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September 17, 2018

Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Proposed Accounting Standards Update: Codification Improvements to Topic 326, Financial Instruments—Credit Losses; File Reference No. 2018-270

To Whom It May Concern:

On behalf of America's credit unions, I am writing regarding the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU): *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which requires use of the current expected credit loss (CECL) accounting method. The Credit Union National Association (CUNA) represents America's credit unions and their 110 million members. The comments below were written under the auspices of CUNA's Accounting Advisory Committee, chaired by Julie Renderos, EVP & CFO of Suncoast Credit Union.

<u>Proposed Accounting Standards Update</u>

While CUNA has consistently taken the position that application of CECL to credit unions is inappropriate, we recognize the improvements and clarifications the Board has made throughout its deliberation of the credit losses ASU.

We appreciate FASB's willingness to consider potentially problematic issues with the credit losses standard that are brought to the Board's attention during implementation of the standard. FASB's Transition Resource Group on Credit Losses has been a useful vehicle for bringing implementation issues before the Board for review and possible clarification.

Further, we appreciate that FASB is open to reviewing concerns raised directly by affected reporting entities and their trade representatives. Specifically, we were glad to see the Board issue this proposal, which we understand was, at least in part, in response to a letter we sent to the Board in May alerting it to the effective date discrepancy and seeking an appropriate remedy. In addition to addressing the effective date issue, the proposed ASU seeks to clarify a related issue pertaining to operating lease receivables.

As FASB noted in the proposed ASU, the proposed amendments are of a similar nature to items typically addressed in FASB's project on Codification improvements. We recognize the Board's decision to issue a separate proposed ASU for Codification improvement in an effort to increase stakeholders' awareness of the proposed amendments. We agree with this approach, as it seeks to enhance the quantity and quality of input on these proposed changes; this is particularly appropriate given the importance of the effective date issue to credit unions, as nonpublic business entities (PBE).

Issue 1: Transition and Effective Date for Nonpublic Business Entities

As adopted in June 2016, the credit losses ASU provides a tiered effective date dependent on the type of reporting entity. The standard must be adopted by each type of entity as follows:

A) *PBE that is an SEC filer:* effective fiscal years beginning after 12/15/2019, including interim periods within those fiscal years.

B) *PBE that is not an SEC filer:* effective fiscal years beginning after 12/15/2020, including interim periods within those fiscal years.

C) *Non-PBE:* effective fiscal years beginning after 12/15/2020, and interim periods within fiscal years beginning after 12/15/2021.

The proposed ASU would amend the effective date for non-PBE filers by changing it to fiscal years beginning after <u>12/15/2021, including interim periods within those fiscal years</u>. The Board is proposing this change to mitigate transition complexity.

CUNA supports FASB's intent of tiered effective dates to allow smaller and less complex financial institutions the flexibility and time to implement the standard in an appropriate manner. Further, based on Background Information and Basis for Conclusions (BC 123) of the credit losses ASU as well as comments made during public deliberations, it appears FASB sought to provide additional implementation time for non-PBEs.

As currently written, PBEs (that are not SEC filers) and non-PBEs need to determine the transition entry as of the beginning of the first quarter of fiscal years beginning after December 15, 2020—which is January 1, 2021, for calendar year-ends. Adoption during the fourth quarter does not effectively result in a different adoption date between non-SEC filer PBEs and non-PBEs, given the need to have appropriate reporting systems and internal controls as of January 1, 2021.

Thus, we agree with the Board's proposed change to the effective date for non-PBEs. We believe this change will not only provide much needed additional time for credit unions to implement system updates but will also reduce confusion, particularly for those entities required to adopt in the fourth quarter.

Issue 2: Operating Lease Receivables

FASB's accounting standard on credit losses (Subtopic 326-20) includes financial assets measured at amortized cost basis, including net investments in leases arising from sales-type and direct financing leases. The scope does not specifically include receivables arising from operating leases.

There is some confusion among reporting entities as to whether operating lease receivables would be included within the scope of Subtopic 326-20 because they appear to meet the definition of a financing receivable measured at amortized cost basis.

The Board has proposed an amendment to clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20; instead, impairment of receivables arising from operating leases should be accounted for in accordance with FASB's accounting standard on leases (Subtopic 842-30).

We support this proposed clarifying change. While this does not yet appear to be a major issue of confusion for credit unions, we believe this amendment may mitigate stakeholder confusion and we are unaware of any unintended consequences associated with this clarification.

Continuing Implementation Struggles

While the Board's request for comment is limited to the two changes considered in the proposed ASU, we would be remiss if we did not reiterate our longstanding position 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. In fact, during the height of the recession, accounting rules resulted in credit unions overfunding their provisions for loan and lease losses and generally maintaining their allowance accounts in surplus. Such actions caused credit union earnings to be understated during the recession. To the extent CECL requires further increases to even higher levels of the allowance account, these distortions will be even greater.

In addition to the direct affect 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 near 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 the credit losses ASU has been adopted and is scheduled to take effect over the next few years, we share these ongoing concerns in hope that 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 FASB's apparent willingness to revise the standard as issues present themselves. As credit unions continue devoting resources to make changes necessary for compliance, it is certain that opportunities for improvement and/or clarification will arise. CUNA will work to inform FASB of these issues as we learn of them and we hope the Board will commit to examining these issues and formally addressing them, where appropriate.

Conclusion

On behalf of America's credit unions and their 110 million members, thank you for the opportunity to share our support of the Board's proposed ASU on credit losses. If you have questions about our comments, please do not hesitate to contact me at (202) 508-6743.

Sincerely,

Luke Martone
Senior Director of Advocacy & Counsel