



January 15, 2009

Via Email: director@fasb.org

Mr. Russell G. Golden
FASB Technical Director
Financial Accounting Standards Board
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File Reference: Proposed FSP FAS 107-a

Dear Mr. Golden:

SunCorp Credit Union ("SunCorp") is commenting on the proposed FASB Staff Position FAS 107-a, *Disclosures about Fair Value of Financial Instruments* (the "FSP").

The fundamental issue with the proposal is that there are multiple impairment models under GAAP for related transactions, and the application of each can result in widely divergent answers and in some cases, creates material misstatements.

The SEC directed FASB to "expeditiously" address issues arising from the application of the impairment model in SFAS No. 115 in its letter dated October 14, 2008. In addition, in its report to Congress on December 30, 2008, the SEC states, "The Staff recommends that the FASB reassess current impairment accounting models for financial instruments. The evaluation should consider the narrowing of the number of models that currently exist in U.S. GAAP." It went on to say, "During the course of our study, the accounting for impairment was identified as one of the most significant areas of necessary improvement."

There should be unanimous agreement that the "model applied often depends on the characteristics of the financial instrument at the date of acquisition, and the models are not always consistent with the reporting of impairments for other non-securitized investments (such as direct

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investments in mortgage loans). In the absence of uniform accounting treatment for impairments, investors are provided with information that is not recognized, calculated, or reported on a comparable basis.” This quoted from the SEC’s letter to FASB.

The FASB appears to be ignoring the directive from the SEC and the suggestions of many practitioners, or taking only enough action as necessary to mollify the issues, particularly as it relates to OTTI, and have not acted timely in resolving the many issues highlighted in the many letters you and the SEC have already received. I am cautious to suggest, that the FASB appears to be more interested in defending its prior position instead of looking at the current needs in a market place that could not have been contemplated when the original pronouncements were released.

You must recognize that recording impairment losses through current earnings beyond actual probable losses does not make sense. Has the FASB actually reviewed the independent models used as the basis for valuation and mark-to-market accounting? In addition to our own internal view, the firm used by our outside auditors, and the three other nationally known and recognized providers that we pay a high price for, we can find 100% disparity in loss estimates and, in current “fair value” estimates. If you would care to visit our organization, I would be happy to show you that circus of disparity. How can anyone assume that with 100% differences in loss projection and in valuation that we can record the lowest possible values and highest possible writedowns and declare that is anything but false reporting and erred disclosure?

A very simple and defensible approach would be to amend the FAS 115 impairment model for debt securities to allow for the writedown of securities determined to be other-than-temporarily impaired to net realizable value – consistent with the impairment model for loans. The fundamental principles underlying ownership of loans and debt securities are the same: an up-front investment in exchange for the right to receive defined principal and interest cash flows over time. I would appreciate someone defending why this does not make good sense.

In both cases, there is risk to the investor that full repayment will not be made. For loans, Statement 114 requires that a reserve be established for amounts deemed uncollectible. However, if circumstances change, the reserves are adjusted up or down. If OTTI were based on net realizable value, and adjusted up or down, the problem would be solved, and, you would have consistent reporting and treatment.

The way FASB created Statement 115 requires impairment to be recorded down to “fair value” (which is mostly an unfair value in an unprecedented market like

this), which currently results in a larger earnings charge due to FAS 157 exit value pricing. Because earnings charges in excess of actual projected losses are recorded on securities, the investor needlessly impairs capital in the near term, only to reverse the excess charges in future accounting periods, but only after payments are received and recorded, thereby misstating financial results for many periods and potentially for material sums. Can an auditor or management team really sign a representation letter when they knowingly are recording assets at less than they expect to be paid?

There are numerous examples including and most recently the Federal Home Loan Bank of Atlanta. For three held-to-maturity securities, they had to take OTTI current earnings charges of \$87 million for expected credit losses of \$44 thousand, estimated to occur between 2025 and 2032—a misstatement of the true economic results by a multiple of nearly 2000 times despite their intention to hold. How on earth, can we as a profession, defend this misstatement. Many more financial institutions, including banks, insurance companies, and credit unions will face the decisions to overtly misstate their 2008 financials statements in order to have a “clean opinion.”

As requested, here are specific answers to your questions.

1. No. FAS 107 already requires the disclosure of fair value for all financial instruments. Requiring new such disclosures is not necessary and provides little tangible value.
2. Including financial assets already measured at fair value through earnings would add little value. As noted above, entities could voluntarily elect to disclose estimates of projected incurred losses on these assets, and have strong incentive to do so if their intent is to hold the assets despite their classification as trading or held-for-sale.
3. No. Stating an earnings number as if all assets subject to this proposed FSP were carried at fair value is equally irrelevant and unconscionable. Even the flawed mixed-model approach to impairment recognition acknowledges that some declines in fair value should not be recorded in earnings. Why require entities to publish pro-forma earnings based on an immediate liquidation scenario? There is still a premise that financial statements are prepared as if the entity is a going concern.
4. No. Because the pro-forma earnings disclosures are not useful, reconciliations to published net income also are not needed.
5. No. This proposed FSP is not needed and should not be finalized. Rather, meaningful changes to the impairment framework for securities should be made to allow for a true measure of losses to be presented in earnings.
6. Investors in debt securities should have reasonable estimates of net realizable value for assets in their portfolio. As such, the changes to the

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impairment model for debt securities proposed throughout this document and suggested by countless respondents are operational. Because this FSP provides little value and should not be finalized, the effective date is not of any consequence.

Thank you for considering this input.

Sincerely,



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