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February 1, 2016

The Honorable Russell G. Golden, Chairman
The Honorable James L. Kroeker, Vice Chairman
The Honorable Daryl E. Buck, Board Member
The Honorable Thomas J. Linsmeier, Board Member
The Honorable R. Harold Schroeder, Board Member
The Honorable Marc A. Siegel, Board Member
The Honorable Lawrence W. Smith, Board Member
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: Re-deliberation of the Effective Date for the Credit Losses Accounting Standard

Dear Chairman Golden, Vice Chairman Kroeker, and Board Members:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally insured credit unions, I write to you regarding the Financial Accounting Standards Board's (FASB) statements indicating the Accounting Standards Update (ASU), Financial Instruments—Credit Losses (Subtopic 825-15), may not be finalized until mid-2016. In light of these developments, NAFCU and our members believe the FASB should redeliberate the effective dates established by the Board last year and further prolong implementation in order to provide credit unions with the requisite time to adequately prepare for the credit losses standard. Specifically, NAFCU recommends the FASB approve a one-year deferral on top of the Board's presently-adopted effective dates.

As we begin 2016, NAFCU respectfully requests the opportunity to meet with the Board in the near future to discuss credit union accounting issues and concerns. In addition, we would also like to discuss ways the FASB and the financial services industry can maintain an open line of communication that benefits the public. NAFCU-member credit unions and I would welcome the opportunity to offer the credit union perspective on these important issues as soon as the schedule of the FASB permits.

General Comments

First and foremost, NAFCU would like to reiterate our position that any proposed ASU should take into account the unique structure of credit unions as member-owned, not-for-profit cooperatives. Credit unions' primary objective is to provide members with high-quality financial products and services. As member-owned cooperatives that are not publicly traded, the primary reader of credit unions' financial statements is the National Credit Union Administration (NCUA), not individual or institutional investors. Therefore, accounting standards developed in order to remedy the shortfalls of publicly-held entities are inappropriate, costly, and resource-intensive as applied to credit unions. NAFCU strongly believes that credit unions should not be subject to the proposed ASU as the benefits are clearly outweighed by the burdens of adopting such a standard. However, if the FASB continues to insist on applying the proposed ASU to credit unions, NAFCU urges the Board to do more to ease the burden of this highly complex accounting standard by further extending the ultimate effective date of the CECL model.

Credit Losses Effective Date

In the wake of the financial crisis, the FASB and IASB began considering revisions and improvements to their respective standards of accounting for financial instruments. On December 20, 2012, the FASB issued an exposure draft of a proposed ASU for Credit Losses. Although the proposed ASU would make many changes to current U.S. generally accepted accounting principles (GAAP), the greatest concern for credit unions is the creation of a subjective standard for the financial reporting of credit losses. In particular, the proposal would establish a "current expected credit loss" (CECL) model to replace the "incurred loss" model that does not require recognition of a credit loss until the loss is probable or has been incurred. Under the CECL model, the allowance for loan and lease losses (ALLL) would reflect the credit union's current estimate of the contractual cash flows that it doesn't expect to collect. This estimate would be based on management's expectations after considering past events, current conditions, and reasonable and supportable forecasts.

During a meeting on November 11, 2015, the Board deliberated the future effective date for the CECL model. After weighing a number of alternatives, the FASB voted to adopt a staggered implementation of the CECL model. The FASB separated entities into three groups: 1) Public Business Entities (PBEs) that are Securities and Exchange Commission (SEC) Filers; 2) PBEs that are not SEC Filers; and 3) Non-Public Business Organizations (including credit unions). Each group was assigned a separate effective date for adopting the CECL model. For credit unions and other non-public business organizations, the implementation dates are fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

It should be noted that this effective date was established under the assumption, based on FASB's news and media statements, that a final ASU would be issued in December 2015 or the beginning of the first quarter of 2016. However, the FASB recently announced in its quarterly "FASB Outlook" that the Board plans to issue a final ASU governing the measurement of credit losses towards the end of the second quarter of 2016. NAFCU has heard increasing levels of concern from credit unions over the FASB's continual postponement of the accounting standard's finalization while financial institutions continue to inch toward a fixed effective date. In order to facilitate a smooth transition to the new method of credit loss accounting, it is critical that credit unions are provided with enough time to ensure they are adequately prepared by the ultimate effective date. NAFCU and our member credit unions strongly recommend the FASB re-deliberate the effective date for the CECL model and extend this date to reflect the significantly diminished period of time financial institutions have, as a result of the more than six-month delay of finalization, to examine a completed ASU and develop suitable models for projecting credit losses.

Conclusion

NAFCU appreciates the opportunity to share its thoughts and urges the FASB to consider further extending the CECL model's effective date in recognition of the diminished period of time credit unions have to evaluate data and develop models based on the requirements of the finalized ASU. We look forward to meeting with the Board in the near future to discuss this important issue. Should you have any questions or would like to discuss these issues further, please feel free to contact me, or Regulatory Affairs Counsel Alexander Monterrubio at amonterrubio@nafcu.org or (703) 842-2244.

Sincerely,

B. Dan Berger
President/CEO