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May 31, 2013

Technical Director Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856

Re: Comments on Financial Accounting Standards Board Proposal on Credit Losses for

Financial Instruments

File Reference No. 2012-260

Dear Director:

The Pennsylvania Credit Union Association (PCUA) appreciates the opportunity to comment on the Financial Accounting Standards Boardø (FASB) proposed rule on credit losses for financial instruments. PCUA is a statewide advocacy organization which represents a majority of the over 500 credit unions located in the Commonwealth of Pennsylvania. This comment letter focuses on the proposed regulation, which would replace the multiple existing impairment models in U.S. õgenerally accepted accounting principlesö (GAAP), which primarily uses an õincurred approachö with a single õexpected lossö measurement for the recognition of credit losses.

PCUA consulted with its Regulatory Review Committee (the Committee) to review and discuss FASB¢s proposed regulation and its effects on Pennsylvania¢s credit unions and its members. The Committee is comprised of our member credit unions¢chief executive officers and senior management which serve to represent peer credit unions based upon asset size. The comments in this letter reflect the views of the Committee and the PCUA staff.

The Committee and PCUA vehemently oppose FASB¢ accounting standards as proposed. Credit unions are not-for-profit, mutually owned cooperatives which are compelled by their interest in providing credit and other indispensable financial services to their members. The Committee finds the changes within the proposal will have an unnecessary and detrimental effect on our credit unions and their members. Further, we believe the purpose for the change in the rule is ambiguous, redundant, causes confusion, causes credit unions to recognize an increased Allowance for Loan and Lease Losses (ALLL), unnecessarily increases compliance constraints and serves no beneficial purpose for the credit union or its members.

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FASBø intent behind the proposed rule is to change the GAAP current impairment methodology because FASB believes that GAAP does not allow for the timely recognition of credit losses and ineffectively utilizes past events and current conditions in measuring the incurred loss. FASB submits the new õcurrent expected credit lossö (CECL) model would reflect the credit unionøs current estimate of expected credit losses through more forward-looking material. Under the proposed CECL model, a credit union would estimate the cash flows it does not expect to collect, using all available information, including past experience and determinations about the future and will seek to include relevant past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assetsøremaining contractual cash flow.

Further, FASBøs intent is to make the new CECL model to be similar to the International Accounting Standards Boards.

We do not believe that the GAAP model is ineffective. The GAAP model implements an essential level of security and protection which effectively protects our credit unions and their members. Furthermore, we do not believe the CECL model would have been effective in preventing the extent of credit losses which have been experienced over the last several years; nor do we believe the CECL model would be more effective than the GAAP model in preventing future credit losses.

## **Impact on Credit Unions**

The proposed change from the GAAP model to the CECL model will increase the current ALLLs for credit unions. In the Committee¢s review and discussion of the proposed regulation, one of our Committee members presented her findings of an increase of 35 to 40% in ALLL expectancies when she utilized the proposed CECL model as opposed to the current GAAP model. In certain situations, the FASB standards will require the ALLL to double or even triple. This drastic increase in ALLL expectancies will adversely affect our credit unions by directly impacting and decreasing credit unionsøretained earnings. Moreover, a decrease in the retained earnings could trigger prompt corrective action (PCA) implications for many credit unions which would otherwise never have PCA concerns.

The Committee finds that FASB proposal attempts to address the prior bad practices of a few financial institutions. However, it is important that we remind FASB that credit unions did not play a role in the financial crisis and should not be required to comply with this new proposal which is being used to remedy other financial institutions of their poor habits. Further, the proposed change will cause confusion. For example, the proposal will cause confusion and redundancy in situations where it is necessary to use troubled debt restructuring. For this reason and more, we urge FASB to consider the affects that this proposal will have on credit unions and understand that this particular remedy is far reaching and will severely impact credit unions.

## **Compliance Issues for Credit Unions**

FASB¢ proposed CECL model will require credit unions to determine future losses by predicting what may happen in the future. Credit unions would be expected to speculatively

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forecast the performance of an asset over the remainder of the asset life. This model is fallible because it would be extremely difficult for credit unions to determine future losses for the life of an asset in an adequate and cohesive manner. The amount of data required to adequately determine the requisite information needed to comply with the proposed CECL model would take years to obtain. In some circumstances the requisite information could take as long as four to five years to retrieve. Additionally, it is important to note that credit unions currently retrieve similar information to what the new CECL model requires. However, most credit unions do not maintain the information at the level of detail which the proposed rule would require. This requirement would implement a significant compliance burden because the models considered in the proposal are much more complex and will require significantly more resources with which to comply.

The FASB proposal will require credit unions to expend extensive financial and technical resources in order to comply with the requirements of the proposed regulation. While compliance with the proposed rule will make for an onerous task for all credit unions, it will significantly affect small credit unions. Those small credit unions that are unable to comply with the regulation might effectively be forced to merge into larger institutions or altogether disappear.

This proposal will not only increase compliance fees and training needs, but will also increase audit fees. Auditors will be required to provide an opinion on the estimate which is required by the proposal. This will require an increase in training time in order for auditors to become comfortable with the changes which will be implemented through the proposal.

## **IASB Proposal**

FASB further maintains that its intention in its proposal is to make its standards similar to the International Accounting Standards Board (IASB). However, FASB¢s proposal is distinctly different than the IASB¢s credit loss model in that FASB does not include a trigger for recognizing certain losses and the IASB does. The IASB follows a two-bucket approach:

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

## Conclusion

The Committee is unwavering in its mission to insure our credit unions work in an efficient and successful manner which protects and benefits our members. It is vital to the Committee to insure the burden of new regulations is necessary for the betterment of our credit unions. The new FASB proposal falls short of this requirement because it is not clear what is achieved by the change. We do recognize that the proposal allows for a practical expedient which is intended to allow a credit union to not recognize expected credit losses for financial assets if certain conditions are met. We are not optimistic that this will provide credit unions with necessary and meaningful relief.

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The Committee, however, does support a portion of the proposal. We support the proposed changes regarding mergers/ business combinations. Specifically, we approve of the proposed treatment that would bring the allowance of the target entity over to the continuing entity in a merger situation.

Finally, while we do not support the majority of this proposal, if the proposal were approved, we ask FASB to institute an adequate transition period and effective date in order to allow credit unions the time for implementation, training and compliance.

Very truly yours,

PENNSYLVANIA CREDIT UNION ASSOCIATION

James J. McCormack President/CEO

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cc: Association Board

Regulatory Review Committee

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