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June 21, 2013

Technical Director
File Reference No. 2013-250
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2013-250

Invitation to Comment: Private Company Decision-Making Framework

#### Dear Sir or Madam:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I write to you regarding the Financial Accounting Standards Board's (FASB) and Private Company Council's (PCC) invitation to comment on the discussion paper, *Private Company Decision-Making Framework:* A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies (the Framework), a guide for evaluating potential alternatives for financial accounting and reporting for private companies. The purpose of this invitation to comment to is assist the FASB and PCC in identifying which circumstances merit providing alternative recognition, measurement, disclosure, display, effective date, or transition guidance for private companies reporting under U.S. Generally Accepted Accounting Principles (U.S. GAAP). NAFCU appreciates the FASB's and PCC's efforts to minimize unnecessary costs and requirements for private companies, but believes that credit unions—as not-for-profit cooperative entities with a unique capital structure—warrant industry-specific consideration.

#### I. Introduction

The FASB issued an initial draft of the Framework on July 31, 2012 in order to gather input from stakeholders that would assist in developing a guide for the FASB and PCC to use in deciding whether and when to modify the application of U.S. GAAP for private companies. After receiving comments, the FASB and PCC decided to expose the updated Framework and conduct a second invitation to comment in order to gather further feedback about the appropriateness, completeness, and cost effectiveness of the Framework. Following this invitation to comment, the FASB intends to release an exposure draft for additional public comment. The FASB and PCC's ultimate goal is for the guide to be a tool to help identify

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differential information needs between users of public company financial statements and private company financial statements, and to identify ways to reduce the complexity and costs of preparing financial statements.

First and foremost, NAFCU would like to reiterate its position that in proposing new accounting standards updates, the FASB should take into account the unique structure of credit unions. America's credit unions serve approximately 95 million people. Credit unions are member-owned not-for-profit cooperative entities that aim to meet their members' needs and provide quality service, not to generate profit. Credit unions do not, and cannot, have investors, and the primary reader of credit unions' financial statements is the National Credit Union Administration (NCUA), not individual or institutional investors.

Accordingly, standards geared toward publicly held entities and most private entities are often inapplicable or extremely difficult and costly to apply to credit unions. The FASB and PCC should provide credit unions with industry-specific alternatives in preparing financial statements. Every dollar credit unions use to comply with regulations and accounting standards is a dollar they cannot use for the greater good of their members and the communities they serve.

### II. Flexibility in Choosing Recognition and Measurement Alternatives

NAFCU strongly supports allowing a private company to select the alternatives within recognition or measurement guidance that it deems appropriate to apply without having to apply all alternatives within recognition and measurement. This flexibility will allow individual credit unions to comply with FASB guidance in the most cost-effective way possible, given their circumstances. Further, such flexibility presents no danger of confusing individual or institutional investors because the primary reader of credit unions' financial statements is the NCUA.

# III. Significant Private Company Differential Factors and their Implications for Private Company Financial Reporting

The FASB has identified six factors that differentiate the needs of private company and public company financial statement users, as well as their relative cost-benefit considerations of financial reporting. They are: 1. The types and number of financial statement users; 2. Access to management; 3. Investment strategies of equity investors; 4. Ownership and capital structure; 5. Accounting resources; and 6. Learning about new financial reporting guidance. As described below, federal credit unions have certain features that distinguish them both from public companies and other private companies within each factor. The FASB and PCC should take these unique features into consideration in evaluating the applicability and consequences of alternative accounting guidance for credit unions.

#### A. The Types and Number of Financial Statement Users

The primary reader of federal credit unions' financial statements is their prudential regulator: the NCUA. The NCUA does not rely solely on credit unions' financial statements in

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order to accomplish its regulatory and supervisory goals. Instead, it has an extensive information collecting system, utilizing call report data, examinations, and other supervisory tools.

The only other potential users of a credit union's financial statements are its sole sources of funding: its members and creditor counterparties. Credit unions do not, and cannot, have outside investors and federal credit unions currently cannot collect supplemental capital. Thus, unlike public companies and most private companies, credit unions do not use their financial statements to provide information to public and private capital markets or to attract non-member investments.

## B. Access to Management

The primary user of federal credit unions' financial statements, the NCUA, has a great degree of access to management. As federal credit unions' prudential regulator, the NCUA has the ability to request substantial amounts of information from credit unions in order to supplement any financial statements they may issue. Further, the NCUA's rulemaking authority allows it to require federal credit unions to divulge additional data the NCUA may require on a regular basis.

Credit unions' members also have more substantial access to management than investors in other private companies. Credit unions are community-based, in addition to being organized as mutual and cooperative entities. Management must be responsive to member inquiries and concerns due to members' voting authority and members' right to access credit unions' records, and credit unions' relatively small size gives management personal knowledge of members' information needs.

## C. Investment Strategies of Equity Investors

As previously discussed, credit unions do not, and cannot, attract outside investors or shareholders. Although members' deposits entitle them to an ownership share, credit union members do not share the same information needs or investment goals as equity investors in other private companies. Credit unions attract their members with community-building financial services, such as checking and savings accounts, mortgages, and credit cards—not with the promise of dividends or capital appreciation.

# D. Ownership and Capital Structure

As previously discussed, credit unions are mutual, cooperative, non-profit entities. Each member of a credit union may participate equally in its management, regardless of the size of the member's deposit. Further, federal credit unions currently may not receive supplemental capital or allow equity investments. Credit unions must adhere to strict net worth limits under the NCUA's regulations, and must maintain a net worth ratio of seven percent retained earnings to assets in order to qualify as "well capitalized."

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## E. Accounting Resources and Learning about New Financial Reporting Guidance

Many credit unions do not have the resources or economies of scale to enable them to efficiently generate financial statements or obtain information regarding new financial reporting guidance without impacting their services or returns to their members. On average, a credit union has \$150 million in assets and 38 employees, with medians of \$21 million and 6 employees, respectively. Credit unions are accordingly unlikely to participate in the standard-setting process or closely monitor changes in accounting guidance. They also typically lack the resources to engage large public accounting firms to assist them in such processes.

#### IV. Conclusion

NAFCU appreciates the FASB and PCC's efforts to identify situations in which requirements and standards applicable to public entities may not be appropriate for private companies. Credit unions differ greatly from public companies because of their unique ownership and capital structures and roles in their communities. Further, both the information needs of readers of credit unions' financial statements and the cost-benefit considerations of providing these statements are greatly different from those of other public companies because the NCUA is the primary reader of such statements. The FASB and PCC should take these important features into account in developing the Framework and future alternative accounting guidance for credit unions.

NAFCU appreciates the opportunity to provide our comments. Should you have any questions or concerns, please feel free to contact me at ameyster@nafcu.org or (703) 842-2272.

Sincerely,

Angela Meyster

Regulatory Affairs Counsel