and since there is no



liquid market for the type of loans that ECCU originates, if the FASB's proposal is implemented, fair value would need to be measured using Level 3 inputs. This would likely be accomplished by creating a valuation model that would require considerable assumptions, estimates, and management judgment. From an operational standpoint, we estimate that the cost of such a model would be prohibitive for our credit union, and we believe that the cost would not exceed the benefits to our members. Furthermore, because valuation models and assumptions would likely vary considerably among institutions, comparisons to our peer groups would be more difficult to assess. The readers of our financial statements are interested in understanding ECCU's asset performance, growth, earnings, and capital. Fair valuing assets that are held for the collection of contractual cash flows would introduce a level of complexity and confusion that we believe would make decision-making unnecessarily more difficult for those users, which contradicts the FASB's goal to "significantly improve the decision usefulness of financial instruments reporting for users of financial statements."

We continue to support disclosing the fair value of loans, including significant assumptions and methodology, in the notes to the financial statement. We also believe that the current method of reporting loans held for sale at fair value is appropriate. We support IFRS 9, which requires that assets be reclassified in the event that an entity's business model changes so that the classification of financial instruments reflects the entity's current business model.

Loan Commitments:

As stated above, we believe that loans held for the collection of contractual cash flows should be measured at amortized cost. Furthermore, we believe that loan commitments, where the funded loan is also held for the collection of contractual cash flows, should also be measured at amortized cost.

Capital:

Capital levels are highly regulated and critical to a credit union's solvency and success. Unlike a bank, which can issue stock to increase capital, a credit union's capital is increased only through its earnings. A credit union does not have the resources to counteract the volatility in capital that can be caused by fair value measurement of its financial instruments. As a result, credit unions face substantial risk of becoming undercapitalized due to downturns in the marketplace.

Capital rules for credit unions exclude Other Comprehensive Income from the definition of net worth (reference HR 1151). If the FASB's proposed update is implemented as written, fair value changes in financial instruments that are recorded as Other Comprehensive Income will not be included in the calculation of net worth. In a market where the credit union's assets are increasing in fair value, the credit union's net worth ratio would decrease while its risk-based net worth requirement would increase, potentially causing the credit union to become undercapitalized. To counteract the volatility in capital that fair valuing financial instruments will introduce, the definition of credit union capital would need to be changed through an act of Congress.

Core Deposits:

A credit union can only accept deposits from individuals and companies that meet the credit union's field of membership (FOM) requirements. Deposits are seldom transferred between credit unions, because the members attached to those deposits do not meet the FOM requirements of other credit unions. Furthermore, core deposits are subject to redemption by members at face

value and upon demand. The FASB has proposed measuring core deposits as the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity of the deposits (the core deposit liabilities remeasurement approach). Credit unions have limited sources of funds other than deposits, and those sources are generally not sufficient in volume or duration to replace core deposits as a source of funds. Without a viable alternative funds rate, arriving at a discount rate is difficult, if not impossible. We are also concerned about the high degree of subjectivity involved in determining the all-in-cost-to-service rate. Therefore, we believe that measuring core deposits at amortized cost is the most appropriate method and provides the readers of our financial statements with the most useful and relevant information to make their decisions.

The proposed guidance requires that deposits not identified as core deposits be measured at fair value. Additionally, the proposed guidance states that surge balances due to seasonal factors would not be considered core deposits. ECCU's members are non-profit, charitable and religious organizations who typically experience seasonal cash flows, with large withdrawals during the summer months and large increases in cash flows due to year-end giving. As a result, ECCU experiences annual surges in deposits in the December to January period. To be required to fair value these deposits would be challenging, since they are infrequently transferred and transfers are constrained by FOM requirements, they are subject to redemption by members at face value and upon demand, and the customer relationships, which are essential to valuing credit union deposits, are difficult to quantify.

We do not support using the remeasurement approach either on the face of the financial statements or the disclosures. We do not believe that this approach is relevant, useful, or understandable by the users of ECCU's financial statements. We strongly believe that the most appropriate measurement of deposits, core or otherwise, is amortized cost.

Financial Liabilities

Financial liabilities at credit unions are typically settled in accordance with contractual terms, and transfers are rare. We do not believe that measuring financial liabilities at fair value would provide relevant and useful information to the users of our financial statements and, therefore, support using amortized cost to measure financial liabilities.

Impairment:

We agree that the "probable" threshold in the incurred loss method of determining impairment should be eliminated. Currently, an entity is constrained from establishing what management believes is a prudent allowance for loan losses in economic "good times" while being forced to quickly ramp up an allowance during economic "hard times," creating unnecessary volatility in its earnings and capital. However, the FASB's proposal is not clear whether its intent is to retain the incurred loss method and eliminate the threshold or implement an expected loss model that assumes existing conditions will remain unchanged.

We would support a proposal that would permit flexibility both in the determination of asset impairment and in the consideration of past, as well as future, events. We would not support any approach that would <u>require</u> an immediate recognition of credit impairment at the time of loan origination or purchase.

Interest Income:

We do not agree with the FASB's proposal to calculate interest income on an asset's amortized cost balance less allowance for credit loss. We believe that the proposed change would make it more difficult for users of the financial statements to understand interest income because the calculation would incorporate the subjectivity and estimates inherent in the allowance balance. Also, significant and costly operational and system enhancements would be required to comply with the proposed change, and these costs will exceed the benefits to the readers of our financial statements.

Equity Method:

The equity method as defined in current generally accepted accounting principles is clearly understood and accepted. We believe that adding the "related" criterion is unnecessary and creates ambiguity and confusion, especially when considering existing consolidation guidance.

Convergence with IFRS:

The FASB has communicated its desire to move toward a single converged financial reporting model for financial instruments. However, the FASB and IASB's proposals for financial instruments are significantly different. We are not only concerned that implementation of FASB's proposal will create unnecessary and unwarranted confusion for readers of financial statements, but that issuing divergent guidance will impede the goal of a convergent global standard for financial instruments. We encourage the FASB to collaborate with the IASB to achieve convergence and agreement in their standards, both in substance and timing.

Effective Date and Operational Impact:

The FASB proposes delayed implementation for entities with assets less than \$1 billion. ECCU is a \$1.2 billion credit union. Notwithstanding our opposition to the proposal as stated, if the proposal is approved, we estimate that the operational changes would require several years to implement. Our core processing and accounting systems would need to be redesigned or replaced, hundreds of reports would need to be modified and/or developed, and the majority of our 279 employees would require training. We remain adamantly opposed to the proposed guidelines, but if they are approved, then we recommend voluntary early adoption be permitted, with delay of implementation for all other entities, regardless of asset size, until after a post-implementation review of the early adopters.

Conclusion:

Gathering and retaining member deposits are essential to the health and stability of ECCU. Most credit union members and other users of our financial statements are not sophisticated investors who understand the complexities of fair value accounting. We are deeply concerned that the volatility in earnings and capital introduced by fair valuing financial instruments would be perceived as increased risk by our members and result in reactionary withdrawals of deposit balances. Also, we believe strongly that financial statement fluctuations caused by market values, especially for assets that the credit union expects to hold to maturity, would present an unclear and inaccurate report of ECCU's financial performance and position to the readers of our financial statements. Furthermore, current systems are not equipped to handle many of the proposed accounting requirements, such as remeasurement of core deposits and calculation of interest income, plus the cost of implementing and managing such systems does not exceed the benefits to our members.

We acknowledge that fair value measurement exposes information about the risks assumed by entities. However, for nonpublic companies, credit unions, and institutions that do not operate in global capital markets, we believe that fair valuing financial instruments would be inconsistent with the business models of those entities. Implementation of fair value will be difficult, costly, and will not provide decision-useful information to the users of those financial statements. We believe that disclosure of market risk for these entities is most appropriately achieved through notes to the financial statements. For entities whose business model is to hold financial instruments to maturity, we submit that eliminating the "probable" threshold for asset impairment and allowing for earlier recognition of expected losses would accomplish this goal, and together with appropriate fair value disclosures, would provide users of financial statements with the decision-making information that they need.

We respectfully request that the FASB refrain from implementing the proposed guidelines. We encourage the Board to reassess what decision-making information is most useful and relevant to all users of financial statements, not just investors. Thank you for considering our comments and concerns. We would be honored to discuss these issues in more detail with the Board or its staff.

Sincerely,

Brian D. Scharkey, CPA

Executive Vice President/Chief Financial Officer

Brian D. D. Charley

Copy to: The California and Nevada Credit Union Leagues