Dear Chairman Golden:

Thank you for the opportunity to comment on this proposal. As a matter of background, Alabama Credit Union serves 90,000 members and has $922 million in assets. This letter emphasizes the views of Alabama Credit Union on behalf of our members regarding the Financial Accounting Standards Board’s (FASB) proposed Accounting Standard’s Update (ASU) to Delay Effective Dates of Financial Instruments Standards – Credit Losses (Topic 326).

Proposed Delay of Effective Dates Response

Based upon responses to concerns related to implementation standards, we commend the FASB Board for its recognition of the challenges encountered, particularly from private companies, smaller public companies, and not-for-profit organizations when adopting a major Update. As a result, FASB has proposed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). The proposal incorporates a new philosophy to allow for a potentially more efficient and successful transition to major standards.

Under this philosophy, a major accounting standards update would first be effective for bucket-one entities including entities that are Securities and Exchange Commission (SEC) Filers, thus excluding smaller reporting companies (SRCs) under the SEC’s definition. All other entities, including credit unions, would compose bucket two. For those entities in bucket two, it is anticipated that the Board will consider requiring an effective date staggered at least two years after bucket one for major updates.

We support this proposed philosophy as it would apply to major accounting standard updates excepting those instances in which certain SRCs would more appropriately be carved out of the requirements. Given the severity of challenges credit unions and other non-public entities encounter when implementing major accounting changes, it is our position that a delayed effective date for smaller entities should be automatic within FASB’s standards, excepting those standards in which the smaller entities are appropriately carved out of the requirements.
Providing non-public entities with additional time in the form of delayed effective dates will allow for those entities with limited resources the ability to learn from the implementation processes of those entities with much greater resources.

While we support this proposed philosophy, we would like to emphasize our position that while a two year delay in effective dates of major accounting standards for non-public entities of at least two years after those for large public entities will aid SRCs in achieving compliance, sufficient flexibility should be allowed for instances where more time is appropriate. In addition, there will continue to be instances in which credit unions and potentially other SRCs would more appropriately be completely carved out of the requirements.

The proposal would apply this change in philosophy to the following standards that have been adopted, but not yet become effective:

- Accounting Standards Update No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (Referred to as the CECL (current expected credit loss) standard);
- Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities; and
- Accounting Standards Update No. 2016-02, Leases (Topic 842).

Specifically, the proposal would make the following changes to the effective dates for these standards:

<table>
<thead>
<tr>
<th>Standard</th>
<th>SEC Filers</th>
<th>All Other Public Business Entities (PBEs)</th>
<th>Private &amp; All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedging</td>
<td>January 2019</td>
<td>January 2019</td>
<td>January 2020</td>
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<td></td>
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<td>January 2021</td>
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<tr>
<td>Leases</td>
<td>January 2019</td>
<td>January 2019</td>
<td>January 2020</td>
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<td></td>
<td></td>
<td></td>
<td>January 2021</td>
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<tr>
<td>CECL</td>
<td>January 2020 (Except SRCs January 2023)</td>
<td>January 2021</td>
<td>January 2021</td>
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<td></td>
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<td>January 2023</td>
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</tbody>
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*No change in effective date*

We appreciate the Board’s recognition about the implementation challenges encountered by all types of entities when adopting major updates. In addition, we agree with the Board’s stated greater understanding that these challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations.

However, it is important for FASB to strongly consider our industry position that the application of CECL to credit unions is inappropriate. It is imperative that the FASB understand that unnecessary changes that result in a decrease in credit unions’ available capital will ultimately harm our nation’s greater than 115 million credit union members.
union members. We believe the proposed ASU for CECL, even with delays, is just that—a change that is inappropriate for credit unions that will result in a contraction of credit available to credit union members.

We encourage the FASB to continue placing strong consideration towards recognizing the differences between credit unions and other providers, particularly the largest banks who actively participated in activities that contributed to the financial crisis. Allowing credit unions to continue reporting under the current methodology, which has not been shown to be problematic for the credit union system, is certainly the most practical and time-proven risk averse and compliant course of action for the FASB’s consideration.

As a not-for-profit, member owned financial cooperative, Alabama Credit Union believes it is extremely important to highlight and recognize the inherent and significant differences between publicly traded companies and not for profit entities such as credit unions. Credit Unions do not have shareholders and their boards of directors are comprised entirely of volunteer members. Unlike most traditional Financial Institutions, credit unions must build capital solely through retained earnings and are unable to issue stock or offer subordinated debt instruments for the purpose of building capital. It is also notable that the primary external users of credit union financial reports are regulatory agencies, the National Credit Union Administration (NCUA) and state specific examination agencies such as the Alabama Credit Union Administration (ACUA).

The Credit Union industry does not interact with outside investors, and as a result, many of the requirements and amendments recently proposed by the FASB will have a significant adverse impact on credit unions, without any positive effects specific to credit unions. In addition, many recent FASB proposals have additionally included onerous and costly reporting requirements that are not relevant to credit unions, as they are intended to assist investors of publicly traded companies. Therefore, Alabama Credit Union strongly urges the FASB not to proceed with requiring credit unions to comply with the accounting standards update specific to CECL, even including the delay, as issued for comments.

If adopted as proposed to continue to include credit unions, we are extremely concerned with the dramatic and immediate increase to our credit union’s allowance for loan and lease losses that the new standard will require. Our credit union has historical net losses on loans well below industry standards and as such, this new standard as proposed will have particularly punitive impacts on our financial performance as well as our ability to lend to our members. In addition, we are very concerned with not only the costs to comply with the new changes but the actual ability of our credit union to comply with the complexities inherent within the CECL model.

Reserves provide a critical cushion for absorbing losses and protecting the lender in the event of a loan default. However, the method for determining expected losses should be simple, straightforward, and easy to apply. A requirement that lenders utilize complex, theoretical forecasting models, determining each loan’s probability
of failure based on a wide range of economic factors, is impractical, costly, time consuming, and completely unnecessary for credit unions.

Therefore, we urge the FASB to continue to review the ASU specific to CECL in order to fully assess its potential unintended consequences. During this review, the FASB should strongly consider making significant changes in order to mitigate the likely harm the standard will have on credit unions and similar financial institutions. Specifically, the ASU should mandate the avoidance of day one loss recognition at transition and on newly originated loans by credit unions and other community financial institutions. Additionally, the use of modeling tools that deviate from those currently used by credit unions for credit losses should not be required. Without such changes, the standard is likely to result in a significant reduction in credit extended, homes purchased, small businesses created, and jobs created.

Finally, we urge the FASB to consider the impact of its proposed standards on credit unions, our members, our communities, and while we recognize that the proposed delay of the effective date will of course provide credit unions with additional time to implement necessary changes, it does nothing to the onerous compliance requirements within the standard. As a result, we urge the Board to seek any opportunities to provide real relief to credit unions for which CECL is regarded as the biggest compliance challenge they are facing. Alabama Credit Union strives to put our member's needs first by serving our members with the best in class financial products and service offerings. On behalf of Alabama Credit Union as well as the credit union industry membership as a whole, we thank you very much for your consideration of our views.

Best regards,

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