From: John McKenzie
To: Director - FASB
Subject: Indiana Credit Union League"s Comments on Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - File Reference No. 1810-100
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September 7, 2010

Russell Golden
FASB Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Re: File Reference No. 1810-100, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

The Indiana Credit Union League (ICUL) appreciates the opportunity to provide comments on the Financial Accounting Standards Board's (FASB) proposed accounting standards update addressing Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. The ICUL represents 90% of Indiana's 196 credit unions, with those credit unions serving more than two million members.

The exposure draft states, "The main objective in developing this proposal is to provide financial statement users with a more timely representative depiction of an entity's involvement in financial instruments, while reducing the complexity in accounting for those instruments." It is our position that for the primary users of credit union financial statements—the members and regulators— the result of these proposed changes is the exact opposite of what is intended. Credit unions do not have outside investors who rely on the financial statements.

The ability for a credit union to absorb risk from its assets and liabilities is the level of capital available. The only way a credit union can build this capital is through generating net income from operations after losses are accounted for. Because of the volatility of the assets and liabilities that would result from the proposed accounting treatment, the changes discussed in the exposure draft would result in very complex financial statements that do not accurately reflect the true level of capital that a credit union has available to absorb the inherent risk within its balance sheet. As a result of the previous changes to accounting rules for mergers and acquisitions, the regulators have already had to develop an alternative method to determine the true regulatory capital a credit union has available. The proposed changes will result in an even more confusing analysis of the true amount of capital for regulatory purposes, and could result in credit unions being subject to regulatory action that is not necessary.

The exposure draft also states that, "The proposed guidance focuses on providing the most useful, transparent, and relevant information to investors about the financial assets and financial liabilities of an entity." Again, we believe for credit unions, the exact opposite of this intent will be the result. The requirements in the proposal introduce complexity that most members do not need or want. Since the accounting will not reflect how the credit union is managed, the resulting more complex and confusing financial statements may result in members misunderstanding the credit union's financial performance. This could result in unwarranted confusion and damage to the credit union's reputation. It will be more difficult for the readers of financial statements to decipher what a credit union's true operations look like because the reporting rules will have an exclusive focus on finance and trading. Therefore, there is increased risk with credit union members, who may misinterpret the financial statements and withhold (or pull out) funds, or not utilize the loan options and other services available, based on reporting of fair value losses or deficits.

The reliability and comparability of credit union capital, since it will largely be dependent on the fair values of assets with no active markets, will drastically diminish. The reliance on individual modeling in order to determine "market" credit and liquidity spreads on most loans will likely confuse members. We do not expect most credit union members, who are not accountants, to fully understand the impact of fair value results on the credit union's financial statements and interpret the information in a meaningful way.

Additionally, drastically higher cost will be incurred to provide these fair value estimates without any real benefit. The higher operational costs may eventually drive out product offerings that may be subject to greater fair value volatility (loans with long-term fixed interest rates, or to those with lower credit scores are examples) or drive up the rates offered. This is counterintuitive to the expectation that credit unions provide service to people of modest means and reach out the underserved members of their communities.

As not-for-profit, financial cooperatives, credit unions maintain a unique structure in the financial services marketplace. The accounting issues addressed in this exposure draft do not make sense for application in the credit union environment. We strongly encourage FASB to not adopt the Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities addressed in this exposure draft. Should FASB determine that these accounting rules do have applicability in some segments of the financial services market, we would recommend suspension of these proposed amendments for not-for-profit credit unions of all asset sizes, not just a four year deferral for those credit unions with assets less than $1 billion.

Thank you for the opportunity to comment on this important issue.

Sincerely,

John McKenzie
President
Indiana Credit Union League