



May 29, 2013

Ms. Leslie Seidman  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856

*Delivered Electronically*

**Subject:** Proposed Accounting Standards Update: Financial Instruments—Credit Losses; Subtopic 825-15

Dear Ms. Seidman:

On Thursday December 20, 2012, the Financial Accounting Standards Board (FASB) proposed an accounting update seeking comments on amendments to credit loss reporting. FASB proposed the update because the existing incurred loss model delays recognition until a credit loss is probable (or has been incurred). The proposal also addresses the inherent complexity of having multiple credit impairment models. The technical amendments were designed to provide a more accurate and consistent way to report on credit losses.

The Northwest Credit Union Association (Association)<sup>1</sup> appreciates the opportunity to submit comments urging FASB to validate the National Credit Union Administration (NCUA) and provincial regulator requirements for reserving for Allowance for Loan and Lease Loss. We also encourage the FASB to continue to work with the IASB to develop a joint proposal. We strongly encourage removing or rewording references to “estimate credit losses over the entire contractual term of the financial asset” in order to more accurately reflect the guidance laid out in paragraphs 825-15-50-8&9.

### **General Comments**

The Association commends the work that the FASB is doing to improve their standards of accounting for financial instruments and we recognize your effort to work jointly with the IASB to develop a unified standard for accounting for credit losses. The Association would encourage you to delay this proposal and use the comments received to continue to work with IASB to develop a unified standard.

The Association carefully reviewed this proposal with our regulatory committee, a number of CFO's from credit unions of different asset sizes, and our general counsel, with opinions varying greatly on the potential impacts of the FASB proposal. There was general consensus that FASB's one measurement approach, the current estimate of contractual cash flows not expected to be collected on financial assets held at the reporting date,

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<sup>1</sup> The Northwest Credit Union Association is a regional trade association representing the interests of more than 200 credit unions and their six million consumer-members; institutions that employ and engage more than 10,000 people and hold more than \$50 billion in aggregate assets. The Association is a nonpartisan advocacy organization representing the interests of its member institutions on a variety of systemically important banking issues.

Credit unions affiliated with the Association are principally domiciled in the Northwest quadrant of the United States, but the Association also has members from the states of Alaska, Idaho, California and Hawaii. Learn more about the Association at [www.nwcua.org](http://www.nwcua.org).

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is preferable to the three bucket method proposed by the IASB. Concerns about the FASB proposal centered on if credit unions would generally have to increase their reserves for loan losses, the cost of data analytics that could accurately predict expected losses over the entire term of the asset, and the cost of revising assumption models to fit the proposed standard.

### **Specific Comments**

The guidance issued as part of the proposal is very helpful and is more predictive in prescribed methodology. However the Association and our members have concerns that the new guidance does not adhere to one of the nine accounting principles. The matching principle states that expenses and income should be recognized during the period they are incurred or earned. The FASB correctly determined that the adjustment for current conditions and reasonable and supportable forecasts is the most subjective aspect of the estimate for determining reserves for credit losses. Paragraphs 825-15-50-8&9 of the proposed amendment provides helpful guidance, the guidance seems to be in line with what credit unions are currently doing. However the fact that a timeframe for reasonable and supportable forecasts about the future is not defined is concerning particularly in light of the guidance to “estimate credit losses over the entire contractual term of the financial asset.”

The current model used by most credit unions calls for recognition of credit losses based on historical loss data, cash flow calculations and qualitative and environmental factors, reflecting expectations of losses that have been incurred or are expected to be incurred during the next 12 months following the last reporting period. A 12 month future time frame is reasonable and supportable for forecasting expected losses for an industry made up almost entirely of small financial institutions of less than \$10 Billion.

Not all credit unions have the tools to do predictive modeling beyond a year, particularly smaller financial institutions. Cost estimates for maintaining the type of data analytics necessary could cost upwards of \$50,000 per year a significant burden to the 4,605 of 6,895 credit unions under \$50 million in assets, many with less than five employees and fairly simple balance sheets. The time frame for “reasonable and supportable forecasts about the future” discussed in 825-15-50-9 needs to be equivalent to the predictive modeling abilities of the asset holder with regulators having discretion to broadly interpret the proposed amendment.

The FASB clearly recognizes that as the forecast horizon increases, the degree of judgment involved in estimating expected credit losses increases because the availability of detailed estimates for periods far in the future decreases. FASB also recognized that the cost and time associated with making predictions is a barrier to estimating losses too far into the future stating “An entity shall consider information that is available without undue cost and effort that is relevant to the estimated collectability of contractual cash flows.” Unfortunately the contradictory language used in the proposal “estimate credit losses over the entire contractual term of the financial assets” is misleading, and clearly not the intent of the FASB in light of the guidance in paragraph 825-15-50-8&9. The Association would strongly encourage the FASB to remove or reword references to “credit losses over the entire contractual term of the financial asset.”

### **Conclusion**

The Association takes issue with the premise for the proposal which states the reason for the proposal is that the existing incurred loss model delays recognition until a credit loss is probable (or has been incurred). Credit unions have updated how they reserve for loan losses to comply with guidance from state and federal

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regulators using a number of qualitative and quantitative factors to reserve for loan losses, including estimating future losses within their predictive capabilities. We urge FASB to:

- 1) Provide a letter addressed to the National Credit Union Administration (NCUA) Board, and the Director of the National Association of State Credit Union Supervisors (NASCUS) validating that the regulators current requirements for reserving for Allowance for Loan and Lease Loss would meet the proposed FASB standard.
- 2) Remove or reword references to “credit losses over the entire contractual term of the financial asset.”
- 3) Delay the proposal, and use the comments received to continue to develop a joint proposal with the IASB.

Thank you for the opportunity to comment on this issue. We would be pleased to answer any questions you may have.

Respectfully,

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Point West Credit Union

John Trull  
Director of Regulatory Advocacy  
NWCUA