



**National Association
of Federal Credit Unions**
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June 29, 2015

Technical Director
File Reference No. EITF-15B
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Project: EITF-15B – Extinguishments of Liabilities (Subtopic 405-20) Recognition of
Breakage for Certain Prepaid Stored-Value

Dear Sir or Madam:

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) exposure draft specifying how card issuers should recognize breakage for certain prepaid stored-value cards. NAFCU welcomes this proposal as it constitutes an important step towards creating standards in an area left largely undefined and in need of formal guidance. However, NAFCU has a few concerns regarding the clarity of the exposure draft.

Further Clarification

Credit unions benefit from the promulgation of clear and streamlined standards, as they are easier to apply and provide uniformity across the industry. The FASB has determined, after receiving stakeholder feedback, that there is a need to amend current U.S. generally accepted accounting principles (GAAP) to provide specific guidance for the derecognition of prepaid stored-value card liabilities that have certain characteristics (*e.g.*, do not expire; are not subject to unclaimed property laws; and are redeemable for cash and/or goods and services at third-party merchants).

The FASB's exposure draft aims to alter the accounting principles for prepaid stored-value cards, which generally hold monetary values redeemable for goods, services, and/or cash. Typically, the issuer recognizes a liability for its obligation to provide the customer with the ability to

purchase goods or services. This liability is normally extinguished with cash through a card-settlement process. However, situations arise where a prepaid stored-value card may be partially or entirely unused for an indefinite time period.

The exposure draft maintains the default rule for derecognition of a liability: “a debtor shall derecognize a liability if and only if it has been extinguished.” However, the exposure draft would qualify the default rule with a narrow exception that applies to prepaid stored-value cards that have all of the following characteristics: (1) the cards do not have an expiration date; (2) the cards are not subject to unclaimed property laws; (3) the cards are redeemable for cash and/or goods and services at third-party vendors; and (4) the cards are not attached to a segregated bank account like a customer deposit account.

The exception is intended to cover cards that, by their nature, are not capable of being extinguished by any method other than being fully used by the consumer. For example, the liability for the unused balance of a prepaid stored-value card with a specified expiration date may be extinguished on the date the card expires. A prepaid stored-value card meeting all of the characteristics above does not have the same luxury of a bright-line expiration date.

The proposed language contains two standards for recognition of the unused portion of these types of cards:

1. If the issuer **does not** expect to be entitled to a breakage amount, then the issuer should derecognize the unclaimed balance when the likelihood of the customer exercising his or her remaining rights becomes remote.
2. If the issuer **does** expect to be entitled to a breakage amount, then the issuer should derecognize the unclaimed balance “in proportion to the pattern of rights expected to be exercised by the customer only to the extent that it is probable” that the customer will not subsequently claim the unclaimed balance.

NAFCU supports the continuation of the default rule for derecognition of a liability and the creation of a narrow exemption for specific types of prepaid stored-value cards. However, NAFCU believes that although past and current trends are useful, reasonable financial officers and accountants may differ significantly in their predictions of future consumer behavior. Any predictions regarding the likelihood of a particular consumer exercising his or her rights would be largely subjective and speculative. As a result, card issuers could vary from institution to institution in the manner and frequency in which they derecognize liabilities related to prepaid stored-value cards. NAFCU recommends the FASB provide further clarification or additional guidance that may be used by those charged with applying these accounting standards.

Disclosure Requirements

The proposed amendment requires any issuer that recognizes a breakage amount on prepaid stored-value cards to disclose on financial reports the methodology used to recognize the breakage and any judgments made during its application.

The primary reader of credit unions' financial statements is the National Credit Union Administration (NCUA), not individual or institutional investors. As a result, the benefit of mandating extensive disclosures for credit unions would be minor. The NCUA has access to the financial records of federal credit unions and engages in constant oversight of their financial conditions. NAFCU requests that any disclosure requirements be reasonable and provide appropriate exceptions for the compliance of smaller institutions, which can be heavily burdened by compliance costs.

The guiding principle of the credit union industry is to meet the financial needs of its over 100 million members and provide high-quality service, not to generate profit. As such, every dollar spent on efforts to understand and comply with new regulations or accounting standards is a dollar that cannot be used to benefit its members and the local community.

Conclusion

NAFCU agrees with the FASB that guidance is needed for derecognition of liabilities related to prepaid stored-value cards that are not characterized by a clear extinguishing event. The exposure draft is a step in the right direction, but additional guidance would go a long way toward ensuring these accounting changes are effective and useful to card issuers. NAFCU strongly encourages the FASB to thoroughly evaluate the exposure draft for any areas where it can enhance both the simplicity and clarity of the standards.

NAFCU appreciates the opportunity to share its thoughts on the prepaid stored-value card exposure draft. Should you have any questions or concerns regarding the content of this letter, please feel free to contact me directly at amonterrubio@nafcu.org or (703) 842- 2244.

Sincerely,



Alexander Monterrubio
Regulatory Affairs Counsel