CUNA
Credit Union National Association
cuna.org
601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | PHONE: 202-638-5777 | FAX: 202-638-7734

November 13, 2008

Ms. Florence Harmon
Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-100

RE: SEC Study of Mark-to-Market Accounting

Dear Ms. Harmon:

The Credit Union National Association (CUNA) appreciates this opportunity to provide comments to the Securities and Exchange Commission (SEC) regarding its 90-day study on mark-to-market accounting. As unique financial institutions a number of credit unions have been very concerned about the application of fair value and mark-to-market accounting to their operations. Due to their generally risk averse practices, credit unions on the whole have not engaged in the types of activities that have endangered others in the financial marketplace. However, as a result of the wide-spread nature of the current financial crisis, a number of credit unions may be affected by the situation in the broader financial markets. CUNA represents approximately 90 percent of our nation's 8,200 state and federal credit unions, which serve approximately 92 million members. This letter was developed under the auspices of CUNA's Accounting Task Force, chaired by Mr. Scott Waite, CFO of Patelco Credit Union and member of the Financial Accounting Standards Advisory Council.

Like other financial institutions, federally insured credit unions are required to follow Generally Accepted Accounting Principles (GAAP). This means that for mortgage-backed securities and mortgage servicing rights, for example, credit unions follow the Financial Accounting Standards Board's (FASB) rules on fair value and mark-to-market accounting in valuing these assets and reflecting them on their financial statements and regulatory call reports.

Also like other institutions and companies, credit unions that have these assets have been concerned about the application of mark-to-market accounting on their operations during the uncertainties in this currently volatile market. While fair value accounting appears to work when assets can be readily valued in a liquid and active market, its accuracy in the present dislocated market is questionable.

In light of that, we strongly encourage the SEC to conduct a thorough study of the effects of suspending mark-to-market. Like others, we are uncertain what the effect would be on the financial marketplace if mark-to-market accounting is suspended across the board. However, we do feel it is critical that the SEC consider, in a comprehensive manner, the result that changes in the language and application of fair value principles would have in light of the current vagaries that result from the present market.

We also have concerns with other-than-temporarily-impaired (OTTI) assets and urge the SEC to address this issue in its study as well. The SEC and FASB recently released clarification on fair value accounting. Our concerns regarding OTTI center on how these assets are reflected on financial statements since the current guidance requires OTTI assets to be written down for the entire difference between their cost and fair value on the day they are recorded. In that connection, we urge the SEC to address the interrelationship between OTTI assets and fair value and their impact on the current financial difficulties experienced by many institutions.

Also of critical importance is the lack of guidance under fair value accounting on the effect of an institution's intent to hold an asset. There is a vacuum within fair value principles on how to accurately reflect this intent. We strongly encourage the SEC study to examine how the fair value process can take into account an institution's intent to hold an asset. This examination would address the concern raised by many that an asset that can be held to maturity should not be marked to current market prices.

Additionally, we encourage the SEC to include in its study a review of auditor practices under fair value accounting. Our concern is that auditors have shown little flexibility in how assets may be reflected under fair value principles. In some instances auditors have encouraged institutions to be more conservative in the process by which they value these assets in their financial statements. We are hopeful that the SEC will include auditor practices in its review of these issues.

Lastly, we have every expectation that the SEC will conduct a comprehensive and thorough study of these important issues, but we also urge the SEC to do so in a shorter timeframe than the 90-days permitted if at all possible.

Thank you again for the opportunity to comment on these very significant issues. We welcome the opportunity to discuss them with you at your convenience if that would be useful to your study.

Sincerely,

Mary Mitchell Dunn

Mary Mitchell Dunn
CUNA SVP and Deputy General Counsel