From: Beverley Rutherford

To: Director - FASB

Subject: File Reference No. 1810-100 Accounting for Financial Instruments

Date: Thursday, September 30, 2010 3:30:56 PM

We appreciate the opportunity to comment on your proposed accounting standards update issued May 26, 2010. I am responding on behalf of a 2 billion dollar state-chartered credit union located in Virginia.

We have reviewed the proposal, and in summary, have the following comments:

- At a minimum credit unions should be exempt from this requirement. The purpose
 appears to be to make the financial statements and the institutions' situation more
 transparent to "investors." Credit unions are member owned cooperatives and have no
 investors to satisfy. Credit Unions have more restrictions on what they can invest in and
 are inherently less complex which seems to support the desired exemption from this.
- Additionally, we do not feel that the proposal has merit for most financial institutions, particularly for small and mid-sized institutions for many reasons as detailed below.
- It is unreasonable to include loans and deposits held in portfolio with no intention of sale at fair value. Fair value is not relevant to these items since the purpose is not to sell/liquidate. At a minimum, all held to maturity products (loans, investments, and deposits) should be excluded.
- Fair value makes financial statements less transparent rather than more transparent. The assumptions necessary to calculate fair value on loans and deposits are significant and will be done differently by everyone, reducing any value from potential comparability.
- Reporting all of these amounts (amortized cost, fair value, etc.) on the face of the financial statements increases complexity and makes the financial statements less understandable to the common man, which includes the individual investor or the credit union member. Simple presentation using methodology that is easily understandable, such as amortized cost or book value results in financial statements that are usable to individuals other than institutional investors. Institutional investors already have methods for estimating this information.
- The complexity of performing these fair value calculations on a frequency more often than
 for disclosures in annual audited financial statements is a cost burden to credit unions and
 other small and mid-sized institutions. This will require additional outsourcing/consulting
 arrangements or more professional staffing of the accounting department as well as
 software and systems.
- Fair value calculations are already available in the notes to the audited statements. Why is this not enough? Issues with these disclosures will not go away by moving them to the face of the balance sheet.
- Reporting changes in fair value of an otherwise fully performing loan or investment could cause performance of the institution to look worse than it is, contributing to potential problems in a difficult economic setting.
- Financial institutions are already under a heavy regulatory burden that is driving costs higher. This just adds another cost burden and will ultimately make it harder for smaller

institutions in particular to provide credit. Credit Unions and other smaller institutions are at times the only lenders providing credit to certain individuals and small businesses. A time of weak recovery is not a good time to make it harder for these institutions to lend. The \$1 billion threshold for the four year waiver seems too low and should be either \$5 billion or preferably \$10 billion for credit unions if it is deemed this must be implemented.

- Adding fair value to the financial statements could cause management's focus to revolve
 around the management of fair value rather than what may be in the best long term
 interest of the operations of the institution. For example, a reduction in interest rate risk
 of a product would result in a fair value that is less volatile due to the interest rate
 environment, but the institution may need to manage the risk rather than reduce it in order
 to provide the earnings necessary to expand and grow the organization.
- Likewise, products such as 30 year fixed rate mortgages may be even less desirable to put on one's own balance sheet and it could reduce the availability in the marketplace of credit products.
- We seem to be moving in a direction that more aligns GAAP with IFRS. This proposal
 appears to moving us in the opposite direction. For example IFRS allows portfolio loans to
 be recorded at amortized costs.

Should you need further clarification on any of these comments, feel free to contact me.

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