1810-100
Comment Letter No. 545

southwest corporate
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Via Email: director@fasb.org

Mr. Russell G. Golden
FASB Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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File Reference: No. 1810-100 - Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

Southwest Corporate Federal Credit Union ("Southwest Corporate") appreciates this opportunity to comment on the proposed Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (the "Proposed Guidance").

Southwest Corporate is a federally chartered corporate credit union whose principal activity is to provide investment, financial and payment products to approximately 1,400 federal and state-chartered natural person credit unions. Southwest Corporate manages a balance sheet of approximately $9 billion, of which approximately $3.5 billion is invested in marketable securities that are classified as available-for-sale. Southwest Corporate is a liquidity provider to natural person credit unions. As such, its investments are generally comprised of marketable securities instead of a portfolio of unsecuritized loans to individuals. Southwest Corporate is a buy and hold institution; however, it historically classifies all securities as available-for-sale in order to fulfill its role as a liquidity provider.

Reversal of Credit Impairment

Southwest Corporate supports the Proposed Guidance which would allow immediate reversal of credit impairments if loss projections improve, instead of recording yield adjustments over the life of the security. Immediate reversal would align accounting practices for investment securities with existing and proposed accounting practices for loans.

Like many large financial institutions, Southwest Corporate has recorded substantial credit impairments on its portfolio of mortgage-backed securities over the past two years. However, in 2010 Southwest Corporate has seen material improvement in overall projected losses due to an upward change in expectations for the collection of cash flows from credit impairments already recognized. Current accounting guidance requires additional impairments if cash flows worsen, but does not provide for immediate recognition of cash flow improvements. As a result, performance is not accurately reflected in this one-way accounting.

Southwest Corporate believes it is **critical** to allow entities to adopt this provision of the Proposed Guidance early, so that improvements in loss projections can be reflected accurately in 2010 audited financial statements. This issue could and should be addressed through a separate guidance letter.

Credit Impairment

In determining whether a credit impairment exists, the Proposed Guidance requires an entity to consider all available information relating to past events and existing conditions and to consider implications for collectability of cash flows attributable to the financial asset(s) at the date of the financial statements. According to the Proposed Guidance, an entity cannot forecast future events or economic conditions that do not exist at the reporting date.

Southwest Corporate believes the International Accounting Standards Board's "expected loss approach" – which requires an entity to estimate credit losses on the basis of probability-weighted possible outcomes and allows for forecasting future events or economic conditions that do not exist at the end of the reporting period – is a more appropriate approach to determining credit impairment. Future events and economic conditions are common factors used in the underlying assumptions for estimating credit losses and fair value in the securities market. The volatility of the recent economic environment further supports the importance of accurately forecasting future events in estimating credit impairment. Additionally, broker (fair value) quotes implicitly include forward outlooks on such items as voluntary prepayments, defaults and severity of losses. These forecasts change over time and are based on economic projections for unemployment, housing prices and interest rates.

The credit impairment model presented in the Proposed Guidance would require Southwest Corporate to discontinue use of credit projections from third party firms to determine impairments. The third party firms utilize a forward economic forecast when they estimate both market prices and losses on mortgage-backed securities.

Fair Value of Investments that are Redeemed for Par

Southwest Corporate believes financial instruments that can be redeemed only for a specified amount – such as capital stock in Federal Home Loan Bank and Federal Reserve Banks and investments in certain agricultural cooperatives - should be measured at their redemption amounts for fair value.

As a cooperative owned by its member credit unions, Southwest Corporate believes the example in the guidance should be expanded to specifically include investments in corporate credit unions since capital investments in corporate credit unions can only be redeemed at par.

Classification and Measurement

Southwest Corporate does not support the proposed fair value classification and measurement approach in the Proposed Guidance. Southwest Corporate believes that the amortized cost remains a more meaningful measurement when it is accompanied by fair value disclosure in the notes to the financial statements. Requiring a fair value measurement for credit union loans improperly reflects and is inconsistent with the business strategy of most credit unions. Requiring fair value measurement for loans will result in misleading volatility in reporting. Specifically, credit union loans to members are generally non-conforming and do not have an active or liquid market. As such, estimating the fair value for credit union loan portfolios could pose significant issues, as there is no reliable market to derive benchmark prices for these loans. The resulting Level 3 pricing would be open to subjectivity and would thus increase the degree of non-comparability of capital adequacy between institutions. The requirement for fair value measurement could impact capital negatively and actually decrease credit availability in the marketplace in a very pro-cyclical manner.

I appreciate your consideration of the points raised in this letter and welcome a discussion at your convenience. Please feel free to contact me at 214-703-7890.

Sincerely,

Melissa Wardell

Melissa Wardell
SVP-Chief Financial Officer
Southwest Corporate Federal Credit Union