



**National Association
of Federal Credit Unions**
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Arlington, VA 22201-2149

NAFCU | Your Direct Connection to Education, Advocacy & Advancement

September 13, 2013

Technical Director
File Reference No. 2013-270
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2013-270
Exposure Draft – Leases

Dear Sir or Madam:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I write to you regarding the Financial Accounting Standards Board's (FASB) exposure draft proposing revisions to the 2010 proposed FASB accounting standards update, Leases. In general, the proposal would require lessees to recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments. Further, the lessee must recognize the interest on the lease liability and the amortization of the right-of-use asset either on a combined or separate basis depending on the type of lease.

NAFCU believes that this proposal will generally increase the costs and complexity for credit unions to account for leases compared with existing guidance. In addition, this proposal could result in a number of unforeseen consequences for credit unions, including causing them to fall below regulatory net worth ratio thresholds and causing them to violate their bond covenants. For these reasons, NAFCU argues that credit unions should be exempt from this proposal. In the alternative, NAFCU requests that the FASB implement a two-tiered effective date, as described below, and that the FASB work with the National Credit Union Administration (NCUA) to minimize the potential regulatory impact of the proposal.

I. Cost-Benefit Analysis

First and foremost, NAFCU would like to reiterate its position that in proposing new accounting standards updates, the FASB should take into account the unique structure of credit unions as member-owned not-for-profit cooperative entities. Credit unions aim to meet their members' needs and provide quality service, not to generate profit. Thus, every dollar they use

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to comply with new regulations and accounting standards is a dollar they cannot use for the greater good of their members and the communities they serve.

Accordingly, it is important that the FASB evaluate the costs and benefits of each of its proposals as it relates to credit unions. Here, the costs of compliance with the proposal would be high. Credit unions with large numbers of smaller leases, particularly for equipment, would need to expend considerable time and money in order to track, evaluate, and monitor their newly recognized lease portfolios. The credit unions would also incur significant expenses in purchasing and implementing the technology and processes necessary to meet the proposal's requirements.

Further, the benefit of the proposal for credit unions would be small. The primary reader of credit unions' financial statements is the NCUA, not individual or institutional investors. The NCUA has access to the financial records of federal credit unions and engages in constant oversight of their financial condition. Current accounting guidance regarding leases provides sufficient information to the NCUA to allow it to conduct a deeper examination into particular credit unions where it deems necessary.

II. Unforeseen Consequences

There are serious potential unforeseen consequences of the proposal. Credit unions operate pursuant to strict net-worth ratio thresholds under the NCUA's prompt corrective action regulations. The sudden increase in balance sheet assets that would result from this proposal could significantly reduce credit unions' net-worth ratios, and prompt the NCUA to take corrective action where it is not warranted. Without the NCUA calibrating their prompt corrective action regulations to take into account the proposal's requirements, the proposal will make credit unions appear to be in worse financial condition than the economic reality. In addition, the changes to credit unions' balance sheets could result in violation of existing agreements, such as bond covenants. Once again, the proposal would force credit unions' financial statements to present an unrealistic picture of their economic reality. Either of these outcomes would have a severely negative impact on the ability of credit unions to effectively serve their communities.

III. Requested Amendments

Because the costs of the proposal greatly outweigh its benefits, and because of its considerable unforeseen consequences, NAFCU believes that credit unions should be exempt from the proposed changes to accounting for leases. In the alternative, NAFCU requests that the FASB implement a two-tiered effective date. New leases could be accounted for according to the proposal within a year of its approval. However, the effective date of the proposal for existing leases should be at least three years after its approval in order to allow for a stable transition period and to minimize the regulatory and contractual repercussions. If the FASB decides not to exempt credit unions, NAFCU also requests in the alternative that the FASB take the time to work closely with the NCUA in order to minimize the potential regulatory impact of the proposal, particularly with respect to the NCUA's prompt corrective action rules. The FASB

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should engage the NCUA to ensure that credit unions' net worth ratios do not fall below regulatory thresholds solely due to changes in accounting for leases.

IV. Conclusion

NAFCU appreciates the opportunity to provide our comments. Should you have any questions or concerns, please feel free to contact me at ameyster@nafcu.org or (703) 842-2272.

Sincerely,

A handwritten signature in black ink, appearing to read "Angela Meyster", with a long horizontal flourish extending to the right.

Angela Meyster
Regulatory Affairs Counsel