



National Association of Federal Credit Unions

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April 1, 2009

Technical Director
FASB
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LETTER OF COMMENT NO.

294

File Reference: Proposed FSP FAS 157-e



LETTER OF COMMENT NO.

350

File Reference: Proposed FSP FAS 115-a, F

RE: Proposed FASB Staff Positions - FSP FAS 157-e, FAS 115-a, FAS 124-a, and EITF 99-20-b

Dear Sir or Madam:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), I am responding to the following two requests for comments by the Financial Accounting Standards Board (FASB): 1) FASB Staff Position (FSP) FAS 157-e (FAS 157-e), which would amend FASB Statement No. 157, *Fair Value Measurements* (FAS 157); and 2) proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, which would amend FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets" (collectively, "guidance on OTTI").

Proposed Changes to Fair Value Standards

The first of the two proposals, on fair value accounting, would amend current accounting standards to provide greater flexibility in the valuation of financial assets in inactive markets. In particular, the proposal would allow the application of a two-step process in determining whether a market is inactive for a financial asset covered under FAS 157 and the use of other valuation techniques if the market is determined to be inactive. Under the two step process, a reporting entity must determine: 1) whether a

market for a particular financial asset is inactive by applying twelve factors contained in the FSP; and 2) if those factors indicate an inactive market, determined whether a quoted price is associated with a distressed transactions.

The proposed guidance amending FAS 157 is an extension of guidance issued by FASB in October 2008. NAFCU supported the flexibility provided in that guidance, but urged that any flexibility to fair value accounting standards should be balanced by consideration of transparency. FASB's action in October reinforced the primary objective of FAS 157 – transparency.

NAFCU also supports FAS 157-e as guidance that would provide additional flexibility. While we are supportive of the proposed guidance, we reiterate and emphasize our position that transparency must remain a central goal of valuation standards and that FAS 157 should not be so diluted that transparency in financial reporting is compromised.

We are cognizant of the fact that the current state of securities held by many financial institutions has led some to call into question mark-to-market accounting standards broadly. We are of the belief that despite these calls and need for guidance, such as FSP 157-e, fair value accounting standards serve a critical purpose in the marketplace for financial assets. Indeed, while some short-term benefit from the suspension of fair value could be realized, certain long-term unintended consequences may arise as a result. We agree with the Securities & Exchange Commission's (SEC) December 30, 2008 report to Congress in which the SEC observed that investor confidence, especially those who provide capital, would erode if the standards are suspended.

Nonetheless, NAFCU understands that valuation of financial assets in inactive markets is a challenging proposition. To this end, we believe the proposed guidance on the determination of whether a market is active and if deemed inactive, allowing the reporting entity to use a valuation technique other than one that uses a distressed quoted price, addresses the concerns that Congress, the SEC and others have expressed regarding the inflexibility of FAS 157 in inactive markets.

To realize the full benefit of the guidance, we believe FASB should change the proposed effective date to December 31, 2008. As proposed, the guidance would be effective in annual periods beginning March 15, 2009. As FASB is aware, the market for many of the securities that have presented valuation challenges was inactive in 2008. This is especially true of markets for mortgage backed securities. We believe that providing a retroactive effective date of the guidance could prove useful for financial institutions and regulators to re-evaluate entities' capital and liquidity standings.

Proposed Changes to Other-than-Temporary Impairment

The second of the proposed guidance, FSP FAS-a, FAS 124-a, and ETIF 99-20-b, seeks to make existing other-than-temporary impairments (OTTI) guidance more operational and improve the presentation of OTTIs in financial statements. The current

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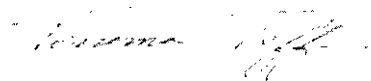
indicator to avoid determining an impairment to be other-than-temporarily impaired is that management must assert that it has the intent and ability to hold an impaired asset for a time sufficient to allow for any anticipated recovery in fair value. Under the proposal, management would have to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before recovery of its cost basis. Further, where there are credit losses associated with an impaired debt security, reporting of the impairment would be separated into: (1) the amount of the total impairment related to credit losses, and (2) the amount of the total amount of the total impairment related to all factors.

NAFCU supports the proposed changes. As FASB has stated, the purpose of OTTI analysis is whether some portion of the unrealized loss on an impaired security is likely to be realized. This analysis provides investors and other readers of financial statements useful information to help them make investment decisions. We believe the proposed changes to the OTTI determination and reporting will provide more information, not less, because, while credit losses would be included in earnings, they would be excluded from other comprehensive income. Thus, investors would be able to see how credit losses factor in particular securities, while at the same time reporting entities would be able to show the quality of those securities they hold both taking into consideration credit losses and without.

Like FAS 157-e, however, we believe FASB should make the effective date for the proposal December 31, 2008, rather than annual periods after March 15, 2009. As FASB is aware, many institutions attribute credit losses to be a significant factor in OTTI charges taken in 2008. As a result, the securities they hold are valued (marked to market) notwithstanding the credit losses component. In order to realize the full positive effect of the proposed guidance, we believe, it is important to ensure that the proposed guidance has retroactive effect and to allow institutions to amend their 2008 financial statements to reflect the proposed analysis.

NAFCU appreciates this opportunity to share its comments on the proposed FSPs. Should you have any questions or require additional information please call me at (703) 522-4770 or (800) 336-4644 ext. 268.

Sincerely,



Tessema Tefferi
Associate Director of Regulatory Affairs