September 16, 2019

Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856


Dear Mr. Kuhaneck:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit the following comments to the Financial Accounting Standards Board (FASB) regarding its ASU to delay the effective dates of various financial instrument standards; specifically, as it relates to the Current Expected Credit Losses (CECL) standards. The ICUL member credit unions represent over 99% of assets and members of Indiana’s credit unions, with those memberships totaling more than 2.5 million consumers.

One aspect of the proposal would involve FASB adopting a philosophy to extend and simplify how effective dates are staggered between larger public companies and all other entities. We appreciate FASB’s recognition that additional challenges exist for non-public entities (including credit unions). These entities often have more limited resources to direct toward all that is required to implement major changes to FASB standards. The proposed philosophy would allow additional time for implementation by non-public entities, allowing them to learn from the implementation by the larger entities. We support this philosophy and encourage the FASB to utilize it on an as needed basis for future standard changes as well.

Utilizing this philosophy, the FASB is proposing to extend the effective date by two years for non-public entities to comply with the CECL standards to January 1, 2023. We strongly support this proposed two-year delay. Further, we would ask FASB to utilize this additional time to also review whether the CECL standards should be applied to credit unions at all. As we have stated in previous comment letters, we believe that this new standard is a solution in search of a problem that does not exist within credit unions. Historically, credit unions have not underfunded allowance accounts. Under the proposed CECL standards, we believe the end result will be credit unions that are overfunding allowance accounts. The end result will be lower reported earnings, and reduced capital for credit unions as they implement these onerous standards. For the vast majority of credit unions, the only way to increase capital is through generating net income. Increasing the required funding to the allowance accounts will result in lower net income and capital. We are also concerned that the initial increase in funding to the allowance account based on CECL standards will significantly reduce existing capital and reflect less financially strong institutions, when in reality, nothing has changed in the complexity or risk tolerance of the institution.
Additionally, we believe that implementation of the CECL standards will further impact net income and capital levels due to the expenses associated with the time, systems and ongoing management that will be necessary to analyze the loan portfolio in the detailed manner required by the CECL standards.

We are also concerned that there may very well be an unintended consequence where lower credit quality consumer loans may not be as available due to the onerous requirements of the CECL standards. Institutions will be required to review their risk tolerance and may not be as willing to extend loans where higher expenses will result simply due to funding the allowance account based on a simple calculation, and not the institution’s knowledge and experience with making these types of consumer loans.

Thank you for the opportunity to express our views on the FASB’s proposal to delay the effective dates of various financial instrument standards. We are in full support FASB’s proposed delays. Please feel free to contact me at (317) 594-5320 or johnm@icul.org if you have any questions regarding this comment letter.

Sincerely,
John McKenzie
President
Indiana Credit Union League