



Credit Union National Association

601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | **PHONE:** 202-638-5777 | **FAX:** 202-638-7734

cuna.org

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

Re: Definition of a Public Business Entity – An Amendment to the Master Glossary; File Reference No. 2013-310

To Whom It May Concern:

The Credit Union National Association (CUNA) commends the efforts of the Financial Accounting Standards Board (FASB) to consider the differences between publicly traded entities and private companies, which distinctions create separate needs for financial information on the part of their respective stakeholders. In that connection, FASB is developing a draft “Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies” (Guide), which CUNA generally supported in an earlier comment process.

FASB has also issued for comments a proposed definition of a “public business entity” (PBE) that will be of critical importance in determining which institutions are covered by the Guide. This letter responds to FASB’s request for comments on the proposed definition.

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. This letter was coordinated with CUNA’s Accounting Subcommittee and CFO Council.

CUNA Applauds FASB’s Proposal

CUNA strongly supports the proposal, which would amend the Master Glossary of the *FASB Accounting Standards Codification* to include the definition of a PBE and identify the types of organizations that would be excluded from the scope of the Guide, once it is approved.

More important, the definition of a PBE would be used by FASB and the Private Company Council (PCC) in determining the applicability of future accounting and reporting guidance.



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Credit unions would not be covered by the definition of a PBE and thus would be under the scope of the Guide. Organizations, including credit unions, that are within the purview of the Guide, would be eligible for potential accounting and financial reporting alternatives that would still be within U.S. generally accepted accounting principles (GAAP). (For purposes of qualifying for alternative GAAP standards, credit unions would not be considered as not-for-profit organizations but would be classified as financial institutions.)

Allowing accounting principles and requirements to vary on a reasonable basis, depending on the type of entity, will result in standards that are more precisely tailored to the needs of stakeholders of differing organizations and produce financial reporting that is more transparent and accurate.

As we have discussed with officials at FASB and written in a number of comment letters, the primary users of credit unions' financial statements are their boards and members as well as 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.

These users' needs for financial information are not the same as the needs of potential investors in complex companies. The reasons for this are significant. Credit unions operate under very stringent restrictions that are generally addressed in statutory and regulatory requirements and thus, have straightforward balance sheets. Moreover, credit unions are unique among other financial institutions in that they are member-owned, not-for-profit financial cooperatives. They do not issue stock for public investment and are not motivated to maximize profits for stockholders. Credit unions operate to promote thrift, provide credit and savings vehicles, as well as provide other financial services, all at reasonable rates.

These differences are important to consumers, small businesses, and communities that credit unions serve and how these distinctions will be affected should be fully considered when accounting standards are developed.

For example, it may be important for investors of certain companies to review financial statements that reflect virtually all possible, even if not probable, losses for loans and other assets as under FASB's proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15)*.

However, we believe such an approach in reporting for credit unions will result in an inaccurate depiction of their losses, especially since credit unions generally have low delinquency and default rates and such anticipated losses may never materialize.

Moreover, the overstatement of possible credit losses would also result in excessive funding of credit union Allowance for Loan and Lease Loss Accounts, diverting funds that could be used for additional loans or other services. This would be a very negative development that would be necessitated only because an accounting standard required it—not because it was important to credit union regulators or members. Further, it would be very harmful to credit unions and their members at the very time credit unions are rebounding from the financial crisis.

Proposed Definition of a Public Business Entity

FASB's proposed definition of a PBE would include organizations as described below. Organizations that do not meet any of these criteria, such as credit unions, would be excluded and thus, would be eligible for varying accounting treatment, as determined by FASB and prudential regulators, that would nonetheless be encompassed by GAAP.

- (1) The entity is required by the Securities and Exchange Commission (SEC) to file financial statements, or does file financial statements, with the SEC (including other entities whose financial statements or financial information are included in a filing).
- (2) The entity is required by the Securities Exchange Act of 1934, or regulations promulgated under the Act, to file financial statements with a regulatory agency.
- (3) The entity is required to file financial statements with a regulatory agency in preparation for the sale or issuance of securities.
- (4) The entity has (or is a conduit bond obligor for) unrestricted securities that are traded or can be traded on an exchange or an over-the-counter market.
- (5) The entity's securities are unrestricted, and it is required to provide U.S. GAAP financial statements to be made publicly available on a periodic basis pursuant to a legal or regulatory requirement.

In general, we agree that the criteria for determining a PBE are appropriate and will effectively identify organizations that should be treated for accounting purposes as PBEs, while clearly excluding credit unions and other financial institutions that do not meet any of these factors.

FASB's Discussion of the Application of the PBE Definition to Financial Institutions

We strongly support FASB's decision not to include all financial institutions within the proposed definition of a PBE for financial reporting purposes.

We think this approach has merit because it does not group all financial institutions together on the basis of public accountability. Such was the approach taken by the International Accounting Standards Board (IASB) in its International Financial Reporting Standards (IFRS) for small and medium-sized entities (SMEs). The IASB classifies entities that have public accountability (e.g. an entity that holds assets in a fiduciary capacity) in the same category as entities that file financial statements for purposes of issuing and selling securities, even though IASB offers some relief to smaller entities, similar to that which would be provided by FASB under GAAP alternatives for private entities. Nonetheless, we think FASB's definition properly delineates which organizations would be considered public business entities and will help support the use of separate standards by clearly identifying organizations that are not eligible for GAAP alternatives.

FASB's request for comments includes a summary of the Board's discussion of the potential impact of the proposal on financial institutions, and CUNA offers the following comments in response to the issues raised by the Board's discussions.

BC21. The Board discussed that an institution that does not otherwise meet any of the criteria of a public business entity as proposed should be excluded in the definition of a public business entity and should not be eligible for any accounting variances under GAAP that would be appropriate for private business entities. We agree with that assessment.

BC22. The Board discussed but did not support including all financial institutions in the definition of a public business entity on the basis of public accountability. The rationale for inclusion is that "financial institutions hold and manage financial resources for a broad group of individuals for investment purposes and act in a fiduciary capacity." However, credit unions have a broader purpose, as discussed above, and thus, we certainly agree with the Board's decision that all financial institutions should not be grouped under FASB's definition of a PBE.

BC23. FASB's request for comments indicates that some FASB members "expressed concern that if financial institutions are not considered public business entities and, therefore, would be within the scope of the Guide, it may not always be appropriate for those companies to apply accounting and reporting alternatives within U.S. GAAP because of the unique needs of some financial statement users of financial institutions."

CUNA appreciates this concern but thinks that under the Guide and proposed definition, FASB would always be able to determine that private companies should not receive distinct accounting treatment, particularly if it is more useful to the private entity stakeholders that PBE standards should apply.

We also support the conclusion of the Board that a financial institution could be considered for separate accounting treatment even if issues that are not specifically related to financial statement users of financial institutions are under review. This is an important clarification, and we strongly agree.

BC24. The FASB request notes that “Some Board members expressed support for including financial institutions in the definition of a public business entity because of their unique nature but also continuing to evaluate whether financial institutions should be permitted to apply accounting and reporting differences when deliberating individual topics. Those Board members stated that the needs and investment strategies of financial statement users of financial institutions, including depositors and regulators, may differ from the needs of most other users of private company financial statements and, therefore, may require separate consideration depending on the accounting or reporting difference under consideration.”

While CUNA agrees that the needs of stakeholders of financial institutions differ from those of public entities, we do not think it would be useful to continue to define credit unions and all other financial institutions as public business entities. We think it is more efficient to pursue the approach the Board has laid out, which is to exclude financial institutions that do not meet any of the criteria of a public entity from the definition of such an organization and allow such financial institutions to be eligible for separate accounting treatment, when appropriate, under the Guide.

BC25. One Board member expressed concern about “additional costs that could be incurred by financial institutions if regulators do not accept accounting and reporting alternatives within U.S. GAAP for private companies. As a result, financial institutions may maintain two sets of accounting records, which may not be cost beneficial.”

In response to this concern, we do not think that prudential regulators should be in the position of deciding whether alternatives approved by FASB as part of GAAP will be accepted or not. Rather, we think the proper role of the prudential regulators is to provide their views to FASB as alternatives are developing. Once an alternative standard is adopted by FASB for financial institutions, agencies should allow the entities they regulate to utilize those alternatives to prepare their financial statements.

BC26. The Board considered “an alternative that would differentiate financial institutions on the basis of asset size. The Board rejected that alternative because it would be difficult to determine a bright line on the basis of the size of a financial institution when assessing user needs and preparer considerations. In addition, if the Board were to establish a size threshold to correspond with current thresholds created by regulators, those thresholds would be subject to change by the regulators during future periods, which would require the FASB to consider whether to make a corresponding change.”

We agree with the Board that an asset size threshold for the application of accounting principles to financial institutions is not appropriate.

Coordination with Regulatory Agencies

We urge FASB to work closely with regulatory agencies that oversee entities, including financial institutions that are required to adhere to GAAP. Specifically, FASB should coordinate its efforts with NCUA since, as noted in the proposal's discussion, whether an entity may apply permitted differences within GAAP may ultimately be determined by regulators or other financial statement users that may not accept financial statements that reflect GAAP alternatives.

While NCUA has statutory authority under the Federal Credit Union Act to deviate from GAAP when appropriate,¹ the agency has utilized this authority sparingly. We have concerns that the potential benefits of GAAP alternatives that FASB adopts may not be realized if regulators are able to prohibit those under its purview from applying such standards. In that connection, we urge FASB to work closely with NCUA and other regulators to ensure they have an adequate understanding of GAAP alternatives and will accept their use once they have been approved by FASB, in coordination with the PCC.

FASB's Specific Questions

As part of the request of comments, FASB presented several questions, which are addressed below.

Question 1: Please describe the entity or individual responding to this request. For example: Please indicate whether you primarily are a preparer, user, or public accountant. If other, please specify.

CUNA is an advocacy organization representing credit unions and we are not a preparer, user, or public accountant.

Question 2: Do you agree with the definition of a public business entity included in this proposed Update?

As addressed above, CUNA does agree with the proposed definition because it would clearly exclude credit unions from being considered as public business entities.

¹ 12 U.S.C. § 1782(a)(6)(C)(ii).

Question 3: Do you agree that a business entity that has securities that are unrestricted and that is required to provide U.S. GAAP financial statements to be made publicly available on a periodic basis pursuant to a legal or regulatory requirement should be considered a public business entity? Please explain why.

We agree with the proposed approach, but more clarification would be useful regarding “unrestricted securities” and the extent to which such securities would nonetheless be subject to regulation.

Question 4: Do you agree that no public or nonpublic distinction should be made between NFPs for financial reporting purposes? Instead, the Board would consider whether all, none, or only some NFPs should be permitted to apply accounting and reporting alternatives within U.S. GAAP. Please explain why.

FASB has chosen to consider credit unions, which are legally not-for-profit financial entities, on the basis of their status as financial institutions. In light of that, our comments are generally confined to how the proposal would affect financial companies, such as credit unions. However, we believe that to the extent GAAP is applicable, NFPs and nonprofits should be eligible for accounting and reporting alternatives within GAAP.

Question 5: Should the Board consider whether to undertake a second phase of the project at a later stage to examine whether to amend existing U.S. GAAP with a new definition resulting from this proposed Update?

CUNA’s response to this question is a resounding “yes” and we urge FASB to move expeditiously to the second phase, consistent with FASB’s initiatives to distinguish financial institutions from PBEs.

FASB also asks whether it should (a) “preserve the original scope of guidance in the Accounting Standards Codification or (b) change the scope of guidance in the Accounting Standards Codification to align with the new definition.” CUNA would support changing the scope to reflect the new definition as we believe such action would result in further consideration of how accounting standards could be changed to reflect differences between PBEs and other, non-publicly traded organizations, including credit unions.

Conclusion

In closing, FASB has embarked upon a very important endeavor: the recognition that uniform standards are important for similarly situated entities but that GAAP should allow for well-tailored, separate requirements that reflect differing functions and purposes of various categories of business organizations. The proposed definition of a PBE is an important element of this initiative.

We would welcome the opportunity to talk with FASB officials further about the views we have expressed in this letter. In the meantime, if you have any questions about our comments, please do not hesitate to contact me at 202-508-6736.

Sincerely,

A handwritten signature in cursive script that reads "Mary Mitchell Dunn".

Mary Mitchell Dunn
Deputy General Counsel