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March 4, 2019

Technical Director
File Reference No. 2019-100
401 Merritt 7
Norwalk, CT 06856

Re: Comments on Proposed ASU *Targeted Transition Relief for Topic 326, Financial Instruments—Credit Losses*; File Reference No. 2019-100

To Whom It May Concern:

On behalf of America's credit unions, I am writing regarding the Financial Accounting Standards Board's (FASB) proposed Accounting Standards Update (ASU) *Targeted Transition Relief for Topic 326, Financial Instruments—Credit Losses*. The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

Comments regarding the Proposed ASU

The FASB has issued a proposal intended to ease transition to the credit losses standard by providing the option to measure certain types of assets at fair value. Among other changes, the credit losses standard [referred to as CECL (current expected credit losses)] modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis.

Some stakeholders—including auto financing institutions that extend credit to borrowers with limited or impaired credit histories—noted that certain financial statement preparers have begun (or are planning) to elect the fair value option on newly originated or purchased financial assets that have historically been measured at amortized cost. They noted that electing the fair value option would require them to maintain dual measurement methods—fair value measurements and amortized cost basis.

The proposal would allow preparers to irrevocably elect the fair value option, on an instrument-by-instrument basis, for eligible financial assets measured at amortized cost basis upon adoption of the credit losses standard. This would increase the comparability of financial statement information provided by institutions that otherwise would have reported similar financial instruments using different measurement methodologies, potentially decreasing costs for financial statement preparers while providing more useful information to investors and other users.

We appreciate the FASB's effort to be responsive to the concerns raised by certain stakeholders. We do not disagree with the FASB's position that the proposed ASU may decrease costs for some preparers and at the same time provide more beneficial information to users.

While we support true relief associated with CECL, regardless of who it benefits, based on discussions with our member credit unions, it is our understanding that credit unions are unlikely to adopt the proposed transition relief. Thus, the changes included in proposed ASU will be of little benefit to credit unions, as they continue to struggle with implementing changes necessary under CECL. For the reasons discussed below, we urge the FASB to explore ways much needed relief can be achieved for credit unions under CECL.

Comments regarding CECL Generally

CUNA's longstanding position has been and continues to be that application of CECL to credit unions is inappropriate. CECL is intended to address delayed recognition of credit losses resulting in insufficient funding of the allowance accounts of certain covered entities. However, underfunding of allowance accounts has not generally been an issue for credit unions. Further, the typical user of a credit union's financial statements is not a public investor—such as with large, public banks—but instead is the credit union's prudential regulator, the National Credit Union Administration (NCUA).

In addition to the direct effect the upcoming changes will have on credit unions' financial positions, credit unions are very concerned with the compliance burden of the changes, which require extensive resources to analyze the loan portfolio on a granular level to calculate and project life of loan losses. This comes at a time when many credit unions are struggling to comply with a historic level of new and amended regulations. Even those credit unions able to allocate the resources necessary to comply are encountering major challenges since the level of data analytics required is less common among credit unions, unlike much larger, complex banks.

While CECL has been adopted and is scheduled to take effect in the coming years, we share these ongoing concerns in hope that the FASB will take advantage of future opportunities to adjust the standard with an eye toward reducing the compliance burden on credit unions. Though the standard has been finalized, we are encouraged by the FASB's apparent willingness to revise the standard as issues present themselves, such as the FASB's recent delay of the CECL effective date for credit unions and other non-public business entities. However, we believe more can and should be done to ensure entities are able to comply with the standard.

We share the credit union industry's concerns in hopes that the FASB will review the standard for opportunities to reduce unnecessary compliance challenges as well as develop compliance resources in coordination with prudential banking regulators, including the NCUA.

Conclusion

On behalf of America's credit unions and their 115 million members, thank you for the opportunity to share our comments regarding the FASB's proposed ASU on credit losses. In addition, we greatly appreciate your consideration of the concerns we raised regarding CECL, outside of the context of the proposed ASU. If you have questions about our comments, please do not hesitate to contact me at (202) 508-6743.

Sincerely,

A handwritten signature in cursive script that reads "Luke Martone".

Luke Martone
Senior Director of Advocacy & Counsel