



LETTER OF COMMENT NO.

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Sent:

Thursday, March 26, 2009 9:17 AM

To:

Adrian Mills; Diane Inzano; Joseph Vernuccio; Kevin Stoklosa; Kristofer Anderson; Mark Trench;

Meghan Clark; Peter Proestakes; Russell Golden; Vita Martin; Wade Fanning

Subject: FW: comment on the proposed FASB Staff Position No. FAS 115-a,

From: Bill Lawton [mailto:wlawton@cfcu.org]
Sent: Wednesday, March 25, 2009 6:15 PM

To: Director - FASB **Cc:** Meg Pankow

Subject: comment on the proposed FASB Staff Position No. FAS 115-a,

March 25, 2009

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

File Reference:

Proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b

Proposed FASB Staff Position 157-e

Dear Mr. Golden:

We appreciate the opportunity to comment on the proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments (hereinafter referred to as the proposed OTTI FSP) and the proposed FASB Staff Position ("FSP")157-e, Determining Whether a Market is not Active and a Transaction is not Distressed (hereinafter referred to as proposed Fair Value FSP). We applaud the Financial Accounting Standards Board ("FASB") for continuing to reassess the current impairment accounting model and fair value accounting model and for the FASB's commitment to have the guidance applicable for this quarter. We also applaud the FASB for the proposed OTTI FSP as we agree that it is a significant improvement from the current accounting model. We have focused our letter on a few aspects of the proposed FSPs that we believe the FASB should consider during its deliberations.

Proposed OTTI FSP

We agree that the credit component of OTTI for held-to-maturity investments should be recorded in income but believe that the non-credit component should not be included in income or accumulated other comprehensive income. The non-credit component should be disclosed in the footnotes to the financial statements. For available-for-sale securities, we agree with recording the non-credit component in other-comprehensive income,

as such securities are always carried at fair value.

The FASB should consider removing the gross presentation in the income statement of impairment losses offset by non-credit impairment in the proposed OTTI FSP. We believe the proposed presentation is inconsistent with the loan accounting presentation for loans held for investment. Also, we believe that this presentation confuses and complicates the face of the financial statements with information that is more appropriate for inclusion in footnote disclosures.

Finally, the FASB should require the proposed OTTI FSP to be applied retrospectively, in accordance with SFAS No. 154, Accounting for Changes and Error Corrections, instead of prospectively. We believe that retrospective application is appropriate because during 2007 and 2008, a number of financial institutions recorded significant OTTI charges on debt securities. These financial institutions have amortized and will continue to amortize significant non-credit impairment to interest income, which will distort net interest margins. Also, these financial institutions' retained earnings may include a significant amount of non-credit impairment. The impact of the current accounting model for OTTI securities may continue to make it difficult for investors to compare key financial metrics (such as Net Interest Margin and Tangible Common Equity). We believe that this will be especially troublesome relative to comparisons of financial institutions who have recorded OTTI charges with those that have not.

Proposed Fair Value FSP

We request that the FASB provide more explicit practical guidance on how to implement the proposed Fair Value FSP. We are concerned that the proposed Fair Value FSP, as written, will not meet its intended objectives. We believe that the guidance to determine if a market is not active appears to be sufficient. However, the proposed Fair Value FSP appears to be lacking sufficient details and practical guidance to determine fair value based on appropriate market-based discount rates as of the measurement date in an orderly market. It may be difficult for independent public accountants and regulators to agree with management's assumptions without more practical and specific guidance.

Additionally, the FASB should provide additional guidance in the proposed Fair Value FSP regarding what is a quoted price. Financial institutions often obtain values for their investment securities from third party sources including, but not limited to: market transactions, broker quotes, and pricing services. It would be helpful if FASB specifically provided a definition of what constitutes a quoted price, and how those third party pricing sources fit into that definition.

Our comments are meant to help clarify and improve certain aspects of the proposed FSPs and should not be construed as any type of broad opposition to these proposals. As we stated earlier, we applied FASB for acting on these important matters.

Sincerely,
Bill Lawton
President/CEO
Community Financial Members FCU

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