NEW YORK creditunion ASSOCIATION

strength in members.

March 16, 2016

Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
POB 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2012-260

Dear Mr. Golden,

On behalf of the New York Credit Union Association, I am writing this letter to relay concerns credit unions have with the Financial Accounting Standards Board's proposed standard Current Expected Credit Loss (CECL) proposal, which would require them to reserve funds for expected losses over the life of loans, as opposed to accounting for them if and when loses become probable. As currently proposed, it would impose substantial and potentially costly burdens on credit unions while only negligibly improving their financial statements.

In concept, CECL makes sense. Mandating that large, sophisticated financial institutions more accurately and transparently account for potential losses on an ongoing basis would help regulators, investors and the general public. For instance, sophisticated investors identified weaknesses in the balance sheets of some of the nation's largest banks almost 18 months before the mortgage meltdown. If their insights were more easily obtainable, perhaps the impact of the financial crisis could have been mitigated.

The problem is that many of the same reasons that make it prudent to adopt an expected loss model for larger institutions make it a bad idea for credit unions. For instance, one of the primary goals of the FASB is to provide investors better information about bank balance sheets. But as small, not-for-profit, member-owned cooperatives that aren't even allowed to accept secondary capital unless they serve low income communities, there is simply no danger that investors are being deceived, nor is there any suggestion that credit union balance sheets can't be understood by anyone with basic accounting competency.

Secondly, since credit unions are by the nature of their charter more closely tied to their membership, much of the information of which they are aware of is granular and would not necessarily be reflected in sophisticated models. For example, a credit union comprised of a company's employees is going to be acutely aware of how that company is doing irrespective of how it might be impacted by macroeconomic trends. This type of granular information informs many existing credit union Allowance for Loan and Lease Losses set asides.

The standard could result in credit unions being confronted with the costs of sophisticated software and staff training at a time when many credit unions are already struggling to comply with the myriad Dodd-Frank Act mandates. In short, for credit unions CECL is a solution in search of a problem.

Against this backdrop, I urge the FASB to allow all financial institutions with less than $10 billion in assets to comply with GAAP by using the existing incurred loss model. The existing system accurately reflects credit union balance sheets and doesn't need to be changed. However, if the FASB goes forward with this proposal, there are important steps it should take to make compliance easier for smaller institutions.

At an excellent roundtable discussion on CECL hosted by the FASB in February attended by bank and credit union stakeholders and regulators, it was repeatedly stressed that the FASB's goal is to enact a standard that was scalable. While all institutions would be required to account for potential losses earlier in the lending cycle, the means they used to accomplish this goal could vary widely. To translate this goal into reality, the final standard has to clarify that: smaller institutions are not required to integrate sophisticated economic models into their existing ALLL procedures; past performance of similar loans may be used to assess a likelihood of loss, but credit unions can continue to rely on anecdotal information—such as a borrower's past performance—when assessing the likelihood of default; and credit unions needn't increase their ALLL in relation to the introduction of the CECL standard where they can demonstrate that existing practices already take many CECL requirements into account.

The goal of flexibility should also be prominently included in the final standard. For example, the exposure draft language should be amended as follows:

"Because of the subjective nature of the estimate of expected credit losses, this Subtopic does not require specific approaches or specific policy elections in this regard. Rather, an entity has latitude to develop estimation techniques that are applied consistently over time and aim to faithfully estimate expected credit losses by using the key principles in this Subtopic **commensurate with their size and sophistication and the**

complexity of their loans. An entity is not required to utilize a probability-weighted discounted cash flow model to estimate expected credit losses. Similarly, an entity is not required to reconcile the estimation technique it uses with a probability-weighted discounted cash flow model. An entity's **estimation of expected losses should reflect, in part, assessment of the impact that economic conditions may reasonably be expected to have on their service area."**

Credit unions can, should and do assess the strength of their portfolios both in terms of reasonable expected loan performance and the impact that local economic conditions may have on this assessment. In implementing CECL, we urge the FASB to balance the need for more transparent banking financial statements against the need to allow smaller, less sophisticated institutions to account for loan losses in ways that reflects their size and sophistication.

Sincerely,

William J. Mellin
President/CEO
New York Credit Union Association