September 16, 2019

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

Re: Proposed Accounting Standards Update to Delay Effective Dates of Financial Instruments Standards; File Reference No. 2019-750

To Whom it May Concern:

The Michigan Credit Union League (MCUL), the statewide trade association representing 100% of the 221 credit unions located in the State of Michigan and their 5.4 million members, appreciates the opportunity to comment on the Financial Accounting Standards Board’s (FASB) proposed accounting standards update (ASU). The update requests comment on the proposal to delay the effective dates of several financial instruments standards, including credit losses.

MCUL would like to take this opportunity to address not only the delay of the current expected credit loss (CECL) standards but also share concerns over the applicability and impact of these standards upon credit unions.

**Proposed Delay of Effective Dates**

*Effective Date Philosophy*

In response to concerns related to implementation of accounting standards, particularly those expressed by smaller public companies and private entities, FASB has proposed a philosophy to extend and simplify how effective dates are staggered between larger public entities (referred to as bucket one) and other entities (referred to as bucket two). The proposal sets forth a new philosophy to facilitate a more efficient and successful transition to major standards.

Under the proposed philosophy, a major update, like the current expected credit losses, would first be effective for entities under bucket one – entities that are Securities and Exchange Commission (SEC) filers. For our purposes, credit unions would fall under bucket two as “all other entities.” For entities under bucket two, the proposal anticipates a consideration for staggered effective dates at least two years after bucket one.

MCUL supports this proposed philosophy as the challenges for smaller entities, such as a limitation on the ability of resources, are very real. Additionally, having larger public companies
implement changes to accounting standards earlier provides time to analyze the impact and make recommendations and adjustments to any areas of concern.

**Effective Date for Current Expected Credit Losses**

MCUL appreciates FASB’s recognition of the challenges community-based institutions, such as credit unions, are encountering as they work to implement necessary changes in order to comply with CECL. Therefore, we support the proposed delay of the effective date.

CECL was originally designed to address the proper valuation of the balance sheets of publicly traded entities – SEC filers as previously discussed. Delaying the implementation date allows for further study to determine if there is a more cost efficient and simpler approach to adjust the allowance rules that capture the “spirit” of the standard. Delaying the rule will also provide smaller credit unions time to determine how to best incorporate CECL for their institutions as well as allow CPAs and regulatory agencies more time to ascertain proper procedures to audit and examine institutions for CECL.

However, we feel it is necessary to address the overarching concern with CECL. It is our position, together with the Credit Union National Association (CUNA), that the application of CECL to credit unions is inappropriate. Covered institutions, including credit unions, will be required to use historical information, current conditions and reasonable forecasts to estimate the expected loss over the life of the loan. CECL is intended to address delayed recognition of credit losses resulting in insufficient funding of the allowance accounts of certain covered entities. It is important to stress that underfunding of allowance accounts has not generally been an issue for credit unions. Furthermore, the typical user of a credit union’s financial statements is not a public investor – like that of large corporate banks - but instead is the credit union membership as these reports provide the member owners with the financial condition, incomes, reserve and retained earnings for the year.

In addition to the direct impact the upcoming changes will have on credit unions’ financial positions in Michigan, and across the country, credit unions are very concerned with the compliance burden of changes, which require extensive resources to analyze the loan portfolio on a granular level to calculate and project life of loan losses. The transition to the CECL model will bring with it significantly greater data requirements and changes to methodologies to accurately account for expected losses under entirely new parameters. This comes at a time when many credit unions are struggling with a historic level of new and amended regulations from the Consumer Financial Protection Bureau (CFPB) and other regulatory agencies. 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, more complex banks.

Credit unions were formed to assist their communities during the most difficult of times. The “people helping people” model has remained since the first credit union opened in 1909. CECL will hinder these efforts in several areas including lending and the ability to assist low- and moderate-income borrowers. A completely unintended, although real, consequence of CECL is that it will
force lenders to be much more discerning of potential borrowers with less than perfect credit and will force credit unions to eliminate product and services members need.

Conclusion

While we recognize that the proposed delay of the effective date will of course provide credit unions with additional time to comply, it does nothing to the onerous, substantive and altogether unnecessary requirements within the standard that CECL imposes upon credit unions. We urge the Board to search for any opportunities to provide real relief to credit unions, which consistently cite CECL as one of the most significant compliance challenges they face.

Thank you for the opportunity to provide comments.

Respectfully,

Dave Adams, CEO
Michigan Credit Union League and Affiliates