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B. Dan Berger
President & Chief Executive Officer

National Association of Federally-Insured Credit Unions

September 16, 2019

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

RE: Proposed Accounting Standards Update – Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842).

Dear Chairman Golden:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to express our support for the Financial Accounting Standards Board's (FASB) proposed Accounting Standards Update (ASU)—*Financial Instruments—Credit Losses, Derivatives and Hedging, and Leases.*

NAFCU agrees that extending the implementation period for major standards that are not yet effective will help mitigate the challenges credit unions face as they prepare to adopt the current expected credit loss standard (CECL). Specifically, a one year delay of CECL's effective date will provide much needed relief by granting credit unions additional time to train staff, develop models for different loan pools, and conduct parallel runs. For many smaller credit unions, this additional time is critical to ensure a smooth transition and prepare for the disruption that increased allowances may have on capital.

The proposed ASU also sets forth a new methodology for transitioning to major standards in the future. It would extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). The "other entities" include private companies, smaller public companies, and not-for-profit organizations—including credit unions, which are considered nonpublic business entities (non-PBEs). The new, dual bucket approach would preserve the longer implementation timeline currently afforded to non-PBEs while simplifying the schema used to determine effective dates.

NAFCU also supports the FASB's plan to use the extended implementation period to help educate credit unions and other preparers about the practical application of CECL. NAFCU continues to receive inquiries from members regarding the lack of clear expectations surrounding the standard and we ask that the FASB continue to work alongside the National Credit Union Administration (NCUA) to provide hands-on education and training prior to 2023. We are encouraged by the FASB's announcement in July that it is planning a series of CECL-related workshops for later this

year. To the extent that joint participation with the NCUA is possible, we ask that the FASB consider developing workshops that are aimed at facilitating interaction with regulators.

Separate from the proposed adjustment of effective dates, we ask that the FASB explore options for addressing CECL's negative impact on credit union capital. Credit unions are subject to a statutorily defined capital framework that places limits on the NCUA's ability 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 GAAP, it remains doubtful whether the NCUA can fully address CECL's day one impact on credit union capital. Given that some credit unions may face mandatory supervisory action in the event that net worth ratios fall below minimum levels upon transitioning to CECL, it is critical that FASB and the NCUA work together to identify a solution. Such a partnership between the NCUA and the FASB should—at a minimum—seek to provide relief that is equivalent to that afforded to banks, such as an optional, three-year phase-in of CECL's negative effects on regulatory capital ratios. Bearing in mind credit unions' conventional reliance on retained earnings to support continued lending, a rapid increase in allowances during an economic downturn could severely tighten credit conditions in a way that disproportionately impacts the credit union industry's 118 million members. Although NAFCU maintains that credit unions should never have been subject to CECL, the FASB should consider less burdensome alternatives to the standard that recognize credit unions' unique structure and role within their communities.

NAFCU appreciates this opportunity to share our support for the proposed ASU and the decision to delay CECL's effective date by one year. Additionally, given statutory constraints placed on the definition of credit union net worth, we ask that the FASB collaborate with the NCUA to determine whether changes to GAAP are possible to effectuate essential capital relief. Even if such collaboration is unlikely, we urge the FASB to independently consider improvements to GAAP that would accommodate more flexible treatment of provisions for credit losses in the future.

Sincerely,

Dan Berger
President & Chief Executive Officer

[1] 12 U.S.C. § 1757a(c)(2).