NAFCU
National Association
of Federal Credit Unions
3138 10th Street North
Arlington, VA 22201-2149
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September 25, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

RE: File Reference No. 2012-200;
Exposure Draft - Disclosures about Liquidity Risk and Interest Rate Risk

Dear Sir or Madame:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I write to you regarding the Financial Accounting Standards Board's (FASB) exposure draft on disclosures about liquidity risk and interest rate risk (IRR). The exposure draft, generally, would require tabular and narrative disclosures related to liquidity risk and IRR. As further discussed below, NAFCU opposes the scope of the exposure draft and urges FASB to exempt credit unions from the proposed requirements.

Under the exposure draft, credit unions would have to provide liquidity risk disclosures, including information about the risks and uncertainties that they may encounter in meeting their financial obligations. They would be required to provide tabular disclosure of the carrying amounts of classes of financial assets and financial liabilities segregated by their expected maturities, including off-balance-sheet financial commitments and obligations. Credit unions would also be required to disclose, in a table, their available liquid funds. Also, and importantly, the exposure draft would require credit unions to provide "additional quantitative or narrative disclosure to the extent necessary so that users of financial statements can understand an entity's exposure to liquidity risk."

The second aspect of the exposure draft, on IRR, would require the provision of information about the exposure of a credit union's financial assets and financial liabilities to fluctuations in market interest rates. In addition, credit unions would have to disclose the carrying amounts of classes of financial assets and liabilities segregated according to time intervals based on contractual repricing of the financial instruments and including the weighted-average contractual yield by class of financial instrument and time interval as well as the duration of each class of financial instrument. Credit unions would also have to disclose an interest rate sensitivity table on the effects on net income, and additional quantitative or narrative disclosure necessary for users of financial statements to understand the credit unions IRR.

America's credit unions serve approximately 94 million people. As member-owned not-for-profit cooperative entities, they are motivated by meeting their members' needs and providing quality service, not by profit. Importantly, by law, they may not access capital markets to meet their capital needs and their investment powers are greatly limited. Thus, every dollar that is used to comply with regulations and accounting standards is a dollar not used for the greater good of the credit union's members.

Credit unions' financial statements are prepared for specific groups, not for the public at large and not for investors. In fact, the primary users of credit unions' financial statements are the National Credit Union Administration (NCUA), which serves as their prudential regulator, the credit union's own governing and management bodies, creditors, auditors and their members. In the costs and benefits discussion in the exposure draft, the FASB states, in part:

> 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. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

See Proposed Accounting Standards Update, Disclosures about Liquidity Risk and Interest Rate Risk, at ¶ B23. The benefits of the proposed standards simply do not justify the costs.

NAFCU strongly believes that credit unions should be exempt from the proposed standards. Credit unions do not have investors, present or potential, are not participants in capital markets in the sense that they cannot raise capital from the markets, and, accordingly, the users of their financial statements do not include investors or persons and entities in capital markets. Because of their purpose and structure, credit unions have limited resources that they can allocate to endeavors that are not directly related to the benefit of their members. As the FASB alludes to and recognizes, the exposure draft would impose new costs, costs that would be significant for all credit unions and which credit unions and their members should not have to bear. A vast majority of credit unions and their external auditors do not have the expertise that would be necessary to audit the footnotes and IRR models that are used, and therefore must hire new staff or spend more resources on qualified external auditors to conduct the audits that would be required under the exposure draft. Therefore, the exposure draft exemplifies the type of accounting rule that clearly should not apply to credit unions.

We would also like to take this opportunity to note, as the FASB may be aware, that IRR exposure has been of paramount concern for the NCUA, which recently issued a rule requiring credit unions to adopt IRR policies. While the NCUA rule may not itself be necessary, it is important for FASB to glean one important aspect of the rule – the NCUA is requiring credit unions to adopt policies that are appropriate for their size and complexity. By contrast, the FASB exposure draft does not differentiate between types of entities, their complexities and their purpose. Thus, the same accounting standards would apply to a small community-based credit union as to an international conglomerate. We do not believe this is appropriate; rather, we strongly believe the one-size-fits-all approach is highly inadvisable and, in the case of application of the proposed standards to credit unions, unnecessary and without adequate justification.

Further, the concept of IRR is highly technical and necessarily involves many moving parts. It would be difficult to gain an understanding of a credit union's actual IRR sensitivity with the simplistic approach that FASB is proposing, and could actually give a false sense of security to the users of this information. Again, the NCUA has been actively assessing and recommending that credit unions enhance their capabilities in this area. Therefore, no additional guidance from FASB is warranted.

NAFCU appreciates the opportunity to comment. Should you have any questions, please feel free to contact me at tteferri@nafcu.org or (703) 842-2268.

Sincerely,

Tessema Tefferi
Regulatory Affairs Counsel