



April 1, 2009

LETTER OF COMMENT NO. 2/6

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

Via email: <u>director@fasb.org</u>

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 constructively 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 157-e, Determining Whether a Market is not Active and a Transaction is not Distressed (hereinafter referred to as proposed Fair Value FSP). We are supportive of and encouraged by the Financial Accounting Standards Board's ("FASB") expedited action in reassessing current impairment and fair value accounting guidance. We also welcome FASB's proposed OTTI FSP as an important first step in improving current accounting policy and guidance to practitioners and institutional investment management. The intent of our letter is to strongly recommend that FASB make immediate clarifications and modifications to proposed FEP's that we believe are necessary to correct existing flaws in the application of current principles resulting in the unintended consequences resulting from the current market environment. Our specific comments and recommendations are as follows:

A. Proposed OTTI FSP

1. Record Non-Credit Impairment of HTM Securities in Footnotes rather than AOCI

The FASB should revise the proposed OTTI FSP to require the non-credit impairment of held-to-maturity investment securities to be recorded in the financial statement footnotes rather than in accumulated other-comprehensive-income (AOCI) as proposed. We agree with recording the non-credit impairment of available-for-sale securities to other-comprehensive income, as such securities are always carried at fair value. In the case of held-to-maturity securities that an entity has both the "intent and ability to hold" to maturity, reductions in value related to liquidity or interest-rate risk have less relevance to financial condition, and those aspects of the fair value can more appropriately be shown in the footnotes to the financial statements.

2. Allow Retrospective Application of Proposed OTTI FSP for 2007 and 2008

Additionally, the FASB should allow retrospective application of the proposed OTTI FSP. We believe that retrospective application is appropriate because during 2007 and 2008, a number of financial institutions have 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 not interest margin. In addition, the retained earnings of these financial institutions may include a significant amount of non-credit impairment. This is especially critical for the commenter, a Natural Person Federal Credit Union, where Earnings (Net Income) is the singular source for the accumulation of required Regulatory Capital. The impact of the current accounting model for OTTI securities may continue to make it difficult for investors to compare key financial metrics (Net Interest Margin and

Tangible Common Equity). We believe that this will be especially troublesome in comparing the financial statements of institutions who have recorded significant OTTI charges with those that have not.

3. The FSP Should More Clearly Define the Term "Immaterial Items"

The current accounting standards require an impairment loss to be recognized if it is probable that an entity will not receive all contractual cash flows. In certain circumstances, the phrase "all contractual cash flows" has been interpreted to include insignificant losses. While each FSP contains a statement that the provisions of the FSP need not be applied to immaterial items, we recommend that the FASB highlight this provision so that there is no question that a loss should be recognized only when there is a significant loss of contractual cash flows.

4. Remove Gross Presentation of Impairment Losses Offset by Non-Credit Impairment

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.

B. Proposed Fair Value FSP

1. Provide More Explicit Practical Guidance on Proposed Fair Value FSP Implementation

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 in such an inactive market. It may be difficult for independent public accountants and regulators to agree with management's assumptions without more practical and specific guidance.

2. Provide More Specific Guidance on Practical Meaning of "Quoted Price"

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.

C. Closing Comments

Our comments are respectfully provided as recommendations to seek expeditious clarification and improvement upon certain aspects of the proposed FSPs and are not intended to be viewed as opposition to the direction and action taken by these proposals. Thank you for considering our concerns and comments as the FASB continues to work on these important matters.

Sincerely, Ryw d. Rundm

Ralph E. Reardon,

Senior Vice-President / Chief Financial Officer