CUNA
Credit Union National Association
601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | PHONE: 202-638-5777 | FAX: 202-638-7734
cuna.org

FSPFAS115A

LETTER OF COMMENT NO. 218

April 1, 2009

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

RE: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b: Recognition and Presentation of Other-Than-Temporary Impairments

Dear Mr. Golden:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's) proposed staff position *Recognition and Presentation of Other-Than-Temporary Impairments*. We commend the FASB for addressing this issue, as well as the proposed FSP on fair value, in a timely fashion. By way of background, CUNA is the largest credit union trade organization in this country, representing approximately 90 percent of our nation's 8,000 state and federal credit unions, which serve approximately 91 million members. Our letter was developed in coordination with CUNA's Accounting Task Force, chaired by Scott Waite, who is a member of the Financial Accounting Standards Advisory Council.

Summary of CUNA's Views

- CUNA generally supports the proposed FSP on the recognition and presentation of other-than-temporary impairments (OTTI).
- The proposed FSP should apply to both debt and equity securities.
- The FASB's concurrently proposed FSP on fair value would likely minimize the need for this proposed FSP. However, CUNA encourages the FASB to also adopt this FSP as long as it is entirely consistent with the proposal on fair value and other existing guidance.
- CUNA asks that the guidance presented in this proposed FSP be retroactive to December 31, 2008.

Discussion of CUNA's Views

If the fair value of a security is less than its cost basis at the measurement date, U.S. generally accepted accounting principles (GAAP) require the reporting entity to determine whether the impairment is other than temporary. This determination requires several steps, including an assessment of whether the reporting entity has the "intent and ability to hold the [impaired] security for a period of time sufficient to allow for any anticipated recovery in fair value." If it is determined that the security is other-than-temporarily impaired it must be written down for the entire difference between the amortized cost basis and the current fair market value and must be recognized entirely in earnings.

The proposed FSP would essentially separate out the amount of impairment of certain debt and equity securities due to credit loss from loss due to other factors—including liquidity—for financial presentation purposes. Whether the impairment would be separated out depends on the likelihood of the reporting entity actually holding the security until it recovers and the likelihood of the security fully performing.

OTTI would exist for impaired debt and equity securities for which the reporting entity "intends to sell" or it is "more likely than not that it will sell" before recovery of its cost basis. In such instances, the amount of impairment would be recognized entirely in earnings and the security's fair value would become its new cost basis.

Conversely, OTTI would exist for impaired debt securities for which it is "more likely than not that the reporting entity will not sell" before recovery of its cost basis, but it is probable that the entity "will be unable to collect all amounts due" according to the contractual terms of the security. For such securities, only the portion of impairment related to the credit losses would be recognized in earnings, and the remaining portion related to other factors would be recognized in other comprehensive income (OCI). The security's previous cost basis less the amount of impairment recognized in earnings would become its new cost basis. The new cost basis would be amortized prospectively over the security's remaining life based on the amount and timing of future estimated cash flows. The amount of impairment recognized in OCI for held-to-maturity (HTM) securities would be amortized (through OCI) over the remaining life of the debt security.

CUNA supports the proposed change to the language related to an entity's holding of a security, which formerly required the "intent and ability to hold." We believe this change *may* add a little flexibility in determining OTTI. While we do not oppose the suggested requirement for subsequent measurement, we believe it will simply maintain the status quo.

There may be increased costs associated with the requirements in this proposed FSP. However, any increase in cost should be weighed against the cost of taking the entire OTTI charge, which we believe would most-likely be much higher.

We encourage the FASB to consider making the FSP retroactive to December 31, 2008 for those reporting entities choosing to do so. Although, we understand that many entities have already completed their 2008 financial statements and are unlikely to go back and amend.

Proposed FSP FAS 157-e appears to be an all-inclusive change to FAS 157, and if adopted, would likely minimize the need for this FSP on impairment recognition. However, we encourage the FASB to also adopt this FSP, as it would compliment FAS 157-e and bring greater clarity to the presentation of OTTI. Additionally, we believe this FSP to be necessary because it includes the critical step of considering cash flow when valuing a security.

Lastly, since OTTI is applicable to both debt and equity securities, we suggest this FSP also apply to both.

Thank you for the opportunity to express our views on this important proposed staff position regarding the recognition and presentation of OTTI. If you have questions about our letter, please do not hesitate to give Senior Vice President and Deputy General Counsel Mary Dunn or me a call at 202-508-6743.

Sincerely,

Luke Martone

Luke Martone
Regulatory Research Counsel