

May 31, 2013

Susan Cospers, Technical Director  
Financial Accounting Standards Board  
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Re: Comments on Proposed Accounting Standards Update: Financial Instruments—  
Credit Losses; File Reference No. 2012-260

Susan Cospers:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit the following comments on the Financial Accounting Standards Board (FASB) in regard to its proposed accounting standards update on accounting for credit losses for financial instruments. The ICUL member credit unions represent 98% of assets and members of Indiana's credit unions, with those memberships totaling more than two million consumers.

Credit unions are unique not-for-profit, member-owned, cooperative financial institutions, and many times FASB's approach to establishing a one-size-fits-all approach to setting standards does not make sense in the cooperative structure. Also, legislation and regulation specifies that the only method available for credit unions to grow capital is through retained earnings, which will be significantly impacted by the proposed standards. The proposal attempts to address the problems of a few financial institutions that misled or simply did not understand the credit quality of complex CMOs and MBSs by proposing far-reaching changes that will severely impact all financial institutions, including credit unions that did not cause the financial crisis.

The ICUL strongly opposes FASB's accounting standards update as proposed. The proposed changes will have a significant, negative impact on credit unions, ultimately impacting credit union members/owners. The proposed changes are not necessary to correct any incorrect or inadequate reporting by credit unions of potential losses in their loan portfolios, and do not improve the financial statements as used by the primary users of the financials, namely the state and federal regulatory agencies who have not indicated a need for revised standards. Existing FASB standards and rules and regulations have evolved to sufficiently determine the potential losses in a credit union's portfolio.

FASB's stated intent behind issuing the proposed changes is that the current impairment methodology does not allow for the timely recognition of credit losses. We do not agree with this. We believe that the intent of the current standards is to "adequately fund" the allowance for loan and lease loss account (ALLL) to reflect potential losses in the existing portfolio. We believe the current methodology of calculating this amount based on historical loss ratios of various loan pools, and

adjusting for environmental factors is sufficient. We believe that the proposed changes would result in credit unions having to increase their ALLL accounts to two or three times their current levels. This will have a dramatic impact on net income, and as a result, reduce capital levels. This will weaken credit unions financially, without any true benefit or improvement in the resulting financial statements. As stated earlier, there is not evidence that the current standards utilized by credit unions are insufficient for this purpose.

An additional result of the proposal is that it will require credit unions to expend extensive financial and technical resources to even begin to comply with the changes proposed, ultimately adding unnecessary expense to be borne by the credit unions' member-owners. One potential result of this added expense and complexity is mergers of credit unions that otherwise would remain viable, resulting in less choice to the consumer.

Unlike the models currently being used by credit unions—particularly smaller credit unions—that involve homogenous loan pools and application of historical loss ratios and environmental loan factors, the models considered in the proposal are much more complex and will therefore require significantly more resources in order to comply. This will have a major impact on smaller credit unions in particular that are barely able to meet their internal reporting deadlines under the current credit losses standards. Most credit union data processing systems do not track the information at the level of detail that the proposal requires. This will force credit unions to incur significant expenses to upgrade data processing systems and/or staff expertise. Again, we do not believe that the assumed benefits of the proposal come anywhere near to offsetting this significant expense outlay.

While we oppose most of the proposal, we do support the proposed changes regarding mergers/business combinations. Specifically, we agree with the proposed treatment that would bring the allowance of the target entity over to the continuing entity in a merger situation.

We are also concerned that the proposed model is inconsistent with the accounting principle of matching which states that expenses should be recorded in the same period as the revenues that relate to those expenses. The proposal is inconsistent since it requires expected future loan losses to be recorded immediately.

We understand that it is the intent of FASB to achieve a convergence of standards with the International Accounting Standards Board (IASB), including on credit losses. We do not believe that this proposal will accomplish that since the IASB's and FASB's credit losses proposals are significantly different.

As we understand it, unlike the FASB proposal, which does not include a trigger for recognizing certain losses, the IASB proposal provides that an entity would only recognize a portion of expected credit losses until a specific recognition trigger has been met. The IASB's credit losses model utilizes the following two-bucket approach:

- 12-month expected credit loss (Bucket 1): Only requires a full expected loss recognition when there is a significant increase in credit risk since origination or acquisition.
- Lifetime expected credit loss (Bucket 2): For all other assets, credit losses are recorded based on the probability of a default occurring in the next twelve months.

We ask FASB to consider a credit impairment approach that is more in line with the proposed IASB model, particularly the aspect of the IASB's model that uses a twelve-month forecast period. We believe this is more realistic, and will fulfill FASB's intent of gaining greater compatibility with international accounting standards.

We believe it would be inappropriate to apply the proposed changes to credit unions, based on their unique structure as private, not-for-profit, cooperatively owned, financial institutions. As noted above, the primary user of a credit union's financial statements is its regulator, which is not likely to benefit from the proposed changes since it already has a well-developed understanding of the operations of the credit unions it regulates.

We urge FASB to work closely with the federal financial regulatory agencies throughout the remainder of the standard-setting process, and we encourage such collaboration to continue, particularly with NCUA in light of the unique structure of credit unions.

In summary, the ICUL does not support the FASB's accounting standards update as proposed. We do not believe that the benefits intended offset the expenses that will be required, in particular as it relates to unique financial institutions such as credit unions. Should FASB move forward with this or a variation of this proposal, it is crucial that there is adequate time for implementation. We would urge FASB to delay the effective date of a final credit losses standard by at least three years for non-public reporting entities, including credit unions. It will take a significant amount of time for the data and systems necessary to implement this proposal to be developed.

Thank you for the opportunity to express our views on the FASB's credit losses proposed accounting standards update. Please feel free to contact me at (317) 594-5320 or [johnm@icul.org](mailto:johnm@icul.org) if you have any questions regarding this comment letter.

Sincerely,

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