



September 30, 2010

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

RE: File Reference Number 1810-100

Dear Mr. Golden:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions (FCU), I am writing to you regarding the Financial Accounting Standard Board's (FASB) Exposure Draft: *Accounting for Financial Instrument and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (Exposure Draft).

NAFCU appreciates the opportunity to comment on the Exposure Draft. **NAFCU believes that should the Exposure Draft be adopted, it would create unnecessary confusion, impose unwarranted costs on credit unions, distort credit unions' financial conditions and operations, and ultimately cause harm to credit unions and the 92 million credit union members in our nation.**

Accordingly, NAFCU strongly opposes the Exposure Draft and urge FASB to withdraw it.

The Exposure Draft would significantly expand fair value accounting so most financial assets and liabilities, including loans held-to-maturity, would be measured and reported using both amortized cost and fair value accounting methods. In addition, a new item called "other comprehensive income" would be introduced to credit unions' financial statements. Loans that are available for sale would be measured at fair value. Further, core deposits would be measured using a present value method that reflects the economic benefit that an entity receives from the deposits.

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Expansion of Fair Value Accounting Will Cause Confusion and Distort Balance Sheets

NAFCU believes that expanding fair value accounting to loans held-to-maturity and other financial instruments that are not for sale will cause confusion and potentially irreparably harm credit unions. There are no active or orderly markets for loans held-to-maturity, and as a result, reliable and objective valuation cannot be obtained for these assets. Credit unions would be forced to incorporate subjective analysis to assign values. Thus, the values assigned to these financial instruments would not only fail to be informative, but would also mislead readers of the financial statements and distort a credit union's financial condition. We do not believe a system that would lead to distorted and misleading values should be considered as an option.

Federal credit unions are not-for-profit cooperative entities that are chartered to serve their members. They meet their mission by accepting deposits from and extending loans to their members. Further, because FCUs' capital is limited to retained earnings, which is generally the difference between the assets they hold and their liabilities, FCUs rely on their members' use of their financial products to generate the cash flows necessary to conduct their operations. Thus, it is important that credit union members, who are ultimately the primary readers of credit unions' financial statements, are provided with clear and transparent information regarding their credit unions. If the proposal is adopted, however, the result would be the opposite.

The impact of the proposal on credit unions would be especially acute because credit unions generally offer loan products below market rates. They are able to offer below market rates because they are driven by a non-profit cooperative service motive, and do not have a profit motive. Should FASB adopt the proposal and credit unions are required to report at fair value products they provide to the members at below market rates, the rate differential would translate into a loss through other comprehensive income. Thus, the balance sheet of an otherwise healthy credit union with a prudential motive and business model would unfairly and inaccurately reflect losses on assets on which it did not incur any losses.

Further, if FASB adopts the Exposure Draft, credit unions' balance sheets would depict values that are volatile, which would occur due to use of fair valuation. Balance sheets would contain inconsistencies, which would occur because there would be multiple valuations of single financial instruments within a particular financial statement. The consequence would be to create confusion and uncertainties among credit union members about the financial condition of their credit union. It is a real possibility that this could result in members withholding deposits or refraining from using credit union products, consequently causing irreparable harm to credit union.

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The Exposure Draft Will Be Costly while Providing Little or No Benefit

NAFCU has heard from our members that the cost associated with the proposed accounting changes will be significant. These costs will not only derive from hiring new staff, training, software investment, conducting analysis and audits, and other operational costs, but also from costs that would result from regular and periodic adjustments to loan and deposit portfolios. Because credit unions fund both their operations and their product lines from retained earnings, increased operational costs will undoubtedly affect their ability to offer low-cost financial services and products to their members.

On the other hand, NAFCU does not see any benefits the proposed changes would provide. A main objective for the proposed changes is to benefit investors. However, such benefit would not apply to credit union loans that are held-to-maturity because of the fact that the loans are not available for sale and credit unions do not have investors. The same is true for other financial assets, such as accounts receivable and payable, which are also not for sale. We firmly believe that rather than making financial statements more transparent, the changes would make them less clear and more confusing.

NAFCU appreciates the opportunity to comment on the Exposure Draft. Should you have any questions or would like to discuss these issues further, please contact me at (703) 842-2215 or fbecker@nafcu.org or Tessema Tefferi at (703) 842-2268 or ttefferi@nafcu.org.

Sincerely,



Fred R. Becker, Jr.
President/CEO