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September 30, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference 1810-100

Dear Technical Director:

The Pennsylvania Credit Union Association (PCUA) is a state-wide trade organization that represents a majority of the 545 credit unions located in the Commonwealth. On behalf of our member credit unions, we appreciate this opportunity to comment on the Financial Accounting Standards Board proposals that address Accounting for Financial Instruments (Topic 825) and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Topic 815).

The PCUA consulted with its Regulatory Review Committee and State Credit Union Advisory Committee (the Committees) in order to provide comments on the proposed accounting standards. The combined Committees consists of twenty-two (22) credit union CEOs who lead the management teams of Pennsylvania's federal and state-chartered credit unions. Members of the Committees also represent credit unions of all asset sizes. The comments contained in this letter reflect the input of the Committees and PCUA staff. We also extend our thanks to the firm of Padden, Guerrini and Associates, P.C. who helped to facilitate our deliberations of the proposal.

Undue or Uncertain Impact on Credit Union Net Worth

Federally insured credit unions with assets greater than \$10 million must adhere to generally accepted accounting principals (GAAP) for financial reporting purposes. Further, they must satisfy a net worth maintenance regime known as Prompt Corrective Action (PCA). 12 USCA § 1790d, 12 C.F.R. Part 702, 17 P.S. § 513. It is vital to point out that credit unions are non-profit, mutually owned financial cooperatives. Credit unions do not issue capital stock. Credit unions build net worth through set-asides of retained earnings. Pursuant to PCA, once a federally insured credit union's net worth ratio (a ratio of net worth to total assets) dips below 7%, it must respond to an increasingly strict scheme of supervisory enforcement actions aimed at restoring the net worth ratio.

The exercise of reporting the fair value of financial instruments contemplated by Topic 825 yields an undue risk of negative impact on net worth triggering PCA compliance. Specifically, the movement of

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interest rates, credit risk and other factors combines to produce whatever value will be reported. Accordingly, a federally insured credit union could experience significant swings in its net worth ratio, quarter-to-quarter, as a result of those factors. Should conditions translate into a decline in the net worth ratio, a credit union is eventually forced into net worth restoration or more significant enforcement procedures. Credit union capital is currently under duress on account of present economic conditions. Currently, or even with the lengthy phase in or effective date of the proposal, Topics 825 and 815 present a daunting reporting burden that is also likely to have a negative impact on a credit union's most significant measure of financial strength.

Recognizing that federally insured credit unions may only raise capital through retained earnings and the threat to the net worth ratio posed by Topics 825 and 815, FASB should exempt credit unions from this reporting scheme.

Unique Nature of Credit Unions

It bears repeating, credit unions are non-profit cooperatives that deliver retail, consumer-oriented financial services. Being very consumer friendly, credit unions attract significant business and many have grown into large entities. That said, credit unions do not issue capital stock and they are not publicly traded organizations. Accordingly, the utility of applying Topics 825 and 815 to federally insured credit unions is questionable.

The genesis of deposit insurance for banks and share insurance for credit unions was taking the guesswork out of the underlying institution for the consumer. When the consumer sees the National Credit Union Share Insurance Fund or Federal Deposit Insurance Corporation emblem, the consumer receives instant assurance that their savings and transaction accounts are protected. That's a stark contrast to the needs of an equity investor or the purchaser of corporate debt who needs detailed financial reporting to track the ongoing viability of the investment. There is no source other than the financial statements of the issuer to assist the investor.

Members of federally insured credit unions can find plenty of transparency of financial reporting in addition to share insurance. Reports of financial condition are available to the public. Each individual credit union has a duty to make its financial statements available to its membership. Combined with oversight by Federal or state regulators, a credit union member enjoys the protection of several layers of checks and balances. As we will contend below, fair value reporting will not enhance this protection in any significant manner. For these reasons as well, Topics 825 and 815 should not apply to federally insured credit unions.

Contraction of Lending, Harm to the Consumer

As FASB deliberates the final rule, we urge it to consider its impact on consumers. We foresee the potential for a harmful effect. We find ourselves in a very low-interest rate environment. The cost of credit is at historic lows. It stands to reason that credit rates will eventually increase. Topic 825 provides disincentive for a credit union to lend, particularly for the long term, in anticipation of rate increases. If rates adjust upward, the credit facility issued today will be devalued, at least for the purpose of satisfying the proposed accounting standard. As described above, these movements impact a credit union's net worth. One can therefore reasonably conclude that lenders, credit unions and community banks alike, will tighten credit standards to mitigate the financial statement impact of Topic 825. Such a result is at odds with the desire for available credit to stimulate the economy.

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Investments

Since federally insured credit unions are limited in the types of investments they can make, we submit that, again, credit unions should not be included in the scope of the FASB proposed rule. We also submit that quarterly fluctuations in the market value of government backed investments and the resultant gain or loss each quarter will cloud the true picture of profitability of any institution. We further suggest that FASB's focus should be on private label investments only.

Limited Reporting Benefit

The Committees urge FASB to re-evaluate whether the perceived benefits of the proposal actually result in enhanced and meaningful disclosure. The exposure draft explains that FASB's goal is to devise a system that provides **investors** with the most "useful, transparent and relevant information about an entity's exposure to financial instruments." Again, as explained above, federally insured credit unions do not have investors. Our member/owners conduct business with a credit union based on membership eligibility, convenience, price of products and services and the protection of share insurance. Forcing federally insured credit unions to undertake the work to develop the procedures and modeling to satisfy Topics 825 and 815 offers only a modest increment of transparency to the member owners.

Further, we submit that the proposals result in a net negative outcome for federally insured credit unions. Implementing the fair value standards dramatically increases the audit scope. The institution and its auditor will construct detailed modeling and procedures to present fair value. Despite statistical modeling, the resulting value will contain a high degree of subjectivity. The audience of federally insured credit unions' financial statements are regulators and the member/owners. The proposals invite second guessing into the fair value calculation by regulators. Worse, we anticipate that regulators might try to create a standardized valuation method which they are not equipped to do. Member/owners range in financial sophistication. Therefore, their appreciation of the presentation in some circumstances will be limited. In the overall scheme of a consumer's choice in a financial institution, the presentation of financial data does not drive the decision.

From a compliance standpoint, the proposal creates needless uncertainty for federally insured credit unions. We addressed the potential impact on net worth and PCA enforcement above. In addition, the proposed fair value standards will have a significant effect on asset-liability management (ALM) and strategic planning. ALM serves a safety and soundness function and it works. Also, the focus of ALM and strategic planning should be serving consumers, primarily, while maintaining the viability of the institution. These proposals will transform the ALM and strategic planning processes into a pure accounting compliance exercise. In short, it forces the credit union to work for the auditor, the regulator and the presentation of financial information as opposed to the member/owners.

Credit Impairment

The Committees perceive that the proposals regarding credit impairment effectively terminate Financial Accounting Standard 5 and Financial Accounting Standard 114 (FAS). FAS 5 and FAS 114 have been in place for some time and we submit that they work. They offer a rational means to establish and fund the allowance for loan and lease loss and credit union regulators understand the process. The credit impairment proposals complicate the evaluation. To some degree, we doubt the utility of devising an expectation of cash flows in connection with consumer loans or residential mortgages. Finally, anticipate the proposal could cause "double provisioning" where the institution is both reporting a fair value and then recognizing an impairment in net income.

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Conclusions

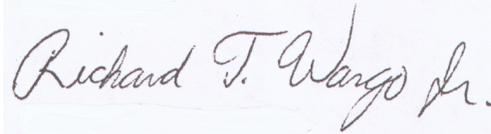
Overall, credit unions support transparency and accurate reporting of an entity's financial condition. Also, given the complexity of some financial instruments, we understand why it might be desirable to craft some type of additional disclosure, particularly for the benefit of investors. Federally insured credit unions do not issue stock and the member owners have multiple means of fairly evaluating the financial condition of their credit union. Credit union members also enjoy the protection of share insurance. Therefore, federally insured credit unions should be exempt from these proposals.

FASB's goal of additional transparency is not realized by applying the proposed standards to federally insured credit unions. Credit unions are highly regulated, with limited means to raise capital and restricted investment powers. The presentation of financial statements as a result of the proposed standards can unfairly and inaccurately paint a credit union in a negative light. The stress on net worth is something the credit union system cannot tolerate.

Recognizing the compliance consequences on federally insured credit unions, FASB should undergo a detailed re-evaluation of the proposal. Credit unions should be exempt from all or most of the proposals. Or, FASB should release another discussion draft that takes into account the unintended compliance consequences articulated in this letter.

Sincerely,

PENNSYLVANIA CREDIT UNION ASSOCIATION

A handwritten signature in cursive script that reads "Richard T. Wargo Jr." The signature is written in dark ink on a light-colored background.

Richard T. Wargo, Jr., Esq.
Executive VP/General Counsel

cc: J. McCormack
R. Brunner
M. Kaczenski
Regulatory Review Committee
State Credit Union Advisory Committee
M. Snody
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