

May 31, 2013

Via e-mail

Ms. Susan M. Cosper Technical Director File Reference No. 2012-260 Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, Financial Instruments – Credit Losses (Subtopic 825-15)

Ms. Cosper,

Thank you for the opportunity to provide comments on the above referenced Financial Accounting Standards Board (FASB) proposed standards update. Westerra Credit Union is a member owned financial institution serving approximately 84,000 members in the greater Denver metropolitan area. We are one of the largest credit unions in the state of Colorado, with approximately \$1.2 billion in assets.

The Board notes in the summary that the goal of this proposed standard is "to provide financial statement users with more decision-useful information about expected credit losses on financial assets." In addition, one of the objectives of this proposed standard is to "reduce complexity by replacing the numerous existing impairment models in current U.S. GAAP with a consistent measurement approach." We believe that the requirements in the above noted proposal fail to meet these stated objectives for the following reasons:

• Estimates less accurate and not based on reliable and supportable information. U.S. GAAP often requires the use of estimates in financial reporting, but there is an expectation embedded within current GAAP that reasonable estimates are those based on reliable and supportable information and/or financial models. The FASB acknowledges in the exposure draft that this proposal is partially driven by the "aftermath of the global economic crisis". While it is now apparent that there were many economic warning signs that foretold of a pending economic crisis, most economists would agree that it would have been impossible to predict either the timing or magnitude of the crisis before it occurred, or even while it was unfolding. Hindsight, as they say, is always "20/20". Had the proposed standard been in place as we were entering the economic crisis of 2008 – 2011, it is highly unlikely that any allowance account model would have predicted the kind of economic circumstances that ultimately occurred and any forward-looking projection is only as good as the assumptions underlying the projection. Most of these

assumptions would have been based on a review of recent past which would not have predicted the economic conditions that ultimately were prevalent during the economic crisis.

The proposed credit loss standard requires that expected future loss estimates be based on a "broader range of reasonable and supportable information". In practice, this would require institutions to look to economic metrics, statistics and forecasts to measure the losses. These metrics, statistics and forecasts are imperfect at best, and have not proven to be reliable predictors of future economic conditions. Economists provide economic forecasts to assist business and government in making decisions about future operations and strategies, not to provide an objective measure of current asset values. In addition, forecasting cash flows beyond six to twelve months have proven to be highly inaccurate and increase the complexity of the estimate. The subjective nature of economic information, and the increasingly inaccurate financial forecasts as the projection period increases, would translate into subjective measures of losses that are an unreliable measure of credit risk and would vary significantly from institution to institution thus reducing the decision-usefulness of the information being presented due to the lack of comparability between similar entities.

• Violation of the matching principal. A fundamental principle of accrual accounting states that expenses should be recognized in the same period as the revenues they helped to generate. This cornerstone of accounting is critical to maintaining comparability of financial reporting across entities, as well as an objective and verifiable measure of entity profitability. All financial institutions, including credit unions, price loans based on both prevailing market rates and borrower credit risk factors. In this way, additional revenue required to compensate a financial institution for the risk potential of a loan is priced in and recognized over the life of that loan. The FASB's proposed "expected credit loss" model, which requires that all loans be impaired at origination based on future loss potential, would accelerate recognition of credit losses and result in those costs being recognized much earlier in the life of a loan than the related revenues. This is because credit losses would be required to be recognized before they have been incurred, before any revenue associated with those loans has been realized.

The distortion of financial information which would result from the FASB's proposed expected credit loss model would have an immediate and significant detrimental impact to the net worth of all financial institutions in the U.S. As regulated entities financial institutions are required to maintain minimum levels of net worth. This requirement ensures that sufficient capacity is maintained to absorb potential un-incurred losses, including credit losses. The FASB's proposal would result in a substantial reduction in the net worth of financial institutions in the U.S., resulting in an immediate reduction in lending capacity that could have serious consequences to national economic growth.

The models proposed in the revised standard would result in great cost in terms of measurement tools, time and training as well as increased audit costs without a corresponding benefit. We believe that the current incurred loss model, applied properly with due consideration to both historical events and known future risks incorporated as qualitative and environmental (Q&E) adjustments, together with an appropriate level of disclosure, already effectively meets the FASB's stated goal of providing financial statement users with the most useful, transparent, and relevant information about the credit risk of financial assets. The recent expansion of the loan disclosures to include additional information about credit risk factors provide financial statement users with sufficient information to assess risks that may exist but have not yet resulted in incurred losses.

It is fair to say that credit impairment is the most closely monitored and evaluated item on a financial institution's balance sheet. The existing accounting framework, including FASB and regulatory guidance, is more than sufficient to ensure proper recognition of credit losses and matching of those losses with revenue streams. A forward-looking forecast is inherently going to be more complex and inaccurate and therefore has no place in the accounting rules, as it will have a significant negative impact on both the usefulness of the financial statements and the reliability of that information.

We appreciate the opportunity to provide our thoughts on this important topic and thank you for your consideration of our comments. If you have any questions, please feel free to contact us.

Sincerely,

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