

September 30, 2010

Via e-mail

Mr. Russell Golden, Technical Director Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)

Mr. Golden,

Thank your for the opportunity to provide comments on the above referenced Financial Accounting Standards Board (FASB) proposed standards update. Westerra Credit Union is a member owned financial institution serving approximately 86,000 members in the greater Denver metropolitan area. We are one of the largest credit unions in the state of Colorado, with over \$1 billion in assets under management.

The Board notes in the proposal's summary that their goal is to provide "a single converged financial reporting model for financial instruments that provides investors with the most useful, transparent, and relevant information about an entity's exposure to financial instruments." Westerra Credit Union believes that the fair value measurement requirements in the above noted proposal fail to meet the stated objectives for several reasons:

- Misalignment of financial reporting and business models. Financial statements should provide information to a user that is relevant to how an entity actually manages the business. Applying fair value measurement to all financial assets and liabilities makes a broad presumption that all financial instruments are managed alike. That presumption is flawed. Financial institutions originate and invest in loans for a broad range of reasons, including re-sale for immediate profit and holding to maturity for realization of investment returns over the expected life of the asset. Likewise, deposits and liabilities are collected and held for a broad range of business objectives and needs. Fair value accounting implies that the entire balance sheet is held for re-marketing or liquidation, which contradicts most financial institution business models and is misleading and irrelevant to the users of those institutions financial statements.
- Disregards the importance of robust asset-liability management. The Board notes that "Asset-liability management is core to the business strategy and analysis of financial institutions." That statement is right on point, but it fails to recognize the complexity needed for complete and robust asset-liability management (ALM). Current ALM best practices combine a variety of

techniques and inputs to measure and assess market and credit risk, including Net Interest Income volatility measurements, Net Economic Value stress tests, scenario testing, and backtesting of key assumptions. The risk profile that these ALM processes present cannot be adequately captured, and the related business risk cannot be adequately evaluated, in a static balance sheet format.

- Volatility of the balance sheet. Most financial assets and liabilities held by financial institutions would need to be valued using Level 2 inputs, i.e. observable inputs other than quoted market prices. These would include yield curves, prepayment speeds, volatilities, loss severities, default rates and credit risk measures. Each of these inputs is impacted by broad economic and social forces including investor demand and sentiment, legislative actions, and economic conditions and expectations. That represents a significant set of assumptions and dependent factors, a change in any one of which can dramatically impact valuations without any change in the actual business model or quality of assets or liabilities of an entity. Recent events have underscored the fact that markets and market participants do not always act rationally. The resulting volatility significant decreases usability of financial statements, by reducing comparability amongst financial institutions and by complicating the ability of users to accurately assess changes in financial condition. A financial institutions' regulatory capital could also be significantly impacted by increased volatility, potentially subjecting otherwise sound institutions to undue regulatory action. Member owned credit unions generate capital form one source, the net income that results from operations. We therefore do not have the ability to acquire alternative capital as a remedy to offset the volatility and reduction in our capital this accounting treatment may cause. Our Members care about our capital and the stability of that capital as it represents to them a solid financial institution. The volatility and fictional reduction in our capital position that could occur will not appropriately reflect the value of our credit union and will unnecessarily undermine our members' confidence.
- Reliability of estimates. As noted in the previous point, a significant set of assumptions are
 needed to value financial institution assets and liabilities. The vast majority of financial
 institutions are local and regional institutions, and in many cases, observable inputs for each
 assumption are limited or may be observable only at a national level. The lack of reliable or
 relevant fair value inputs for these institutions will produce less reliable financial information for
 their users.
- Added complexity of financial statements. Attempting to capture credit and market risk in a
 single balance sheet measure, with a reconciliation back to historical cost, adds significant
 complexity to the balance sheet without actually adding any useful information as to risk. Users
 who do not possess an in-depth and sophisticated understanding of the markets and economic
 forces that are impacting fair value measures are likely to draw incorrect assumptions about an
 institutions risks and financial health.
- Failure to satisfy the cost-benefit test. Increased complexity and increased cost in any aspect of business operations should generate sufficient returns or business benefits to be justifiable. The proposed fair value rules fail this test. Most financial institutions will incur substantial costs to comply with the rules, primarily for outside consulting expertise needed to value assets and liabilities and for increased audit time needed to assess reasonableness of those estimates. However, as we've outlined above, the additional cost will only result in what we feel are less relevant and useful financial reports, therefore no benefit is gained with the added cost.

Westerra Credit Union believes that the FASB's stated goal of providing financial statement users with the most useful, transparent, and relevant information about an entity's exposure to financial instruments would best be served by modifying, enhancing and perhaps expanding the required disclosures relative to financial assets and liabilities. Educating financial statement users about risks in an entity's balance sheet can only be achieved via robust information, which cannot be presented in a static balance sheet format. Enhanced balance sheet disclosures provide the opportunity to present full and complete information around assumptions, stress testing and analysis. Disclosures should leverage existing ALM analysis, which is based on well established valuation techniques and methods, thereby minimizing any additional reporting costs.

Westerra Credit Union would also like to briefly comment on the proposed changes to the credit impairment model. It is fair to say that credit impairment is currently the most closely monitored and evaluated item on a financial institution's balance sheet. The existing accounting framework, including FASB and regulatory guidance, is more than sufficient to ensure proper recognition of credit losses and matching of those losses with revenue streams. Requiring earlier recognition of losses only serves to increase volatility of the balance sheet, as the loss estimate inputs used to measure credit impairment would be inherently less reliable.

Thank you for your consideration of these comments. If you have any questions, please feel free to contact us.

Sincerely,

Westerra Credit Union

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