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Technical Director
Financial Accounting Standards Board
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The focus of our comments related to FASB's Proposed Accounting Standards Update on *Disclosures about Liquidity Risk and Interest Rate Risk* (Exposure Document) is on the interest rate risk disclosures, specifically for credit unions.

The proposed interest rate risk disclosures, if passed, would provide dangerous and misleading information about the safety and soundness of a financial institution, and therefore, the financial services industry.

Our primary concerns are:

1. The inclusion of credit unions
2. FASB taking a one-size-fits-all approach
3. The requirement to use antiquated and inadequate methodologies

The Exposure Document states, "The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions." It is our belief that credit unions should be exempt from this Proposed Update since they do not seek capital market participation, donors or potential investors. They also do not issue bonds to creditors. As a result of the credit union structure, the Benefits versus Cost of the proposed disclosures is not appropriate for credit unions.

While there are many aspects of accounting and financials where the one-size-fits-all approach may make sense, interest rate risk is not one of them. FASB is attempting to take the very complex issue of quantifying interest rate risk and forcing all financial institutions to quantify risk in the same fashion, or squeeze them into a one-size-fits-all approach. This directly contradicts the NCUA's recently released Interest Rate Risk Policy and Program Final Rule that goes into effect September 30, 2012. In the rule, NCUA clearly states that a one-size-fits-all approach to interest rate risk quantification is not appropriate. It doesn't make sense for FASB to establish a one-size-fits-all approach that is contradictory to the NCUA's new IRR rule, and may confuse a decision-makers responsibility to disclose information to fulfill this FASB standard at odds with regulations set by NCUA, the insurer of the credit union industry.

The proposed reporting would not provide reliable information regarding a financial institution's exposure to fluctuations in market interest rates. In fact, if used as a basis for determining and managing risk, FASB would invite a material increase in exposure to risk taking in the financial services industry. Present and potential investors, creditors, donors and other capital market participants should understand that each organization is unique and therefore requires unique due diligence. To have any governing body impose a requirement that would delude the end user of the financial statements regarding the exposure to interest rate risk is imprudent.

The required methodologies of GAP Analysis and one-year income simulation are inadequate for disclosing interest rate risk. As documented by the NCUA in its Interest Rate Risk Policy and Program, 12 CFR Part 741, and the FFIEC in its Advisory on Interest Rate Risk Management, the GAP analysis is more appropriately suited to small institutions with simple balance sheets. Additionally, we believe that the one-year income simulation is inadequate to accurately disclose risks to earnings and shareholder equity. As documented by the FFIEC in the Interagency Advisory on Interest Rate Risk Management, Frequently Asked Questions from January 12, 2012, *"Although not expected for community institutions with less-complex balance sheets, longer-term simulations (five to seven years) are a useful tool to highlight option risk positions and better evaluate risk. Long-term simulations can provide a complementary metric to "risk-to-capital" measurements, allowing institutions to understand how interest rate shifts could affect future earnings over longer time horizons."* Additionally, it appears from the Exposure Document that the disclosures would require static balance sheets for the one-year analysis. History shows that when rates change, the mix of assets changes. To assume the asset mix or liability mix does not change is a simplifying and unrealistic assumption, and could provide misleading information to the end users that lead to unintended consequences. On top of this, the simplifying assumption of holding loans constant as a percent of assets also needs to be evaluated.

FASB states throughout the document the comparability across institutions is a key objective in order for the report to be useful. **Placing a higher priority on the objective of achieving comparability across institutions versus good decision information is not a prudent decision driver in running a business.** Further, FASB's methodology does not achieve an apples-to-apples comparison. At the risk of FASB adding more requirements, we believe it is important to point out that, while FASB is promoting no change in asset mix, they are not standardizing new volume repricing of assets and liabilities to keep the balance sheet a constant size. An institution may assume that loans can be made at much higher yields when others may assume lower yields. Higher yield assumptions would create better results. Additionally, they may assume that they would not have to increase rates on deposits as rates increase. Therefore, it will not provide the simple comparability that FASB is seeking.

Auditor expertise

As noted earlier, quantifying interest rate risk is very complex. If the Proposal is accepted and goes into effect, how long will FASB allow for auditors to get specialized training that will result in appropriate expertise for auditors to effectively audit the interest rate risk reporting?

Conclusion

For many reasons, just a few stated above, the Proposal does not provide useful decision information to present and potential investors, creditors, donors and other capital market participants and, contrary to its stated objectives, will likely create an unrealistic measure of safety and soundness.

We hope you take our comments in to consideration as you review the above proposed update. Should you have any further questions or would like more feedback, please feel free to contact me directly at the number below.

Sincerely,

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