



December 12, 2019

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria VA 22314

Re: Comments on CECL Interagency Guidance

Dear Secretary Poliquin:

Freedom Credit Union appreciate this opportunity to comment on the Interagency Policy Statement on Allowance for Credit Losses (“Guidance”). Freedom is a federally insured, state-chartered credit union with \$980 million in assets.

Overall, FASB and financial institution regulators are yet to offer a compelling reason why the Current Expected Credit Losses (CECL) or FASB Topic 326 should apply to credit unions. We can appreciate the idea that accounting standards should be uniform. We also understand the value of transparency in financial reporting. But, the structure of credit unions clearly demonstrates that CECL should not apply. To amplify this point:

As NCUA knows, credit unions are member owned cooperatives;

- Members do not rely on the credit risk profile of their credit union; they rely on share insurance for the protection of their shares;
- Members choose a credit union based on convenience and services, not financial information;
- Members will gain little or no additional information regarding the financial health of a credit union as a result of CECL;
- Trade vendors and similar parties will gain little or no additional information regarding the financial health of a credit union as a result of CECL;
- NCUA and state regulators have adequate supervisory powers to ascertain the safety and soundness of a credit union and the composition of its assets.

In sum, the incremental amount of transparency afforded by CECL does not translate into material benefits for credit union members, regulatory agencies or trade creditors. Each of these stakeholders has adequate information at their disposal to make informed decisions about doing business with a particular credit union. The corresponding expense and compliance burden created by CECL is not justified by the modest benefit it might offer to credit union stakeholders. Accordingly, federally insured credit unions should be exempt from CECL. We offer the following comments on the Guidance.

1. Does the Guidance explain measurement of expected losses under CECL?

The Guidance offers an adequate summary of FASB Topic 326.

2. Documentation Standards.

The Documentation Standards are redundant to CECL/FASB Topic 326. The account standards require the adoption of policies and the creation of an audit trail to support the Allowance for Credit Losses or ACL. The Guidance requires at least 16 attributes to be adopted in policy. Policies should be tailored to the size and complexity of the credit union. The guidance should offer a safe harbor such that where a credit has documented its approach consistent with the Guidance, it is deemed to be in compliance. There is too much work and expense associated with CECL for second-guessing of a credit union's policy absent a material deviation from the rule.

The responsibilities of the Board of Directors should be simplified. The proposed requirements are overkill. By its very nature, CECL is about documentation and validating the business decisions supporting the ACL. The Board's role should be limited to ensuring policy and procedures are adopted and ensuring that management or the supervisory committee includes review of the ACL in the annual audit.

The Management Responsibilities outlined in the Guidance are consistent with CECL/FASB Topic 326.

3. Examiner Review

As for Examiner Review of ACLs, the most important point of the Guidance in our view is:

Examiners generally should accept an institution's ACL estimates and not seek adjustments to the ACLs, when management has provided adequate support for the loss estimation process employed, and the ACL balances and the assumptions used in the ACL estimates are in accordance with GAAP and regulatory reporting requirements. 84 Fed. Reg. 55522.

That statement captures our idea of a safe harbor in connection with policy and procedure for calculating ACLs.

Conclusion

We appreciate NCUA explaining its supervisory expectations in connection with CECL/FASB Topic 326. Overall, the Guidance will be helpful in finalizing our efforts to adopt the accounting standards. From a public policy perspective, CECL represents an overly broad "solution" for accounting for credit losses. As member-owned cooperatives, credit unions understand the value of transparency. The transparency or safety and soundness afforded by CECL is of little utility to members or credit union supervisors. As such, we maintain that CECL/FASB Topic 326 should not apply to federally insured credit unions.

Very truly yours,

John F. King
President/CEO