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May 7, 2015

Board of Trustees  
Financial Accounting Foundation  
401 Merritt 7  
Norwalk, CT 06856

Re: Three-Year Review of the Private Company Council

Dear Board of Trustees:

The Credit Union National Association (CUNA) appreciates the opportunity to submit comments on the Financial Accounting Foundation (FAF) Board of Trustees' three-year review of the Private Company Council (PCC). By way of background, CUNA is the national trade association for America's state and federally chartered credit unions. CUNA represents approximately 90% of the country's 6,500 credit unions and their 102 million memberships.

### **Objective of the PCC**

Overall, CUNA supports the objective and work of the PCC. We appreciate the FAF's recognition that there are material differences between private and public companies and that reporting requirements should reflect those distinctions, at least in some instances. CUNA has expressed its support of the PCC in several comment letters to the FAF since the PCC was established in 2012 to improve the process of setting accounting standards for private companies. We believe strongly that there is a need for improvements to the accounting standards that private companies must work under on a daily basis. Complexity in financial reporting is, in many ways, the real problem for private entities.

We ask the FAF to ensure that the PCC's efforts to "improve" private-entity standards continue to result in standards that are *no more* complex or burdensome than existing U.S. generally accepted accounting principles (GAAP). As the FAF is well aware, much of the reporting requirements of GAAP—though applicable to all entities—target the highly complex financial transactions of only a limited segment of reporting entities (i.e., publicly traded companies). We believe, therefore, that all modifications to GAAP intended to improve the standards for private entities should involve simplifying overly complex standards and/or decreasing the reporting burden of unnecessarily burdensome standards.

Credit unions are member-owned, not-for-profit institutions—even though the Financial Accounting Standards Board (FASB) does not include credit unions in its not-for-profit classification category for rulemaking purposes. Similar to other not-for-profits, many credit unions—particularly the smaller ones—have limited staff and resources available

to address issues outside of credit unions' primary objective, which is to serve their member-owners. While CUNA believes there is a need for improvements to private entity standards, we urge the FAF, FASB, and the PCC to consider the cost, benefit, and relevancy of such standards.

We believe that many of the (complex) reporting requirements of current GAAP are necessary to ensure adequate and accurate information is reported by public companies as is necessary for investors to make informed decisions regarding the financial health of the company. However, as indicated above, such (complex) reporting requirements are often inappropriate for non-public entities, for which the primary user of their financial information is not a public investor—but, in the case of a credit union, its state or federal regulator.

### **Regulatory Compliance Challenges**

Credit unions are struggling to comply with current, revised, and new regulations from a variety of regulatory agencies and standard-setting bodies, including FASB. FASB's pending proposal on credit losses is an example of a rule that will present immense compliance challenges for credit unions and other reporting entities covered by the standard. Smaller institutions have limited resources and simply cannot afford the investment in complex systems necessary to automate data analytics. Nor can they afford a team of professionals with the expertise necessary to analyze and report the data.

Specific to the pending credit losses proposal, we are very concerned that the standard would have serious unintended consequences on our economy that would ultimately adversely impact all consumers. Holding substantially more in reserves than necessary, and the cost of the required resources to analyze data on a granular level, will burden not-for-profit credit unions of all asset sizes resulting in a decline of credit availability and less return to consumers. While we understand the PCC's involvement with the credit losses proposal as it will apply to financial institutions is limited, we wanted to take the opportunity to again express our concerns to the FAF regarding the proposal.

### **Coordination with Regulatory Agencies**

We urge FASB and the PCC to work closely with regulatory agencies that oversee entities, including financial institutions that are required to adhere to GAAP. Specifically, FASB and the PCC should coordinate their efforts with the National Credit Union Administration (NCUA) since whether an entity can apply established GAAP alternatives 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, the agency has utilized this authority sparingly. We have concern that the potential benefits of some of the GAAP alternatives contemplated by the PCC, if adopted by FASB, may not be realized if regulators prohibit those under their 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 any GAAP alternatives and will accept their use once they have been approved by FASB, in coordination with the PCC.

### **Effectiveness of the PCC**

We believe the PCC has generally been successful in proposing alternatives within GAAP that address the needs of users of private company financial statements. However, we believe the PCC could do more to actively engage stakeholders as it analyzes new and existing standards. Specifically, we encourage the PCC to work with CUNA and other industry representatives when appropriate.

We support the approach the FAF, FASB, and PCC have taken in addressing the unique needs of private companies. That is, an approach where consideration of alternatives within GAAP are contemplated, as opposed to establishing a unique set of accounting principles for private entities.

### **Conclusion**

Thank you for the opportunity to express our views to the FAF Board of Trustees regarding its three-year review of the PCC. If you have any questions about our comments, please do not hesitate to contact me at (202) 508-6743.

Sincerely,

A handwritten signature in blue ink that reads "Luke Martone". The signature is written in a cursive, flowing style.

Luke Martone  
Senior Director of Advocacy & Counsel