

May 31, 2013

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

Sent via e-mail to: director@fasb.org

Re: Comments on Proposed Accounting Standards Update: Financial Instruments—

Credit Losses; File Reference No. 2012-260

To Whom It May Concern:

This comment letter represents the views of Resource One Credit Union regarding the Financial Accounting Standards Board's ["FASB"] proposed accounting standards update on accounting for credit losses for financial instruments. Resource One Credit Union is a \$385,000,000 credit union serving approximately 46,400 members in Dallas and Harris County. Resource One Credit Union and its member owners appreciate the opportunity to comment on this proposal.

Resource One and other credit unions across the State of Texas strongly oppose most of the FASB's accounting standards update as proposed. I, along with the rest of our executive team, am greatly concerned that the proposed changes will adversely impact our member owners. 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.

Credit Union Structure

As FASB considers how the proposal will impact credit unions, it is important to understand the unique structure of credit unions. 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. In addition, 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. Further, this statutory limitation restricts the ability of the National Credit Union Administration (NCUA) — the prudential regulator of federally chartered credit unions and insurer of most state and all federally chartered credit unions—to adjust its regulations in

response to changes in accounting standards, as is possible for other federal financial regulators.

Potential Impact on Credit Unions

Resource one is a member-owned financial cooperative that is NOT publicly traded. The proposal would require information that is not needed by or relevant to credit union regulators.

Recognizing all expected future losses on the balance sheet as proposed would drastically increase our credit union's impairment allowance resulting in a reduction in our retained earnings. A decrease in earnings can lead to a reduced capital ratio, which may place our credit union which is currently in good standing under Prompt Corrective Action as an undercapitalized institution. Such a result could force our credit union to merge or close altogether, with a particular impact on our member owners and the community we serve.

Resource One is also concerned that the uncertainty in projections of future losses under the "current expected credit loss" or "CECL" approach will lead to more volatile financial statements. If there is something questionable in the news one quarter, much larger potential losses may be estimated and later revised significantly in future periods.

It will be extremely difficult, if not impossible, for our credit union to accurately forecast the performance of assets over their remaining lives. This would require sophisticated and expensive forecasting software, and countless hours to train employees to use the software. Keep in mind, not even the most sophisticated software predicted the financial catastrophe that was the catalyst for the proposed changes in accounting for credit losses. Even the largest financial institutions estimate that it would take years to gather adequate information. Our credit union simply cannot bear the burden. Sadly, the cost of such compliance expenditures will be borne by our member-owners with no return in benefit.

We believe the time value of money should not be considered by credit unions in determining credit losses because this would be inconsistent with the remainder of the balance sheet. All other balance sheet items are carried at historical cost, or in the case of available for sale investments, marked to market value. Future cash flow estimates are not used for any other item on the balance sheet.

It is inherently contradictory for an estimate to include both the possibility that a credit loss will occur and the possibility that it won't occur. It is much more logical to reserve based on the most likely outcome.

Recording future losses in the current accounting period would violate the matching principle – one of the most basic tenets in Generally Accepted Accounting Principles. Recognizing future losses will be diverging from International Accounting Standards Board promulgations, not moving toward convergence.

In summary, we believe it would be inappropriate to apply the proposed changes to credit unions based on their unique structure. We do not support the accounting standards update as proposed. If the FASB moves forward with the proposal despite our concerns, we urge you to delay the effective date for at least three years.

If you have any questions, please feel free to contact me at <u>Jim.Brisendine@r1cu.org</u> or via telephone at (214) 565-5312.

Sincerely,

Jim Brisendine
President & CEO

Resource One Credit Union