September 27, 2010

Financial Account Standards Board

Re: Comments on Proposed Exposure Draft "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities", File Reference No. 1810-100

These comments are written on behalf of the 3100 owner-members of our federal credit union. The proposed exposure draft would have serious adverse impact our credit union, and its ability to provide services to its members. In this comment all references to credit unions are intended to refer to natural person credit unions and not corporate credit unions unless so stated.

FASB identified in *Statements of Financial Concepts No. 2* certain constraints on the conceptual framework that forms a bridge between the objectives of accounting and the methods used to reach those objectives. Relevant to this discussion is the cost/benefit constraint.

The benefits identified in the proposed exposure draft include increased transparency for investors, more information about how an entity operates its business, a single model for estimating credit losses for all financial instruments, and more timely credit loss recognition.

The benefits described are questionable for a variety of businesses. For a member-owned financial cooperative such as a credit union especially there would be little benefit. Credit unions do not have investors in the manner of a bank that is owned by shareholders. The vast majority of members lack the knowledge to understand the proposed measurement and presentment of loans and deposits. Those members rely upon the guarantee of the National Credit Union Share Insurance Fund of $250,000 per depositor. The integrity of that fund is assured through the examination process of the National Credit Union Administration (NCUA). Thos examiners already look beyond the financial statements to understand the business model and how it is working. To the extent that credit unions have lenders they would be the Federal Home Loan Board or corporate credit unions that have the expertise and experience to understand the risk without these changes.

The costs of these proposed standards would be substantial. Small credit union would not have the in-house staff to conduct these measurements. Indeed, even medium and large credit unions would likely be required to outsource this as a substantial cost. This credit union has been designated by the NCUA as one that serves a Low Income membership. It has also been certified by the U.S. Treasury as a Community Development Credit Union (CDCU). Every dollar spent on complying with this standard means higher fees will be charged to members for the services they use at the credit union. These are the people who could afford it least. This makes it more difficult to bring the unbanked into the traditional financial services and out of the world of the predatory lenders and currency exchanges.

In addtion to the costs of compliance, there are concerns that the measurement of loans at fair value will adversely affect capital. Given that this credit union is a CDCU, many of its loans are made to members with weak credit at rates that are less than those charged by for-profit lenders. It appears that every time one of these loans was written it would have a negative impact on the credit union's net worth.

The cost –benefit constraint is a fundamental concept in accounting. It is the opinion of this credit union that there are significant costs with little resulting benefit to this proposed standard. Imposing this standard would have a disparate impact on small credit unions, especially those that are CDCU and serve low income memberships.

Respectively submitted,

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