

MID-MINNESOTA FEDERAL CREDIT UNION

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Disclosures about Liquidity Risk and Interest Rate Risk

Financial Accounting Standards Board:

As a Chief Financial Officer of 15+ years with 7 years of previous public accounting experience in financial institutions, I appreciate the opportunity to comment on the Exposure Draft regarding disclosures for liquidity risk and interest rate risk. Mid Minnesota Federal Credit Union is a \$240 million community-chartered credit union serving 6 geographical counties and 36,000+ members. While we have sustained a strong financial position during these tough economic times, we continue to face mounting regulatory and legislative burdens; costing our credit union and its members' additional expense and lost opportunity for focus on strategy. While there are many concerns with this exposure draft, the two main areas of my comments concentrate on the burden of the cost outweighing the benefit in providing the requested information in the credit union industry and the inadequacy of the requested information in being decision useful.

Does the benefit outweigh the cost?

Paragraph BC23 of the Exposure Draft states, "the objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs."

Our users consist of regulators, creditors, and members including a volunteer board of directors. We are cooperative in structure ...our members are our owners. There are no present or potential investors. We don't participate in the capital markets. Our regulators require an entirely separate information reporting system that, in its own way is burdensome and lacks comparability. Because this regulatory reporting is easily available as public information, creditors use it for credit analysis. The reliance on regulatory reporting is far greater than our audited financial statements and disclosures. Further, members including management, creditors and examiners have ease of access to additional information upon request.

At a minimum, additional costs will burden credit unions in three ways; (1) preparation of the disclosures requiring a diversion of current staff or additional staff (2) modeling costs to meet the new standard of information requested, and (3) increased annual expense for proper auditing of the disclosures.

Preparation of the disclosures

Answering to the request for these additional disclosures will require significant additional focus by staff; in some cases requiring additional staff. Some institutions, especially smaller credit unions, will likely outsource the preparation. While it may seem that there are systems already in place to report interest rate risk results, an additional burden is added for adequate disclosure to properly explain assumptions and management decisions changes.

Modeling costs to complete

The modeling requirements of the exposure draft set a new standard for credit unions to follow. In FASB's attempt to simplify and gain comparability, the requirements create new measurements not used previously in management decision making or regulator safety and soundness assessments. Vendors in the industry will need to reprogram their systems. Since we aren't using the specific modeling requirements in decision making now, it won't add value to any user. The quality of the requested disclosures as being decision-useful is addressed later in this comment letter. Modeling this information is an added step and burden to the current interest rate risk management of financial institutions which adds cost.

Auditing costs

Audit firms will need to establish an expertise in interest rate risk and liquidity risk management in order to opine on these new disclosures. This expertise is not gained easily. Because of its complexity, there are several firms in the industry that focus only on interest rate risk management. It takes years to become proficient at understanding proper interest rate risk techniques applied to different balance sheet structures. The added cost to gain that expertise to conduct a quality audit will be passed on to credit unions in the form of higher audit fees.

Credit unions are not in any position to absorb additional costs in light of the recent economic downturn and continued low rate environment, especially small credit unions. Any effort put into preparation of the requested disclosures without a valid audience as defined by the objective adds cost at no benefit. Therefore, credit unions should be excluded from the disclosure requirements in this exposure draft.

Does this "decision-useful information" provide the quality intended?

The third paragraph of exposure draft Summary and Questions for Respondents states, "This proposed Update is intended to provide users of financial statements with additional decision-useful information about an entity's liquidity risk and interest rate risk."

The key objective of providing financial information is that it must be decision-useful. For many reasons, the required information requested by this exposure draft will not be decision-useful and may actually be misleading. Two of those reasons include (1) lack of comparability and (2) inadequacy of measurements.

Lack of Comparability

FASB's approach to measuring both liquidity risk and interest rate risk implies a one-size-fits-all approach across thousands of financial institutions with varying balance sheets and complexity. Our regulator and insurer, the National Credit Union Administration (NCUA) issued new regulations in early 2012 to monitor interest rate risk. In this regulation, the NCUA specifically recognizes that credit unions have different risk profiles which require different risk measurements commensurate with the complexity of the balance sheet and business model. FASB's one-size-fits-all approach in is direct conflict with our regulator.

Further, a one-size-fits-all approach to provide comparability is impossible given the myriad of assumptions used to measure interest rate risk. While the proposal dictates shifts in the interest rate

environment, the many underlying assumptions ultimately drive the results. Even if disclosed, the results on individual balance sheets with varying complexity cannot effectively be compared due to the intricate assumptions.

Inadequacy of Measurements

The measurement methodologies required in the exposure draft are either outdated or inadequate. GAP Analysis was as imperfect of a measurement 30+ years ago as it is today and used only to gain a general idea of risk on the most simplistic of balance sheets. Today's income simulation methods are an improvement, however, the one-year horizon is not sufficient to measure risk in any balance sheet, and certainly not one with mortgage instruments. A longer-term horizon is supported by the regulatory community in interagency guidance issued in early 2012.

Interest rate shifts of 200 bps won't adequately measure true risk when rate shifts of 400 and 500 bps have been the reality of financial distress. NCUA requires a minimum of a 300 bps shift with interagency guidance highlighting rate shift measurements conducted over a minimum of 24 months.

While I don't believe FASB's proposal is intended to replace the regulators authority to assess safety and soundness, the imposition of the measurement requirements required by the exposure draft will effectively create a new standard that is contradictory to industry regulation and provides misleading information that may result in undue risk taking.

With impossible comparability and inadequate measurements that won't convey the true risk of a balance sheet, these disclosures will potentially mislead any user regarding the health of the credit union or other any other financial institution.

In conclusion, the proposed disclosures will result in added cost and undue risk taking for financial institutions. Further, FASB's target audience does not align with the credit union user community. For all the reasons stated above, credit unions should be excluded from the disclosure requirements in this exposure draft. Thank you for considering my comments.

Sincerely,



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