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April 1, 2011

Technical Director
File Reference No. 2011-150
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Financial Instruments – Impairment

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's) proposed Supplementary Document on impairment of financial instruments. By way of background, CUNA is the largest credit union advocacy organization in the country, representing approximately 90 percent of our nation's nearly 7,600 state and federal credit unions, which serve approximately 93 million members.

CUNA's Views on the Proposed Supplementary Document

Because credit unions are financial cooperatives owned and controlled by their members, their business model is quite different from that of a publicly traded company.

The "shareholders" of a credit union are its member/depositors, and their funds are federally insured, generally up to \$250,000. The limits of federal insurance for credit union deposits are prominently displayed in every federally insured credit union so that members wishing to deposit funds over \$250,000 are aware there may be some additional risks associated with larger deposits.

Even when larger deposits in credit unions are taken into consideration, shareholders' investments in a publicly traded company are subjected to risks that generally do not apply to credit union deposits, regardless of the amount. That is because credit unions are among the most highly regulated financial institutions in this country. Their activities are very limited by statute, they are subject to rigorous safety and soundness oversight and examination, and they must meet stringent net worth (capital) requirements.



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Credit union members already receive significant disclosures about the accounts they wish to open and maintain and about the financial condition of their institutions.

We realize credit unions with \$10 million or more in assets must follow U.S. generally accepted accounting principles. We also understand the importance and value of appropriate disclosures and financial transparency. However, we question whether additional disclosures in financial statements of the nature FASB is proposing should be imposed on credit unions through the accounting standards setting process. If credit union members need additional disclosures—the case for which has not been substantiated—we believe such requirements should more appropriately be imposed by financial institution regulations, not by FASB, particularly given the potentially negative impact on a credit union's net worth.

If, however, FASB determines credit unions must comply with the proposed Supplementary Document, we have a number of concerns we urge the Board to consider before the rule is made final.

In May 2010, FASB issued a proposed Accounting Standards Update (proposed ASU) on accounting for financial instruments that would make a number of significant changes to accounting for most financial assets and liabilities, including changes to the accounting standards on credit impairment. As part of their redeliberations, the FASB and the International Accounting Standards Board (referred to in this letter as the Boards) proposed changes to the impairment models included in their respective financial instruments proposals. The changes address concerns that current impairment models delay recognition of credit losses on financial assets and do not incorporate appropriate forward-looking information.

We appreciate the Boards' recognition of the potential weaknesses of the existing impairment models. However, we have some concerns with major aspects of the proposed Supplementary Document, as described below. In light of those concerns, as well as a number of unanswered operational questions not addressed in this letter, we urge the Boards to consider extending the comment period to allow adequate time for stakeholders and the Boards to fully consider the application of the proposed changes and to identify unintended consequences.

Impairment of Financial Assets

The impairment model in the FASB's proposed ASU would require an entity to estimate the amount of any cash flows it does not expect to collect over the life of the financial instrument and recognize a related amount of credit losses within the same reporting period. This is designed to ensure that the allowance account would be sufficient to cover all estimated credit losses regardless of when they occur. We do not support the approach taken in FASB's proposed ASU on recognition of impairment, as we believe it is

inappropriate to require an entity to immediately recognize all credit losses regardless of the entity's assessment of the credit quality of the assets.

Under the proposed Supplementary Document, the manner in which an entity would recognize the impairment of an asset would depend on the entity's degree of uncertainty about the collectibility of the cash flows from the asset. Specifically, the entity would be required to assign its financial assets that are managed on an open portfolio basis to one of two groups—the "good book" or the "bad book"—for the purpose of determining the impairment allowance.

The proposed Supplementary Document would require entities to estimate the lifetime expected losses of open portfolios of assets. We are concerned that many smaller reporting entities lack the ability to accurately estimate the expected losses for these assets. On a more basic level, we question what, if any, benefit to a credit union's members or its regulator would be achieved by establishing open portfolio-specific impairment guidance.

For assets in the "good book," expected credit losses would be recognized over time for either the amount of the time-proportional expected credit losses or the credit losses expected to occur within the foreseeable future (at least twelve months), whichever is greater. For assets in the "bad book," the entire amount of expected credit losses would be recognized immediately in the impairment allowance.

While we appreciate the proposed approach for recognition of expected credit losses for assets in the "bad book," we do not support the proposed approach regarding the "good book" at this time, as we believe it is unclear exactly how the proposed approach would be applied. We are concerned that the approach is likely too complex for many entities and may be inconsistent with the actual practice of estimating losses or managing credit risk. Further, we believe the complexity inherent in the proposed time-proportionate approach would severely burden credit unions applying the standard, while not providing superior information to the credit union, its members, or its regulator, which is the primary user of the credit union's financial statements. We ask the Boards to consider a practical expedient, particularly for smaller financial institutions, such as credit unions.

In determining the amount of cash flows an entity does not expect to be collected under FASB's proposed ASU, an entity's expectations of collectibility would consider all available information about past events and existing conditions but not potential future economic events. Under the proposed Supplementary Document, expected credit loss estimates would consider all information available, including internal and external information—such as, historical data and current economic conditions as well as reasonable and supportable forecasts of future events and future economic indicators.

Thank you for the opportunity to express our views on the Boards' proposed Supplementary Document on impairment. If you have any questions about our comments, please do not hesitate to give CUNA Senior Vice President and Deputy General Counsel Mary Dunn or me a call at (202) 508-6743.

Sincerely,

A handwritten signature in cursive script that reads "Luke Martone". The signature is written in black ink and has a long horizontal flourish extending to the right.

Luke Martone
Assistant General Counsel