SCIARABBA WALKER &CO LLP
CERTIFIED PUBLIC ACCOUNTANTS
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At Sciarabba Walker & Co., LLP, we want to keep you informed and ahead of the curve in the credit union industry. Attending the 2016 AICPA Conference on Credit Unions provided us with new ideas and practical solutions to help you successfully handle the challenges and opportunities that impact your organization. Below are some of the key topics discussed at the conference.

## Credit Union Updates for 2016

The National Credit Union Association (NCUA) has been updating a variety of areas during the year that may impact your credit union or exam.

### Exam Flexibility Initiative

A working group as part of Chairman Metzger's Continuous Quality Initiative has been created to work on removing the annual examination requirement for most credit unions and to look for ways to improve efficiency and effectiveness of NCUA resources, programs, and policies.

NCUA is looking to accomplish this by doing the following:

- Evaluating the current exam cycle and developing parameters around the risk-based scheduling program.
- Replacing procedures that are inefficient.
- Reducing its footprint in the credit unions by looking at ways to reduce time onsite and strengthen offsite monitoring.

This should result in the removal of the annual examination requirements for most credit unions with less than $1 billion in assets.

### Interest Rate Risk (IRR) Supervision

NCUA is also working on updating its IRR supervision by doing the following:

- Changing the examiner guidance.
- Updating the scope and review procedures as follows:
  - Less than $50 million, no IRR workbook steps.
  - $50–500 million, 12–25 IRR workbook steps depending upon supervisory test.
  - More than $500 million, 15–35 steps, depending upon supervisory test and exam cycle.
- Implementing risk tolerance thresholds.

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### Member Business Lending

New NCUA § 723, effective January 1, 2017, which replaces requirements with principle-based standards, improved expertise requirements and policy provisions, and eliminated NCUA involvement in day-to-day operations by eliminating the need for waivers. There have also been changes related to statutory cap levels and participation risks.

These changes will allow more credit unions to enter the member business lending area. The credit union should ensure it has enough experience and expertise to operate a safe and sound loan portfolio and rating system.

### Update 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

This long-awaited Accounting Standard Update by the financial services industry was issued on June 16, 2016. The next day, the federal financial institution regulators issued the statement "Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses" to provide initial supervisory views on implementation.

This standard may be more commonly referred to by the name of the new methodology, Current Expected Credit Losses (CECL), which is used to calculate the allowance for loan and lease losses (ALLL). The effective date of this transition will be calendar year-ends – as of Jan 1, 2021, to be recorded in Q4 2021. Early adoption is permitted for fiscal years beginning after Dec. 15, 2018, including interim periods within those fiscal years.

This will result in significant changes in the methodology of the ALLL. Some of these changes include the following:

- Estimating expected credit losses over the contractual term of the financial asset(s).
- Probable threshold is removed.
- Removes the prohibition on recording day-one losses.
- An entity shall not rely solely on past events to estimate expected credit losses.
- Considers more forward-looking information than is currently permitted.

At Sciarabba Walker & Co., LLP, we strive to deliver practical, workable solutions that help you to achieve your organization's financial and operational objectives. Please feel free to contact Jeff Gorsky (jgorsky@swcllp.com) or Evan Ramiza (eramiza@swcllp.com) if we can assist your credit union with its current and future activities.

Sincerely,

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