



Credit Union National Association

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cuna.org

September 25, 2012

Technical Director
File Reference No. 2012-200
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Proposed Accounting Standards Update: Financial Instruments (Topic 825)
Disclosures about Liquidity Risk and Interest Rate Risk

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update: 2012-200, Disclosures about Liquidity Risk and Interest Rate Risk. By way of background, CUNA is the largest credit union advocacy organization in the country, representing approximately 90 percent of our nation's more than 7,000 state and federal credit unions, which serve over 95 million members. The comments provided in this letter were developed under the auspices of the CUNA Accounting Subcommittee and CUNA CFO Council.

CUNA is strongly opposing the application of the proposal to credit unions, as described in this letter.

Under the proposal, a financial institution would be required to disclose liquidity risk information that includes:

- The carrying amounts of classes of financial assets and liabilities in a table, segregated by expected maturities, including off-balance sheet financial commitments and obligations;
- Information about time deposit liability, including the cost of funding in a table or list during the previous four fiscal quarters;
- Available liquid funds in a table, which include unencumbered cash, high-quality liquid assets and borrowing availability; and
- Additional disclosures regarding exposure to liquidity risk.

Financial institutions would also be required to provide interest rate risk disclosures that include:

- The carrying amounts of classes of financial assets and liabilities according to time intervals based on the contractual repricing of the instrument;



- An interest rate sensitive table that presents the effects on net income and shareholders' equity of hypothetical instantaneous shifts of interest rate curves; and
- Disclosure of the organization's exposure to interest rate risk.

CUNA Opposes the Proposal's Application to Credit Unions

CUNA supports appropriate transparency on the part of credit unions to their members, regulators, and Congress, which is already provided through financial statements available to credit union members, responses to members' requests for information, regulatory call reports, Governmental Accountability Office studies, and responses to other governmental inquiries and requests for testimony.

In light of the range of information credit unions already provide to their members and to the government, the fact that credit unions are not publicly traded entities, and the fact that credit unions are already inundated with regulations and disclosure requirements, CUNA strongly opposes the application of the FASB's proposed accounting standards update (ASU).

We urge FASB to exclude credit unions from the coverage of the proposal.

Credit Unions Are Not Publicly Traded Companies and Should Not Be Treated As If They Are

We urge the FASB to consider that the credit union business model is quite different from that of publicly traded entities. The stakeholders of credit unions for information purposes are their members and the government, not shareholders who have purchased publicly traded stock. As such, these disclosures are not appropriate for credit unions.

In addition, credit unions would have to undertake significant compliance costs to provide the disclosures. As described in the exposure draft, FASB and its staff performed considerable outreach in an effort to assess the perceived benefits and costs associated with the proposed ASU, including the potential impact on nonpublic entities generally. However, it does not appear that there was any such outreach focused specifically on the benefits and costs the proposed changes would have on credit unions.

However, even if such an analysis were performed, we believe costs would far outweigh any benefits from this proposal. That is because credit unions do not have stockholders that would benefit from this information and the cost of compliance for accumulating the data and having that data audited would be considerable. Moreover, the proposal comes at a time when credit unions are facing an avalanche of new requirements as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act and other requirements.

The CUNA CFO Council conducted a survey of state and federally chartered credit unions of varying asset sizes located across the country to collect data on the frequency with which their members request information about interest rate risk and

liquidity risk. The survey was completed by 127 credit unions, which serve an average of 60,000 members and in the aggregate serve over 7,500,000 members.

These credit unions were asked, “In the last 12 months, how many ‘potential investors, creditors, donors, and other capital market participants’ or members have asked for a copy of complete audited financial statements (excluding regulatory authorities)?” Of the credit unions that responded, 67% indicated that “0” requests had been made within the preceding 12 months and 31% indicated that “1-5” requests had been made.

Further, of the 31% of respondents that had been asked for a copy of the credit union’s financial statements, only one credit union (1% of respondents) had also been asked for information regarding its interest rate risk position. Of the same 31% of respondents, only four credit unions (3% of respondents) had been asked for information regarding their liquidity risk position.

We believe the results of our survey strengthen our argument for FASB to exclude credit unions from the disclosure requirements of the final ASU. We believe the proposed requirements would unduly burden credit unions, while at the same time not resulting in superior information to a credit union’s: members, creditors, auditors, or regulators.

Recent NCUA Interest Rate Risk Regulation

Earlier this year, the National Credit Union Administration issued a final Interest Rate Risk regulation (IRR Rule). 77 Fed. Reg. 5155, 5156 (Feb. 2, 2012). The final rule, effective October 1, requires all federally insured credit unions of \$10 million or more in assets must have a written policy and program that demonstrates how the credit union meets requirements to manage interest rate risks. (Credit unions with assets under \$10 million do not have to follow Generally Accepted Accounting Principles, as provided by the Federal Credit union Act. 12 U.S.C. 1782(a)(6)((C)). We urge the FASB to recognize that NCUA has regulated in this area for federally insured credit unions and that disclosure requirements imposed by FASB could undermine compliance with those requirements, particularly if members are confused about the information provided to them under the FASB proposal.

The Proposal Would Not Achieve FASB’s Stated Objectives and Would Result in Information that is Confusing

The Board has stated that the purpose of the disclosures is to “help users of financial statements better understand organizations’ exposures to risks and the ways in which those risks are managed.” However, we do not agree that the objectives the Board seeks to achieve will be met with the new disclosures.

Much of the information sought about credit unions assets for liquidity disclosures is already available to credit union regulators and members through call reports and financial statements.

Also, we think credit unions members will find the disclosures confusing, and questions remain about how to treat non-maturity deposits, loans restructuring and other issues. We feel that the new disclosures, rather than enlightening stakeholders, will mislead them. For example, the interest rate risk disclosures would include the effects on net income and shareholder's equity of *hypothetical* interest rate curves that may never occur. In addition, the proposed requirement for written explanations by each institution regarding how it handled interest rate risks over the reporting period could result in inconsistent disclosures among financial entities.

We believe the proposed reporting requirements would not provide a reliable measure of a financial institution's exposure to fluctuations in market interest rates. In addition, the rate environments requested are not readily available by models used in the industry and would therefore require new programming.

Moreover, while a limited number of requirements would not apply to all financial institutions, most of the new disclosures would include all financial institutions, regardless of asset size, complexity, or overall structure. We do not feel that is appropriate since regulators may be working with certain institutions and information about such an institution's risk management, if publicized, could endanger the health of the institution.

Effective Date

FASB has not proposed a specific effective date for the disclosure requirements. If FASB does not agree that credit unions should be exempt from the final ASU, we urge FASB to allow adequate time for all reporting entities to make the necessary changes to their systems and retrain staff if necessary. Thus, we recommend an effective date of at least twelve months after the final ASU is adopted, with a delayed effective date of at least six months for nonpublic entities, including credit unions.

Conclusion

Thank you for the opportunity to express our views on the Board's proposal regarding disclosures about liquidity risk and interest rate risk. Again, we urge FASB to exclude credit unions from the disclosure requirements in the proposed ASU for a number of reasons, as described above. At the very least, FASB should postpone processing the proposal pending a review of it by the Financial Accounting Foundation Board's new Private Company Council. If you have any questions about our comments, please do not hesitate to call me or Luke Martone at (202) 508-6743.

Sincerely,



Mary Mitchell Dunn

CUNA Deputy General Counsel and Senior Vice President