Mr. Robert Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Comments to Preliminary Views Document – Reference #1550-100

Chairman Herz:

The Washington Credit Union League respectfully submits its observations to the Financial Accounting Standards Board regarding its initiative to draft updates aimed at improving accounting practices, especially for cooperative businesses in America. We have reviewed the publication entitled Preliminary Views Financial Instruments with Characteristics of Equity, and commend the board for the work and diligence that it put into proposed changes such as this. We also appreciate the contributing FASB authors’ request for commentary and the open academic environment created during this process. Everyone benefits by way of this commitment to securing relevant input from the principal stakeholders.

The Washington League is commenting on behalf of more than 130 member cooperative credit financial institutions, and on behalf of 2.5 million Washington credit union members holding in excess of $25 billion in financial assets. The League brings together all categories of credit union charters to best represent the interests of this rapidly changing industry. WCUL’s membership includes federally chartered, state-chartered, and out-of-state credit unions doing business in Washington State making the League the largest credit union trade association in the Northwest region of the United States.

It should be noted that for more than 100 years, credit unions have been considered cooperatives by definition: a jointly owned and democratically-controlled enterprise. Credit unions’ philosophy is “People Helping People”. A credit union’s primary service is to look out for its members’ financial interest by providing lending, savings, and financial intermediation services on a not-for-profit basis, based on a cooperatively pooled aggregation of all the member’s deposits.

Credit unions are already highly regulated institutions, with strict accounting standards reviewed by numerous state and federal agencies, insurance companies, and the citizenry to assure there is public confidence in the institution. By rule and law, credit unions are also subject to a third party audit performed by a Certified Public Accounting firm. The current practices are serving credit unions well. Additionally, these institutions run on very expensive secure data systems built around established accounting standards. Accordingly, there is worry that any changes to generally accepted accounting principles can result in an unintended burden, operational disruption, and costs to credit unions, especially the small ones.

Also be aware that in the unstable recessionary economic environment of 2008, which is especially difficult within the financial sector, it is a challenge for many credit unions to
endure increasing costs and still maintain a sufficient amount of equity as required under the standing regulations. The timing of proposed FASB changes may be as problematic as the suggested modifications.

Area of Greatest Concern:
Changing Public Perception of Safety & Soundness
In Washington State, approximately 23% of credit unions are under $10 million in assets. Nationally, nearly 44% of the 8,001 institutions are below $10 million in assets. These credit unions have traditionally been allowed to record their member share deposits as equity. Small credit unions need to display sufficient equity capital to fund projects, grow their business and absorb losses. As cooperatives, small credit unions rely on their members for most—if not all—of their equity needs. If member deposits are not classified as equity as proposed by FASB, for the small credit unions it could impact how creditors, vendors and others view the financial health of that credit union.

WCUL does recognize the potential changes would not impact larger credit unions in Washington, since they already record their member deposits as liabilities. Regardless, we represent all credit unions, large and small. We believe that this FASB change would be a burden to our small credit unions. We recommend FASB consider the continuation of encouraging the inclusion of member deposits as equity, not as a liability, for small credit unions under $10 million in assets.

The dimensions of this proposed change present many complexities for the institutions as well as regulatory agencies that establish accounting ratios used to determine appropriate institutional solvency measurements. Before further action, we encourage consultation between FASB, the National Credit Union Administration (NCUA)—charged with supervising federal credit unions and deposit insurance for federally insured credit unions—and the National Association for State Credit Union Supervisors (NASCUS), which is a coordinating body for state regulatory agencies.

Thank you for your consideration,

Sharon Hall, Chief Financial Officer
Washington Credit Union League

Cc:
National Cooperative Business Association
National Credit Union Administration
National Association for State Credit Union Supervisors
Credit Union National Association