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A Professional Association

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Technical Director

Financial Accounting Standards Board

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Background

Orth, Chakler, Murnane & Company, CPAs, provides audit and consulting services to the credit union industry. One hundred percent (100%) of our clients are credit unions and credit union service organizations (CUSOs). Each of the firm's Partners has relevant auditing and consulting experience in the credit union industry ranging from 15 to over 30 years and our firm is consistently ranked by Callahan & Associates as one of the nation's leading CPA firms providing audit services to credit unions. The 2012 *Guide to Credit Union Auditors* published by Callahan & Associates ranks our firm number two in the nation with respect to auditing credit unions with total assets over \$40 million. We currently perform the opinion audit for approximately 130 credit unions, 6 corporate credit unions, 25 CUSOs and 65 pension/401(k) plans throughout the country.

Overview

In preparing our response to the Financial Accounting Standards Board (FASB), we considered the applicability to non-public companies, and more specifically to the specific industry that we serve. Our considerations included an analysis of the usefulness of the proposed reporting requirements as well as the additional costs that will be incurred to prepare and audit the disclosures.

General Conclusions

We do not believe the proposed ASU is necessary since current U.S. GAAP reporting standards already require the information contained in the exposure draft to be reported in the financial statements. The exposure draft itself states this on page 2; "substantially all of the information that this proposed Update would require already is required to be disclosed elsewhere in the financial statements under U.S. GAAP." Overall, we believe the proposed ASU will create redundancy in the financial statements and result in additional costs for questionable added value for the users of the financial statements.

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Specific to our industry, the most common components of Other Comprehensive Income (OCI) include unrealized gains and losses on available-for-sale (AFS) securities and defined benefit pension items. Current U.S. GAAP requires that amounts reclassified to net income for gains/losses on AFS securities be reported separately in the statement of comprehensive income. Regarding defined benefit plans, disclosure requirements currently in effect provide for detailed accounting of the changes in benefit obligations, plan assets and funded status. Also disclosed is net periodic pension cost, which is a component of net income, and amounts recognized in accumulated other comprehensive income. The requirements included in the exposure draft only duplicate the reporting requirements already in effect.

In addition, we do not believe that requiring additional disclosures would provide any significant benefit to the financial statement user for non-public entities, especially to the users of credit union financial statements. These financial statement users generally include members of management, including the Board of Directors and Audit (Supervisory Committee), credit union members, regulators and creditors. In our opinion, there is very little demand or benefit to be gained by providing this additional information to the users of credit union financial statements.

Proposed Alternatives

We understand the importance of clear financial reporting and readers being able to understand the financial statements and disclosures. As an alternative to creating an additional table for items reclassified to net income and the line items affected, we believe that simply stating where the OCI component reclassified to net income is presented in the income statement would be sufficient.

We offer the following examples:

- Defined Benefit Plans: Current U.S. GAAP requires that net periodic pension costs be disclosed in the note disclosures. A description of where this cost is reflected in the financial statements, such as “The net periodic pension cost related to this plan approximated \$100,000 for the year ended December 31, 201X and is included in Compensation and Employee Benefits expense in these financial statements”, would provide the information required in the proposed ASU without creating an additional table.
- Available-for-Sale Securities: Current U.S. GAAP already requires that realized gains/losses reclassified from OCI be reported in the Statement of Comprehensive Income. Creating a table mirroring what already appears in the Statement of Comprehensive Income does not provide the reader with additional useful information. The reporting requirement already in place requiring gross sales and resulting gains/losses could be expanded to indicate the portion of the gain/loss reclassified from OCI and where it appears on the statement of income. This would be an alternative to creating another table.

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Specific Questions

The specific questions posed in the proposed ASU are addressed below.

Question 1: Would the proposed disclosures provide useful information to users of financial statements.

As stated above, the users of credit union financial statements are typically management, including the Board of Directors and Audit (Supervisory) Committee, credit union members, regulators and creditors.

- Management – Management, including the Board of Directors and Audit (Supervisory) Committee, typically are provided with detailed information regarding credit union operations on a monthly basis. Financial reporting and performance criteria involves effective management of interest rate margins, liquidity concerns, maintaining quality performing assets and a multitude of compliance requirements. The additional reporting requirements in the proposed ASU would provide little value to credit union management.
- Credit Union Members – Credit union members have very little exposure to the Credit Union’s complete set of financial statements, including required note disclosures. These are typically provided to members at the Credit Union’s Annual Meeting. It should be noted, that only credit unions with assets in excess of \$500 million are required to receive annual opinion audits; therefore, many credit union members are not exposed to the financial statements beyond the Statement of Financial Condition and Income Statement. The additional reporting requirements in the proposed ASU would provide little value to credit union members.
- Regulators – The regulators are concerned with the safety and soundness of credit unions. Their examination is risk based and focuses on management, financial health, compliance, financial reporting and other related matters. The additional reporting requirements in the proposed ASU would provide little value to credit union regulators.
- Creditors – Most credit unions have a line of credit and/or other borrowing arrangements to facilitate their liquidity needs. Creditors typically include Corporate Credit Unions, Federal Home Loan Banks or Federal Reserve Banks. The additional reporting requirements in the proposed ASU would provide little value to credit union creditors.

It is our opinion that credit union stake holders are not requesting the information that is being proposed in this ASU. However, if the FASB concludes that there is a need for this information, we believe that this information could be presented in the disclosures that are already required under U.S. GAAP as noted above.

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Question 2: Would an entity incur significant costs because of the proposed amendments?

Quantifying the time and effort to prepare, audit and review the proposed reporting requirements is difficult; however, it will certainly require some additional time and cost. We do not believe this time and cost would be significant.

Question 3: Should any of the proposed amendments be different for non-public entities?

Yes. We believe non-public entities should be excluded from the proposed ASU. We do not see the benefit of these expanded reporting requirements for non-public entities, especially for credit unions. We understand how these additional disclosures may be of some value for the users of public company financial statements; however, we question that value due to the redundancy of that information already appearing within the financial statements.

Question 4: Would the effective dates be practicable?

Yes. The effective date for non-public entities would be for annual reporting periods ending after December 15, 2013 and this would provide adequate time for implementation.

We appreciate the opportunity to provide our thoughts on the proposed ASU and hope that the FASB carefully considers the cost of presenting these disclosures in the financial statements of non-public entities versus the benefits derived from the additional costs. If you have any questions regarding our comment letter on proposed ASU 2012-240, please do not hesitate to contact John Murnane.

Sincerely,

Orth, Chakler, Murnane & Company

Orth, Chakler, Murnane & Company
Certified Public Accountants