



**Georgia's Own Credit Union**  
1155 Peachtree Street, Suite 400  
P.O. Box 105205  
Atlanta, GA 30348  
tel 404.874.0777  
toll-free 1.800.533.2062  
[georgiasown.org](http://georgiasown.org)

May 31, 2013

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, PO 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:

Georgia's Own Credit Union (GOCU) appreciates the opportunity to comment on the FASB Proposed Accounting Standards Update: Financial Instruments – Credit Losses. As a matter of background, GOCU is a state chartered, federally insured credit union regulated by the Georgia Department of Banking and Finance and the National Credit Union Administration (NCUA). We have approximately \$1.8 million in assets and serve more than 173,000 members.

Credit unions are member-owned, not-for-profit financial cooperatives that operate for the purpose of promoting thrift, providing credit, and providing other financial services at competitive rates. Credit unions are unique from other financial institutions in that their enabling statute, the Federal Credit Union Act, limits net worth to retained earnings only. **This statutory limitation restricts the ability of the NCUA to adjust its regulations in response to changes in accounting standards, as is possible for other federal financial regulators.** It is very important that FASB understand the unique structure of credit unions in response to this proposal.

We feel that the proposal would require GOCU to provide information that is not relevant to the primary users of our financial statements, who are the NCUA and the Georgia Department of Banking and Finance.

The FASB's intent behind issuing the proposed changes is that the current impairment methodology does not allow for timely recognition of credit losses. We do not agree with this. Also, we do not believe the proposed approach would have been effective at preventing the extent of credit loss experiences over the past several years. That would not have been possible to predict. While we oppose much 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 would like to make the following points regarding the proposal:

- The proposal would require credit unions to recognize on the balance sheet, current loss expectations in the Allowance for Loan and Lease Losses (ALLL). Upon becoming effective, the proposed changes would cause an immediate and drastic increase to the ALLL of credit unions that have financial assets and liabilities within the scope of the proposal. This increase, which we expect will double or even triple current ALLLs, will result directly in a reduction of many credit unions' retained earnings.
- Further, a decrease in earnings can lead to a reduced capital ratio, which can have prompt correction action (PCA) implications for numerous credit unions that currently do not have PCA concerns.
- The proposed current expected credit loss (CECL) approach has the potential to lead to quarterly adjustments in expected loss projections, possibly resulting in more volatility in provision expense and earnings.
- Another possible result of the proposal is that reporting entities could take large one-time charges at the first signs of distress in their loan portfolios, and then look for opportunities to smooth earnings volatility over time through reserve releases or reverse provisions.
- It will require credit unions to expend extensive financial and technical resources to even begin to comply with the proposed changes. The costs of such changes will be borne by credit unions' member-owners'.
- The proposed changes could result in the consolidation of credit unions that are unable to comply with these changes. Such a result would not only affect the members of those credit unions but the larger financial services marketplace by reducing consumer financial options.
- The proposed CECL model effectively requires entities to forecast the extent and timing of future losses. Predicting losses with any degree of accuracy will be extremely challenging, even for an entity with adequate data sets and modeling capability. Attempting to predict credit loss for the life of a loan will inherently be affected by the subjectivity of and assumptions made by the reporting entity.
- In regard to the data necessary to conduct such modeling, even the largest financial institutions have indicated they do not have adequate information on this data and that it will take years (estimations of four to five) to obtain. Smaller institutions will require even more time to obtain this data. Once smaller institutions obtain adequate data, it will take another three to four years for these institutions to become comfortable with the required modeling.
- The proposed CECL 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. Also, the impacts on the reporting entity, this inconsistency will likely cause challenges within the audit community.

- While FASB maintains its intention to achieve convergence of standards with the International Accounting Standards Board (IASB), including credit losses, it is unclear how this will occur since the IASB's and FASB's credit losses proposals are so very different.
- 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.
  - A 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.
- There is concern among some within the accounting industry, that the CECL model has the potential of driving U.S. entities to report asset values more conservatively than their international counterparts applying the IASB's proposed credit loss standard.

We ask the FASB to work closely with the federal financial regulatory agencies throughout this process, work with NCUA in resolving this matter in regards to our unique structure. We ask if the FASB moves forward with this proposal, or a variation of, that there be an adequate and lengthy transition period for credit unions. In doing so, we ask the FASB to delay the effective date of a final credit losses standard by at least three years for non-public reporting entities.

Thank you for your consideration. If you have questions about our comments, please contact me at (404)575-1817.

Respectfully submitted,

A handwritten signature in cursive script that reads "Teresa Martin".

Teresa Martin, CPA  
Vice President – Principle Accounting Officer  
Controller