CorporateOne
FEDERAL CREDIT UNION

May 30, 2013

Via Email: director@fasb.org

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

File Reference No. 2012-260

Dear Ms. Cosper:

Corporate One Federal Credit Union ("Corporate One") appreciates this opportunity to comment on the proposed Accounting Standards Update of Subtopic 825-15,"Financial Instruments – Credit Losses" (the "Proposed ASU").

Corporate One is a wholesale corporate credit union providing investment, financial and payment products to its approximately 950 member natural-person credit unions. Corporate One, as a liquidity provider to the credit union network, manages a balance sheet of approximately $4.4 billion of which over $2.0 billion is invested in marketable debt securities carried at fair value with qualifying changes in fair value recognized in other comprehensive income.

When calculating other-than-temporary-impairment (OTTI) charges for our debt securities, Corporate One has already been subject to measuring "life of loan" loss estimates. In the depths of the financial crisis, it was difficult to see anything but dire predictions for the future of the housing market. It was also difficult to predict how government intervention (i.e. ultra low interest rates, quantitative easing, etc.) would impact the debt instruments in which we were invested. As a result, we recorded OTTI on securities that have shown significant improvement over the last several years. The current accounting requires that OTTI be recorded immediately, while subsequent improvements in cash flows be recorded through a yield adjustment over the remaining life of the security. This process creates immediate loss recognition for something that is highly dependent on estimates about the future which are almost impossible to predict. The recovery of OTTI is recognized over the remaining life of the security and can result in significant yield adjustments, which in turn, results in less decision-useful information.

We understand that the FASB's main objective in developing this proposal is to provide more decision-useful information about the expected credit losses on financial assets. Predicting lifetime credit losses is very judgmental and is highly dependent on estimates about the future which are almost impossible to predict. Based on our experiences with trying to predict "life of loan losses", we do not believe that the proposed amendments to remove the initial recognition threshold that currently exists in U.S. GAAP so that credit losses are recognized earlier provides more decision-useful information. However, we strongly support the FASB's efforts in this proposal to reduce complexity by replacing the numerous existing impairment models in current U.S. GAAP with a consistent measurement approach. Accordingly, we strongly support the use of a valuation allowance for marketable debt securities consistent with other debt instruments. We also support consistency between measuring the losses for similar assets.

1. Do you agree with the scope of financial assets that are included in this proposed Update? In not, which other financial assets do you believe should be included or excluded? Why?

We support the scope of financial assets included in this Update. Corporate One is heavily invested in marketable debt securities, while the users of our financial statements are for the most part natural-person credit unions whose assets consist of loans to their members. Fundamentally marketable debt securities and individual loans both represent the contractual right to receive cash; however, the accounting is currently so different, it has made it difficult to explain certain aspects of our financial results to the users of our financial statements. Accounting for similar assets in a similar manner should provide clarity to the users of the financial statements.

9. The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that effect the expected collectability of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns in basing the estimate of expected credit losses on such information?

We have been using this type of information to measure "life of loan" loss estimates on our marketable debt securities. However, at the end of the day, this process is much like trying to foretell the future. Based on our experiences with trying to predict "life of loan losses", we do not believe that the proposed amendments to remove the initial recognition threshold that currently exists in U.S. GAAP so that credit losses are recognized earlier provides more decision-useful information. Given our experiences with the current guidance for OTTI on marketable debt securities, we strongly support the concept of a valuation

allowance for marketable debt securities consistent with other debt instruments. We also support consistency between measuring the losses for similar assets.

10. The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

Our portfolio is mostly concentrated in debt securities. We have access to historical loss data; however, much of it is provided through our use of outside vendors and it is costly.

11. The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

This seems to imply that one could never conclude that there would be zero credit losses. However, we lend to our members, which are natural-person credit unions, and we have never had a credit loss. We are unsure how to interpret the guidance when our history shows that if the types of loans we issue and our underwriting standards remain the same, we do not expect a credit loss. Credit losses should be determined based on management's best estimate of the losses, supported by reasonable assumptions and modeling techniques.

12. The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting

date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

We agree that an estimate of expected credit losses reflect time value of money. The guidance should address the use of the forward curve for variable rate instruments. In the case of securitized debt instruments with cash flow waterfalls, future interest rates directly affect the projection of credit losses within the instrument. The use of static interest rates for variable rate instruments would not result in the correct estimate of potential credit losses.

13. For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchase credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

We agree that using the same approach to recognize changes in the credit impairment allowance for purchased credit-impaired assets and non-purchased-credit impaired assets provides decision-useful information. The inconsistencies between the current models make it more difficult to account for, disclose and explain to users of the financial statements. We strongly disagree with the proposed amendment requiring credit-impaired assets to be placed on nonaccrual status and recommend the FASB provide an accommodation for determining nonaccrual for such assets. See further information in our response to question #15.

14. As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in

other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

The practical expedient seems reasonable.

15. The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probably that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

We do not agree that an entity should be required to place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. Under the proposed amendments, we would record an allowance for principal and interest payments not expected to be received. After recording such an allowance, why should we be required to put the financial asset on nonaccrual status? We invest in marketable debt securities whereby many borrowers' payments are pooled together to make interest and principal payments each month. So while we may not expect to receive all principal and interest over the life of the security (which we would record an allowance for under the proposed amendments), we could continue to receive principal and interest payments over the life of the security. Accordingly, we see certain negatives of requiring nonaccrual status for these assets. First, requiring that these financial instruments be put on nonaccrual status makes the accounting and auditing of the balances more difficult from an operational standpoint. The processes for assuming payments based on payment factors obtained from Bloomberg and accruing interest based on the par value and the coupon rate (adjusted for any discount/premium) and reconciling actual payments to expected payments is embedded in many investment accounting systems. If we were required to re-allocate all cash payments received as reductions to the carrying amount of the security, it makes for more manual processing outside of the standard processes. This process does not make sense when we would have separately recorded an allowance for all expected credit losses. Secondly, this requirement would make the financial information less useful by causing significant reductions to interest income that would later be reflected as reductions in loss expense. For instance, with the acquisition of a purchased credit impaired debt security at a steep discount (which occurred frequently during the financial crisis) the proposed amendments

would require the security to be placed on non-accrual. Over the life of the security, the payments that relate to the portion of the steep discount attributable to non-credit related factors would be applied to the carrying value of the security and eventually lead to the reversal of the day one "allowance" for expected credit losses through the provision for credit losses. Third, we believe that the nonaccrual provisions of this amendment would result in fewer buyers for problem securities. Many potential buyers would not want to purchase an asset for which they were required to immediately put in on nonaccrual status. Lastly, once a beneficial interest in a securitization is on nonaccrual status, it will likely stay there its entire life, regardless of the quality of the cash flow forecast, regardless of the extent of risk of future losses.

For these reasons, we strongly disagree with the proposed amendment requiring credit-impaired assets to be placed on nonaccrual status and recommend the FASB provide an accommodation for determining nonaccrual for such assets.

18. Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

The reconciliation in 825-15-50-15 seems to present information that is not decision-useful information. In particular item c "the accumulated amount needed to reconcile amortized cost less the allowance for expected credit losses to fair value". This amount would not reconcile to any other amount within the financial statements or footnotes. As an alternative the guidance might incorporate a reconciliation of amortized cost to the carry amount on the balance sheet. For example:

amortized cost
+/- unrealized gain/loss included in accumulated other comprehensive income/loss
=fair value
- allowance for expected credit losses
= net carrying amount on the balance sheet.

There also appears to be references to other than temporary impairment included in existing guidance that was not redlined in this proposed update (i.e., 320-10-50-2 aaa and 320-10-50-5 dd).

19. Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

The illustrations and examples seem mostly focused on loans. Since this guidance applies to debt securities classified at amortized cost or fair value with

the qualifying changes in fair value recognized in other comprehensive income, an example specific to debt securities could enhance the guidance. Not only should the guidance provide examples related to debt securities, but more specifically examples related to beneficial interests in securitizations.

We recommend the FASB provide guidance on variable rate instruments. We believe the forward curve needs to be utilized in measuring expected credit losses for variable rate debt instruments. In the case of securitized debt instruments with cash flow waterfalls, future interest rates directly affect the projection of credit losses within the instrument. The use of static interest rates for variable rate instruments would not result in the correct estimate of potential credit losses.

20. Do you agree with the transition provision in the proposed Update? If not, why?

We agree with the cumulative-effect adjustment suggested in the transition guidance. However, we would like to see additional guidance regarding the transition for securities that have previously been found to be OTTI. For securities where OTTI has been previously recorded, we believe that, upon adoption of this amendment, the amortized cost of such securities should be reestablished so that the effect of any remaining impairment is removed. Then the allowance should be established with the net effect of the loss expense and the reversal of OTTI representing the cumulative-effect adjustment to the statement of financial position.

21. Do you agree that early adoption should not be permitted? If not, why?

We agree that early adoption should be permitted.

22. Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

We would likely be an early adopter given that a valuation allowance for securities would: 1.be more consistent with fundamentally similar financial assets (i.e. loans) and 2. provide for faster recognition of improvements in expected losses than the current accounting for debt securities. Having said that, we do see how the accumulation of historical information and creating models to incorporate current conditions and supportable forecasts could be a significant effort for institutions with loan portfolios. Accordingly, we support a delayed effective date for nonpublic entities.

23. Do you believe that the transition provision in this proposed Update is operable? If not, why?

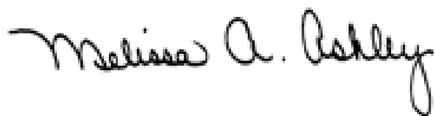
We agree with the cumulative-effect adjustment suggested in the transition guidance. However, we would like to see additional guidance regarding the transition for securities that have previously been found to be OTTI. For securities where OTTI has been previously recorded, we believe that, upon adoption of this amendment, the amortized cost of such securities should be reestablished so that the effect of any remaining impairment is removed. Then the allowance should be established with the net effect of the loss expense and the reversal of OTTI representing the cumulative-effect adjustment to the statement of financial position.

24. How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

We would likely be an early adopter given that use of a valuation allowance for securities would: 1.be more consistent with fundamentally similar financial assets (i.e. loans) and 2. provide for faster recognition of improvements in expected losses than the current accounting for debt securities. Having said that, we do see how the accumulation of historical information and creating models to incorporate current conditions and supportable forecasts could be a significant effort for institutions with loan portfolios. Accordingly, we support allowing entities adequate time to build historical data and implement the needed system and process changes.

I appreciate your attention to this matter and to the points raised in this letter. I welcome a discussion at your convenience. Please feel free to contact me at 614-825-9351.

Sincerely,



Melissa Ashley
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