Letter of Comment No: 8
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September 23, 2004

Financial Accounting Standards Board
Attention: Director, TA&I - FSP
401 Merritt 7
Norwalk, CT. 06856-5116

Re: FSP EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other –Than-Temporary Impairment and Its Application to Certain Investments"

Ladies and Gentlemen:

I would like to express my comments regarding this FSP. In light of the numerous interpretations that are being formed in regards to this issue, I am extremely pleased that the Board has decided to provide clarity. Although most of the contents of this SOP applies to investments covered under paragraph 16, my concern is not.

In all cases that I am aware of, credit unions in the United States are prohibited from investing in equity securities as a matter of regulation. This places the focus of investing excess funds in primarily debt securities. An exception to this would be a mutual fund, providing that the fund contains only the types of securities that the credit union is authorized to invest in directly.

Therefore, the underlying securities within these funds are primarily debt securities which are subject to price volatility due to shifts in interest rates. As mentioned in EITF 03-01, "Investors should not "look through" the form of their investment to the nature of the securities held by an investee. For example, an investment in shares of a mutual fund that invests in debt securities would be assessed for impairment as an equity security under this Issue."

As the SVP-CFO of the credit union with the largest mutual fund holdings in the nation, I am concerned with the applicability of this issue. It is my belief that my institution has demonstrated the ability and intent to hold these investments until recoverability. Having been invested in these funds for over 12 years, we have withstood many interest rate cycles without consequence. Within the last two years, we have been able to liquidate some of our holdings at a market price which exceeded our cost basis. Despite the various time periods between these cycles, we have considered periods of unfavorable market value as "temporary".

I am pleased that some Board members support expanding the notion of "minor impairment" to all investments analyzed under Issue 03-1 (to additionally include investments cover under paragraphs 10-15) because they acknowledge that normal price volatility may eliminate impairment.

At the September 8th Board meeting, I believe that Board member Schipper expressed a reasonable opinion that securities deem as "equity" investments can and do have "minor impairment" due to fluctuations in interest rates.

Therefore I do not support the Board's conclusion to limit the notion of "minor impairments" to debt securities analyzed for impairment under paragraph 16 that are impaired because of interest rate and/or sector spread increases.

I would encourage the Board to provide for a degree of acceptable "minor impairment" for at least mutual funds which predominately consist only of debt securities.

Thank you for the opportunity to comment.

Sincerely,

Scott M. Waite
Senior Vice President and
Chief Financial Officer
Patelco Credit Union

Member of the Financial Accounting Standards Advisory Council
Member of the FASB Small Business Advisory Committee