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May 14, 2013

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

Re: File Reference No. 2012-260 Proposed Accounting Standards Update, Financial Instruments—Credit Losses (Subtopic 825-15)

Dear Director:

We are a $3.2 billion natural person credit union providing financial, investment and insurance services to over 250,000 members, primarily in Southern California.

Although we commend the FASB's ongoing efforts to improve accounting standards for purposes of ensuring that financial statements and the notes thereto are meaningful and relevant, with respect to the estimation of credit losses, we feel this proposal does not benefit the users of the financial statements. To the contrary, we believe the proposal would create significant and untenable challenges in application, as well as inconsistencies with certain basic accounting principles. Specifically, we do not believe that methodologies for predicting future events over the time horizon, as specified in this proposed standard, can be sufficiently reliable nor applied with the level of consistency to provide a basis for fairness and comparability across the range of preparers. It is our belief that the current incurred loss model, applied with proper consideration of both relevant historical experience and current events, coupled with an appropriate level of disclosure is a conceptually sound approach to measuring credit losses and provides the required level of relevancy and reliability for financial statement users.

The proposal asserts that the current incurred loss model is flawed in that it delayed recognition of losses during times of severe economic stress such as those experienced during the "Great Recession." However, it is only with the benefit of 20 / 20 hindsight, that one can come to this conclusion. Financial statements must be prepared based on current and reasonably foreseeable events without the benefit of either hindsight or long term predictions as to future macro-economic events. We do not believe that adoption of the proposed model, which is predicated on the use of long term forecasting of future events, would constitute a meaningful or reliable improvement in furtherance of the objective of recognizing credit losses in a timely fashion since events such as the "Great Recession" occur in a manner and magnitude that cannot be reasonably foreseen. Consequently, and as a result of the lack of ability to dependably forecast macro-economic events over a long term time horizon, coupled with the absence of comparability and diversity in practice that will inevitably result from application of such forecasting, we believe this proposal would result in a deterioration in the both the fairness of presentation and comparability of financial statements.

We believe that it's an irrefutable presumption that current period results of operations for a financial institution should reflect fully and completely the impact on the reporting entity of both current period activities undertaken by the entity as well as the changes in the collectability of receivables arising from changes in economic conditions. This principle is applicable regardless of whether the valuation model is based upon historical cost or market value. Establishing a day one expected loss / life of loan model would not only be problematic from the standpoint of imparting an unacceptably significant level of imprecision arising from the extraordinarily long time horizon over which to predict future losses, it would also obfuscate the statement of operations from reflecting in the current period the changes in collectability of receivables associated with changes in economic conditions occurring during the period. This disconnection of operating results from current economic events would significantly impair, if not completely invalidate, the meaningfulness of the statement of operations to users of financial statements.

A well established and diligently enforced principle of sound financial reporting is that "smoothing" of earnings is not only inappropriate, but is also an actionable violation of federal securities laws. Even if it could be applied with a reasonable degree of accuracy, which we believe not be the case, establishing a day one expected loss / life of loan model would contribute to smoothing of earnings by insulating the results of operations of subsequent periods from the changes in the collectability of receivables that arise from factors that take place during the current period.

The allowance for loan and lease losses (ALLL) is clearly a contra-asset to loans receivable. Establishing an ALLL based upon a day one expected loss / life of loan model would result in the contra-asset to portfolio loans receivable being recorded at an amount that essentially represents the fair value of the future losses expected to be incurred while the associated portfolio loans receivable asset would continue to be reported on an amortized historical cost basis. This would create a mixed attribute model within a single line item on the balance sheet. We do acknowledge that the current reporting framework is based upon a mixed attribute model with some assets recorded at amortized cost and others at fair value. However, having a mixed attribute model within a single line item on the financial statements would not only be confusing, it would also make it impossible to draw any conclusions as to the true value of the net loans receivable as of the date of the financial statements. Moreover, with the life of loan credit losses recorded in the statement of operations as provision expense in the current period and the interest income associated with the underlying loans recorded as realized, there would be a clear and material distortion in the timing of the recognition of the costs (provision expense) and benefits (interest income) associated with the asset with a resultant significant compromising of the meaningfulness of the financial statements.

Thank you for your consideration and the opportunity to respond to this proposal.

Sincerely,

GREGORY C. TALBOTT
Chief Financial Officer