

Credit Union National Association, Inc.

CUNA & Affiliates
A Member of the Credit Union System

601 Pennsylvania Ave. NW, South Blog. Suita 600 Washington, D.C. 20004-2001 Telephone; (202) 638-5777 Fax: (202) 638-7734 Web Site: www.cuna.org

September 8, 2004

Via E-Mail:

Letter of Comment No: / File Reference: 1201-100
Date Received: 9-9-04

Re. File Reference No. 1201-100, Proposed Statement of Financial Accounting Standards – Fair Value Measurements

Dear Sir or Madame,

The Credit Union National Association (CUNA) is pleased to provide comments on the Financial Accounting Standards Board's (FASB's) proposed Statement of Financial Accounting Standards regarding fair (market) value measurements. By way of background, CUNA is the largest national trade association serving credit unions, representing approximately 90 percent of the nation's 9,400 state and federal credit unions. CUNA's letter was developed under the auspices of our Accounting Task Force.

The Exposure Draft (proposal) would establish a framework for measuring fair value that would apply to financial and nonfinancial assets and liabilities. The Statement would not establish requirements for when to measure assets and liabilities at fair value; rather, it would provide guidance as to how to measure fair value when required under FASB's pronouncements. The proposed Statement is intended to clarify the prescribed approach for estimating fair values and provides for enhanced footnote disclosures. This proposed Statement is especially important to credit unions because under the purchase method of accounting in FASB's Business Combinations project, the credit union deemed to be the "acquiring" credit union in a merger would have to determine and reflect on its financial statements the fair value of the acquired credit union's balance sheet (including goodwill and intangible assets).

CUNA would also like to take this opportunity to voice its continuing concern with the fair value aspect of the business combinations project. Specifically, significant costs for credit unions would be involved in determining the fair value of the acquired entity's balance sheet, including the determination of goodwill and intangible assets. Further, there would be ongoing costs associated with assessing any potential impairment of goodwill and intangible assets (annually at a minimum). We urge FASB not to proceed with the Business Combinations project as it currently stands.



Summary of CUNA's Position

- CUNA applauds FASB for its efforts to bring together existing guidance on fair value measurement from a range of FASB pronouncements and provide a framework to assist users in making fair value calculations.
- CUNA urges FASB to maintain up-to-date references in the final Statement as to what FASB pronouncements fall within the scope of the Statement as well as references in the appropriate provisions in FASB pronouncements directing users to the Final Statement.
- CUNA encourages FASB to provide more concrete guidance in measuring the fair market value of the core deposits of financial institutions to improve consistency
- CUNA strongly believes that requiring credit unions to include enhanced disclosures on their financial statements using fair market value would not add value to the management or membership of credit unions.
- CUNA urges FASB to delay for one year the effective date of the Statement for credit unions.

Discussion

CUNA commends FASB for its efforts to develop a Statement that clarifies the measurement of fair value and its application in GAAP. We believe that consolidating and standardizing existing fair value-measurement guidance in one place will improve the consistency, comparability and reliability of fair value measurements. It will make it easier for credit unions and other entities because they will be able to go to one place to find comprehensive guidance on measurements when directed by a FASB pronouncement to measure certain assets or liabilities at fair value.

The proposed Statement is to apply to assets and flabilities measured at fair value under "other pronouncements", with five exceptions (FASB pronouncements that address share-based payment transactions, leasing transactions, revenue recognition measured using vendor-specific objective evidence of fair value as well as FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, and ARB No. 43, Chapter 4, "Inventory Pricing"). We feel that the term "other pronouncements" may be confusing to users. When this proposed Statement is finalized, we therefore suggest that FASB include a cross-reference to this Statement in the provisions of the pronouncements that fall within the of the fair value measurement Statement. In addition, the Statement's list of pronouncements that fall under its scope and those that do not should be explicitly listed and kept up-to-date.

The proposed Statement would require that in the absence of quoted prices for identical or similar assets or liabilities in active markets, fair value should be estimated using multiple valuation techniques consistent with the market approach, income approach and cost approach. Appendix B provides general guidance for applying multiple valuation techniques. While the guidance is basically sufficient, CUNA believes that the guidance does not adequately address the fair value measurement of the core deposits of financial institutions. Share draft (checking) accounts and savings accounts are defined as core deposits for credit unions (financial institutions) and typically provide a base deposit level for an institution. There is still a great room for subjectivity as there are several techniques to choose from. More concrete guidance in this area would assist in creating more consistent measurement practices.

CUNA does not support the proposed Statement's expanded disclosures about the use of fair value. The proposed Statement would require entities to remeasure assets and liabilities recognized in the statement of financial position. Further, entities are encouraged to make disclosures about other similar measurements that, like fair value, represent current amounts. FASB indicates that expanded disclosures are important in order to provide useful information about the condition of the entity to present and potential investors, creditors and others in making decisions such as whether to invest in the entity or extend credit to the entity. CUNA does not believe that such disclosures would be valuable in the case of credit unions. First, credit unions are private entities that are owned and run by their members; but members cannot buy or sell their interests in the credit union. The members who look at their credit union's financial statements with such disclosures may become confused if it is difficult for them to understand the disclosures and how the fair values were calculated. Second, the National Credit Union Administration, the federal government agency that charters and supervises federal credit unions, has implemented ALM (asset liability management) review as part of its examination procedures. The review requires credit unions to perform thorough analysis of interest rate risk and liquidity risk on their balance sheets. We feel that a description of the valuation methodologies in the disclosure of significant accounting policies is sufficient for normal financial statement presentations. If the final Statement includes these disclosure provisions, CUNA encourages FASB to clarify that assets recorded at cost or fair market value when acquired and depreciated do not have to be remeasured every accounting period.

CUNA encourages FASB to modify the effective date with respect to its application to credit unions and other non-public entities. As it currently stands, the proposed Statement would be effective for financial statements issued for fiscal years beginning after June 15, 2004. We believe it would be appropriate to delay the effective date by one year for private/not-for-profit entities so that they have time to adjust their systems. For non-public entities that are ready and would like to follow the Statement earlier, nothing would prevent them from earlier implementation. Such a move would not be unprecedented. FASB made accommodations in its combinations of not-for-profit entities project. Further, the Sarbanes-Oxley provisions do not apply to non-public organizations. While many credit unions are very familiar with using fair value, they might not be in all areas. Therefore, many credit unions will need to make some internal accounting changes to comply with the Statement when finalized.

CUNA also has concerns regarding application of the proposed Statement to smaller credit unions. Smaller credit unions do not have the expertise on their staff to apply the fair value calculations. Staff would have to receive additional training or, more likely, pay an outside consultant or appraiser. Both options would be time-consuming and potentially expensive, putting a burden on those credit unions. Therefore, a delay in the Statement's effective date would be helpful for smaller credit unions.

Sincerely,

Mary Mitchell Dunn

SVP and Associate General Counsel

Mary Will Denil

Catherine A. Orr

Senior Regulatory Counsel

Catherine O. Over