

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION

NATIONAL CREDIT UNION SHARE INSURANCE FUND

LETTER TO CREDIT UNIONS

LETTER NO. 134

DATE: April 1992

DEAR BOARD OF DIRECTORS:

The Financial Accounting Standards Board has issued a new standard of which you should be aware -- Statement of Accounting Standard No. 107, "Disclosures About Fair Values of Financial Instruments" (FAS 107). It requires credit unions with \$150 million or more in total assets to disclose, either in the body of the financial statements or in the accompanying footnotes, the fair values of financial instruments on their statements of financial position for fiscal years ending after December 15, 1992. For all other credit unions, the disclosure will be required for fiscal years ending after December 15, 1995. FAS 107 will be of primary interest to credit unions who are seeking an independent certified accountant's opinion on their financial statements.

FAS 107 does not change any requirements for recognition, measurement, or classification of financial instruments in financial statements. Rather, it requires credit unions to disclose, as a footnote, the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the statement of financial condition, for which it is practicable to estimate fair value. FAS 107 gives guidance on what constitutes a "financial instrument," procedures for estimating fair value and illustrations for applying the disclosure requirements about fair value of financial instruments. For those affected credit unions, we recommend that you obtain a copy of FAS 107 (see below) and begin preparing a financial statement footnote including your methods for establishing the fair value of the assets, liabilities and equity pursuant to FAS 107. These methods should provide the basis for your dollar estimates of the fair value. Historical records should be retained of your fair value calculations based on these methods. An overall policy documenting these methods should be maintained. If it is not practicable to estimate the fair value of a particular financial instrument, disclose in your footnote the pertinent characteristics of the instrument and the reason for impracticability of setting a fair value (e.g., it would be excessively expensive to estimate).

At the present time, federal credit unions will not be required to provide fair value information on the call reports they submit quarterly/semiannually to NCUA. Fair value information should be included on your financial statements of condition as you and your independent auditing firm agree. Copies of FAS 107 may be purchased directly from the Financial Accounting Standards Board, Order Department, P.O. Box 5116, Norwalk, CT. 06856-5116 or by telephone (203) 847-0700, ext. 10.

For the National Credit Union Administration Board,

Roger W. Jepsen
Chairman
FICU