



March 30, 2009

Via Email: director@fasb.org



LETTER OF COMMENT NO. 129

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

File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20b

Dear Mr. Golden:

Constitution Corporate Federal Credit Union ("Constitution Corporate") appreciates this opportunity to comment on the proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20b *Recognition and Presentation of Other-Than-Temporary Impairments* (the "Proposed FSP").

Constitution Corporate is a federally chartered corporate credit union whose principal activity is to provide investment, financial and payment products to 160 federal and state-chartered natural person credit unions. Constitution Corporate manages a balance sheet of approximately \$1.6 billion, of which approximately \$1.0 billion is invested in marketable securities. Constitution Corporate is a liquidity provider to natural person credit unions and as such primarily classifies its securities as available for sale. However, in practice, we have followed the practice of buy and hold to maturity.

Constitution Corporate agrees that the focus on credit losses in the Proposed FSP is appropriate. We believe this approach better reflects the underlying economics of securities held by an institution. The current financial crisis has exposed the weaknesses of the existing accounting guidance and we believe that amending the accounting rules is a better solution to suspending fair value accounting as some have suggested.

A weakness with current accounting guidance results in charges for impairment in excess of actual projected losses and thus unnecessarily reduces capital and increases the volatility of earnings. These losses reverse in future accounting periods as securities continue to pay their expected cash flows. Therefore, in the short term, current guidance results in excessive charges to earnings with a needless loss of confidence by customers, investors, regulatory authorities and rating agencies. In addition, earnings are misstated in the long term as impairment charges are recovered in future periods.

Constitution Corporate believes the Proposed FSP is a significant improvement over current guidance as it would more closely align accounting treatment of investment impairment with that of loan loss accounting. In addition, we believe the Proposed FSP will reduce the effect of

temporary market volatility on net income during bull and bear markets. However, we request you consider the following comments.

- The Proposed FSP should allow retrospective application to year-end 2008 financial statements. Constitution views the proposed changes as more substantive than a change in accounting estimate and therefore all companies should be permitted to report the impact of the change on their 2008 financial statements. Limiting application of the proposed guidance on a prospective basis penalizes companies that recorded impairment charges in 2007 and 2008 at fair value estimates that included significant liquidity premiums. Those impairment charges in many cases are significantly greater than expected credit losses. In addition, prospective application will reduce the usefulness of comparing financial results to prior years.

Absent retrospective application, provisions should be made to permit the cumulative effect of the proposed changes to be recorded as of the implementation date. Doing so will effectively recover capital amounts that were previously recorded through impairment charges above expected credit losses.

- The Proposed FSP should permit the reversal of previously recorded impairment charges. The Proposed FSP is significantly different from loan-loss accounting which allows changes in facts and estimates to be considered when determining expected losses. The estimation of credit losses on debt securities backed by residential mortgages are impacted by changing economic conditions as reflected in variables such as delinquencies, defaults, foreclosures, loss severity and home prices, among others. Therefore, we believe impairment charges should reflect not only the deterioration of underlying economic fundamentals, as have been experienced over the past 18 months, but also improvement in those same fundamentals through an economic recovery.
- To be consistent with loan loss accounting, the Proposed FSP should not require recording of insignificant credit losses as impairment. Also, in addition to immaterial amounts, we recommend that insignificant delay and insignificant shortfall in the amount of payments should not require application of the Proposed FSP.

The proposed FSP is a significant improvement over current accounting and we encourage FASB to implement the changes presented. We thank the Board for its consideration of our views and welcome the opportunity to discuss this matter with the Board and its staff. Please contact me at (203) 697-6040 if you want to discuss any of the issues.

Sincerely,



Michael C. Kinne
Chief Financial Officer
Constitution Corporate Federal Credit Union