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National Association of Federally-Insured Credit Unions

February 13, 2019

Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

RE: CECL Relief for Credit Unions

Dear Chairman Golden:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to urge the Financial Accounting Standards Board (FASB) to relieve the unintended impact of the current expected credit loss (CECL) standard, issued as Accounting Standards Update 2016-13, on credit unions. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 115 million consumers with personal and small business financial service products. We have received much ongoing feedback from our members regarding the difficulty in implementing the CECL standard and urge the FASB to more proactively provide credit union relief before the standard becomes effective. NAFCU continues to believe that credit unions should not have been included in the CECL standard, especially because credit unions have a unique capital framework and face certain regulatory constraints.

NAFCU greatly appreciated the FASB's recent roundtable to discuss an alternative for the implementation of CECL. During the roundtable it became clear that participants could not agree on the viability of the proposed alternative being discussed. Furthermore, there has been no coalescence around an option to mitigate the negative impact the CECL standard will likely have on credit unions. This bolsters the need for a credit union exemption from CECL, and NAFCU strongly urges the FASB to reconsider its decision to include credit unions within the scope of CECL. Alternatively, NAFCU urges the FASB to provide a one-year delay of the effective date for non-public business entities (non-PBEs), so that credit unions have more time to understand the impact CECL will have on their capital levels and to begin preparing the necessary data for implementation of the standard.

Credit unions are subject to a statutorily defined capital framework that places substantial limits on the ability of the National Credit Union Administration (NCUA) to mitigate CECL's impact on net worth without accompanying action from the FASB. This is because net worth is defined as a credit union's "retained earnings balance, as determined under generally accepted accounting principles."[1] As long as retained earnings must conform with Generally Accepted Accounting

[1] 12 U.S.C. § 1757a(c)(2).

Principles (GAAP), it is unclear as to whether the NCUA can meaningfully address CECL's day one impact on credit union capital. To deal with this problem, we urge the FASB to partner with the NCUA to identify opportunities for capital relief and prevent a scenario where credit unions must dramatically scale-back asset growth or face mandatory supervisory action in the event that net worth ratios fall below minimum levels.

Given the staggering complexity of CECL and its ramifications for capital planning, NAFCU strongly encourages the FASB to consider at least a one-year delay for non-PBEs to improve understanding of the standard's economic impact. As noted by other industry stakeholders, there is pervasive concern that CECL will have a pro-cyclical effect on lending conditions and actually reduce access to credit during times of stress—an outcome at odds with the standard's implicit goal of improving economic stability. Bearing in mind credit unions' conventional reliance on retained earnings to support continued lending, a rapid increase in allowances during a recession could severely tighten credit conditions in a way that disproportionately impacts the credit union industry's 115 million members. Although NAFCU maintains that credit unions should not be subject to CECL, the FASB should consider less burdensome alternatives to the standard, including a delay of the effective date, in recognition of credit unions' unique structure and role within their communities.

NAFCU appreciates this opportunity to share credit unions' concerns regarding CECL and our thoughts on what is necessary to provide appropriate relief. If you have any questions or concerns, please do not hesitate to contact me at amorris@nafcu.org or 703-842-2266.

Sincerely,

Andrew Morris

Andrew Morris
Senior Counsel for Research and Policy