May 31, 2013

Technical Director
Financial Accounting Standards Board
401 Merrit 7, P.O. Box 5116
Norwalk, CT  06856

RE: Comments on Proposed Accounting Standards Update: Financial Instruments – Credit Losses

File Reference No.  2012-260

To Whom It May Concern:

On behalf of the Arkansas Credit Union League and Arkansas credit unions, this letter represents our opposition to the Financial Accounting Standards Board’s (FASB) proposed accounting standards update on accounting for credit losses for financial institutions. We appreciate the opportunity to comment on this proposal.

We believe this proposed standards update will adversely affect credit unions. While we oppose most of the proposal, we do support the proposed treatment that would bring the allowance of the targeted entity in a merger/business combination to go to the continuing entity in the merger.

Unlike other financial institutions, credit unions are limited by the Federal Credit Union Act in regards to their net worth. It is limited only to retained earnings. Also, this statutory limitation restricts the ability of the National Credit Union Administration to adjust its regulations in response to changes in accounting standards, as is possible for other federal financial regulators.

If credit unions were required to recognize all expected future losses on their balance sheet as proposed, it would drastically increase a credit union’s impairment allowance resulting in a reduction in many credit unions’ retained earnings.

A decrease in earnings can lead to a reduced capital ratio which might put the credit union under Prompt Corrective Action by NCUA and make the credit union undercapitalized. Such a result could force credit unions to merge or close, and small credit unions would be particularly vulnerable.

It would be extremely difficult, if not impossible, for credit unions to accurately forecast the performance of assets over their remaining lives. This would require sophisticated and expensive forecasting software and many hours of training employees in how to use it. Also, even the most expensive forecasting software couldn’t predict the financial catastrophe that was the main impetus for the proposed changes in accounting for credit losses. Credit unions simply cannot afford the burden which would ultimately be borne by the member-owners of the credit unions.
We believe it is contradictory for an estimate of to include both the possibility that a credit loss will occur and the possibility that it won’t occur. It is much more logical to reserve based on the most likely outcome, and we think that recognizing future losses would be diverging from International Accounting Standards Board promulgations, not moving toward convergence.

For these reasons listed above, we feel it is inappropriate to apply the proposed changes to credit unions based on their unique structure. We do not support the accounting standards update as proposed.

Thank you for your time in reviewing this material.

Sincerely,

Reta Kahley
President
Arkansas Credit Union League