Cooperative Credit Union Association

Creating Cooperative Power

September 16, 2019

Technical Director
File Reference No. 2019-750
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

BY EMAIL ONLY

Re: Exposure Draft of a Proposed Accounting Standards Update Regarding Effective Date Philosophy and Delaying Certain Accounting Standards, Including CECL

To Whom It May Concern:

On behalf of the member credit unions of the Cooperative Credit Union Association, Inc. ("Association"), please accept this letter relative to the Financial Accounting Standards Board's ("FASB") Exposure Draft of a proposed standards update to address the implementation of major accounting standards changes. Among other things, the proposal would also delay the effective date of the Current Expected Credit Loss ("CECL") standard for certain entities. The Association is the state trade association representing credit unions located in the states of Delaware, Massachusetts, New Hampshire, New Jersey and Rhode Island, serving approximately 200 credit unions which further serve approximately 3.6 million consumer members.

Under the exposure draft, FASB discusses a new philosophy under which the implementation of major accounting standards updates would be effective first for entities that are larger Securities and Exchange Commission filers. For all other entities, FASB would consider an effective date that follows at least two years later.

The exposure draft would apply such philosophy to three accounting standards updates ("ASU"), including the CECL ASU issued by FASB in June 2016. As proposed, the effective date of CECL for credit unions and certain other entities would begin after December 15, 2022, delaying compliance for one year.

The Association has been active and closely monitoring the CECL issue since first proposed as well as its implementation.[1] This letter offers comments, received by Association members directly and through a recent member survey, on the proposed delay and the new philosophy.

[1] November 28, 2014, Comment Letter Potential Impact CECL Proposal Subtopic 825-15; March 2015, Association Member CECL Working Group and Guiding Principles; and August 2015, Transition Resource Group Credit Union Representative Jeanne D'Arc Credit Union.

First, however, the Association will address a much more fundamental issue that members have consistently raised with the Association and FASB Board members directly. The Association zealously urges FASB not to ignore the fact that CECL is unsuitable for not-for-profit, cooperative credit unions.

1. **<u>CECL Should Not Cover Credit Unions</u>**

An editorial in the *American Banker* on July 19 described CECL as, "A solution in search of a problem." For credit unions, the Association believes that it is an accounting disruption and much more because it is likely that CECL will result in inflated Allowance for Loan and Lease Loss Accounts, capital issues, decreased lending, higher compliance costs, and greater compliance burdens associated with data collection, modeling, and staff training. No one, including FASB, can reasonably demonstrate that such consequences will not be the outcome when CECL takes effect for credit unions.

Furthermore, as credit unions are not publicly held companies, the primary users of credit union financial statements are federal or state examiners who simply do not need the information that CECL will produce on the anticipated losses over the life of a credit union's loans, particularly since most credit union loans perform well. The Association notes that delinquency rates at credit unions fell to 0.51% in June.[2]

In fact, due to the National Credit Union Administration's concerns about the impact of CECL, Chairman Rodney Hood recently announced that the agency would invoke its authority to phase in CECL for credit unions. This authority is rarely if ever used. The Association believes that the agency's willingness to exercise it to lessen the blows of CECL reinforces the legitimacy of credit union concerns. Moreover, it supports the premise that NCUA believes that CECL information is not significant to its role as the safety and soundness supervisor and insurer of credit unions.

In addition, important legislation is pending in the U.S. House of Representatives, H.R. 3182, the *CECL Consumer Impact and Study Bill of 2019*. This bill would forestall CECL for credit unions, community banks, and others until a study could be completed on how CECL will impact credit availability for consumers[3] and small businesses and capital adequacy at financial institutions. Furthermore, a letter from 15 United States Senators was sent last May to bank regulators expressing concerns and requesting an economic impact study be completed.[4]

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[2] CUNA Mutual Economic Trends Report, August 2019.

[3] One survey respondent estimated that there is a 79% chance that members will be adversely impacted and that credit will be redirected to higher credit tiers.

[4] The letter requests both a CECL implementation delay and an economic impact study, to include but not be limited to, CECL's potential impact on the economics of lending and the price, availability and structure of credit, particularly for mortgages, small business loans and loans to borrowers with lower credit scores. It was also requested that such study examine pro-cyclicality, effective capitalization, the relationship of loan loss reserves and regulatory capital and financial statement comparability.

The Association urges FASB not to wait for Congress to act or for a public confidence issue to arise, but to take action now to rethink the application of CECL to credit unions for which the costs of compliance[5] far exceed any uncertain benefits.

Moreover, FASB itself has significant concerns about the unintended consequences of CECL on credit unions and the consideration of another delay is evidence of such concern. It is fair to question, that if compliance with a standard can be delayed for seven years after it was issued, then is it really necessary for the entities receiving the delay.

The Association is well aware of reluctance to grant exemptions from accounting standards. However, given the extraordinary impact that CECL could create, the lack of users for credit union CECL data, and a positive record of loan performance, the Association asserts that an exemption for credit unions is justified. Alternatively, the Association urges FASB to work with the prudential regulators, such as NCUA, to assess the impact of CECL on federally-insured institutions more thoroughly through an economic study. In the interim, CECL should be postponed for at least two years, to provide ample time to conduct the study, assess its findings and develop recommendations.

Delaying CECL

If compliance must be inevitable, then certainly the Association supports a delay. FASB is strongly urged to consider at least a two-year delay so that financial institution regulatory agencies and others could conduct their own economic impact studies.

The New Philosophy

FASB's new philosophy to provide smaller entities with more time to comply is positive, and the Association supports the basic approach. However, FASB should preserve sufficient flexibility so that a delay of several years could be granted for smaller entities, if justified.

Conclusion

CECL remains an enormous, looming concern for credit unions. The Association supports the proposed delay and the new philosophy. However, rather than a temporary delay, the Association asserts that the better course of action would be to exempt credit unions from CECL's coverage. This would avoid unintended consequences that could harm consumers, small businesses, and credit unions alike.

Thank you for the opportunity to share our member's views on the proposal and for your consideration of the Association's comments and concerns. If you have any questions about these comments or require further information, then please do not hesitate to contact me.

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[5] Member survey respondents estimated costs of compliance ranging from $20,000.00-$200,000.00 with ongoing costs ranging annually from $5,000.00 and higher. The most challenging compliance factors were costs, selection of a vendor, vendor preparedness, historical loan loss amounts, especially for new products launched and for products with loans paid off early, allowance for loan loss account provisioning, validation, and limited personnel for implementation.

Sincerely,

Ronald McLean
President/CEO
Cooperative Credit Union Association, Inc.

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CC: NCUA Board Members
FASB Board Members