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August 23, 2013

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

Re: Intangibles—Goodwill and Other (Topic 350) – Accounting for Goodwill;
File Reference No. PCC-13-01B

To Whom It May Concern:

The Credit Union National Association (CUNA) appreciates the opportunity to submit comments to the Financial Accounting Standards Board (FASB) in regard to its proposal on accounting for goodwill. Specifically, FASB, through its Private Company Council (PCC), issued a proposed alternative within U.S. generally accepted accounting principles (GAAP), that would permit amortization of goodwill and a simplified goodwill impairment model. By way of background, CUNA is the largest advocacy organization in the country for state and federal credit unions, which serve over 97 million members.

CUNA's Views on the Proposal

We strongly support FASB's and the PCC's efforts to simplify reporting for private entities, particularly in areas where the associated costs outweigh the benefits to the reporting entity and the users of their financial statements. The primary users of credit unions' financial statements are 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—and state credit union regulators. The financial statement users of a credit union are so very different from those of a bank, including both public and private.

As FASB and the PCC continue their work in this area, it is critical 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 NCUA to adjust its regulations in response to changes in accounting standards, as is possible for other federal financial regulators.

Scope

The proposed accounting alternative would be available to an entity that recognizes goodwill in a business combination in accordance with Topic 805, Business Combinations, which includes credit unions. The accounting alternative, if elected, would apply to all existing goodwill and to all new goodwill generated in business combinations entered into after the effective date of this proposal.

We generally support the scope of the proposal. We believe the types of entities noted in the proposed scope are appropriate, as are the transactions and accounts, which are referenced in the proposal. In response to FASB's inquiry in the proposal, we likely would not be opposed to expanding the proposed scope to other entities, such as those falling within FASB's definitions of "publicly traded company" and "not-for-profit entity."

Primary Provisions of the Proposed Alternative

Currently, GAAP requires goodwill of a reporting unit to be tested for impairment at least annually or more frequently if certain conditions exist. An entity can choose to first perform a qualitative assessment to determine if it is more likely than not that a reporting unit's fair value is less than its carrying value, or it can bypass the qualitative assessment and proceed directly to step one and compare the carrying value of the reporting unit with its fair value. If the carrying value exceeds fair value, step two must be performed to determine the extent of goodwill impairment. Step two compares the implied fair value of the reporting unit's goodwill with its carrying value.

Under the proposed amendments, an entity that elects the accounting alternative within GAAP would amortize goodwill on a straight-line basis over the useful life of the primary asset acquired in a business combination, not to exceed 10 years. Goodwill would be tested for impairment only when a triggering event occurs that would indicate that the fair value of an entity may be below its carrying amount. Further, goodwill would be tested for impairment at the entity-wide level rather than at the reporting unit level. The PCC further simplified goodwill impairment by eliminating step two of the current impairment test, which requires the application of a hypothetical purchase price allocation to calculate the goodwill impairment amount. The goodwill impairment amount would represent the excess of the entity's carrying amount over its fair value.

We believe the proposed accounting alternative, when elected, would continue to provide decision-useful information to users of private company financial statements, while likely reducing the cost and complexity associated with the current goodwill impairment test. However, there is typically a cost associated with adopting and implementing any new guidance or regulation. Further, while we recognize value to some private reporting entities under the proposed alternative, we believe its overall impact on credit unions is likely to be minimal.

Effective Date

The accounting alternative for goodwill would be applied prospectively for all existing goodwill and for all new goodwill generated in business combinations after the effective date. We support prospective application of the alternative. However, we do not support retrospective application due to the associated complexities for covered entities that backward-looking implementation would require.

While the proposal does not include an effective date, we believe it should be effective as soon as practical, particularly since application is at the discretion of the reporting entity. Further, we believe early application of the alternative should be permitted.

Definition of a Public Business Entity

In a subsequent comment letter, we will be providing FASB detailed input on its August 7 proposed accounting standards update that would define a "public business entity."

Thank you for the opportunity to express our views on FASB's proposed alternative accounting of goodwill by private companies. If you have any questions about our comments, please do not hesitate to contact CUNA Deputy General Counsel Mary Dunn at (202) 508-6736 or me.

Sincerely,

Luke Martone
Senior Assistant General Counsel