Members United™
CORPORATE FEDERAL CREDIT UNION

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Via Email: rule-comments@sec.gov

Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

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Members United Corporate Federal Credit Union ("Members United") appreciates this opportunity to comment on the proposed agenda for the upcoming roundtable discussions on fair value accounting.

Members United is a wholesale corporate credit union providing investment, financial and payment products to over 2,300 member credit unions. Members United, as a liquidity provider to the credit union network, manages a balance sheet of approximately $12 billion of which over $6 billion is invested in marketable securities that are classified as available-for-sale under SFAS No. 115. As such, we are particularly interested in the discussions surrounding the determination of fair value for these instruments in today's illiquid market.

Times of stress and trial often highlight weaknesses in systems, processes and procedures. In this case, we believe that the current market environment has highlighted weaknesses in the current accounting framework. Specifically, current principles require similar financial instruments to be treated differently for accounting purposes. We believe that this disparate treatment is creating significant and unnecessary confusion for the readers of financial statements. Before advancing a recommendation for SEC to consider, let us briefly review the general accounting framework for a sample of financial instruments as it exists today.

- Performing loan assets – carried at cost unless part of a hedging relationship.
- Non-performing loan assets – carried at net realizable value.
- Marketable securities classified as trading – carried at fair market value with changes recorded against the income statement.
- Marketable securities classified as available-for-sale – carried at fair market value with changes recorded as a component of equity.
- Marketable securities classified as held-to-maturity – carried at cost.
- Investments in FHLB stock – carried at cost.
- Long-term deposits in financial institutions – carried at cost unless part of a hedging relationship.

- Notes payable – carried at cost unless part of a hedging relationship.
- Savings and certificate accounts issued – carried at cost unless part of a hedging relationship.
- Derivatives – carried at fair market value.
- Hedged items that are part of a derivative hedging relationship classified as a fair value hedge under SFAS No. 133 (which could include any of the above instruments) - carried at fair market value unless the risk is bifurcated under which just the change in value associated with the identified risk is recorded at fair value.
- SFAS No. 159 instruments – allows companies to fair value financial instruments in an effort to ease hedge accounting rules. As a result, many financial assets and liabilities that were previously carried at cost can now be carried at fair market value as identified on an individual case by case basis.

The purpose of providing the sample of transactions above is to illustrate that the current framework of accounting for financial instruments is overly complex.

Our recommendation is that the SEC should consider taking this opportunity to simplify the rules that provide guidance on accounting for all financial instruments. Specifically, the SEC should consider issuing guidance that all financial instruments, except trading securities, should be carried at cost. Financial instruments classified as trading should continue to be carried at liquidation (or exit) prices. If a financial instrument, other than a trading position, is considered impaired (and the company has the intent and the ability to hold the security), charges should be recorded against income based on net realizable value and not liquidation (or exit) value.

Further, the SEC should consider continuing its fair value projects but direct their efforts towards improving the disclosures that would accompany the financial statements. The SEC should consider building on the SFAS 107 disclosures and require that estimates of liquidation (or exit) prices should be provided for all financial instruments and presented as a disclosure in the footnotes. As noted above, under this recommended framework, impaired financial instruments would be carried at net realizable value in the financial statements unless the position was transferred to a trading account. To ensure continued transparency under this recommended model, the SEC should require enhanced disclosures surrounding impaired securities that provide ranges for estimated liquidation (exit) values.

If the SEC does not wish to overhaul the current accounting model for financial instruments, at a minimum, the proposed agenda should consider amending the definition of fair value for available-for-sale and held-to-maturity securities to approximate net realizable value. This would place investors in debt securities on equal footing with entities that hold loan portfolios for investment. Securitized loans should not be treated differently than unsecuritized loans when the intent to hold to the investments is present in both cases.

Summary

The SEC should consider issuing guidance that all financial instruments, except trading securities, should be carried at cost. Financial instruments classified as trading should continue to be carried at liquidation (or exit) prices. If a financial instrument, other than a trading position, is considered impaired, charges should be recorded against income based on net realizable value and not liquidation (or exit) value. Enhanced disclosure requirements could supplement the financial statements and provide transparency.

Today's accounting framework is overly complex and it is our belief that the combination of simplified accounting rules for financial instruments and improved disclosures in the footnotes would provide more meaningful information to the users of our financial statements.

If a complete review is not being considered, the SEC should at least allow companies that have the intent and ability to hold an investment to maturity or recovery, the ability to carry the instrument at cost and at net realizable value if impaired. Enhanced disclosures to the financial statements could provide more information on liquidation (or exit) prices associated with these investments. For trading securities for which the investor does not have the intent or ability to hold to recovery, the focus on exit values, incorporating the current severe liquidity risk premiums, is appropriate.

If you would like to discuss any of the points we have raised, please feel free to contact me at 630-276-2600.

Sincerely,

Todd M Adams

Todd M. Adams
Chief Financial Officer