SCIARABBA WALKER &CO LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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At Sciarabba Walker & Co., LLP, we want to keep you up to date about accounting changes that affect the credit union industry. The industry is growing with overall share and loan growth, and it is evolving with new, more sophisticated products. This, in combination with continued consolidation and strong growth of larger credit unions, has created an environment of increasingly complex institutions, transactions, accounting rules, and National Credit Union Association (NCUA) regulations.

One of our responsibilities as CPAs is to keep our clients aware of upcoming industry-specific accounting changes so they can focus on what they do best—serving their communities and members.

Credit Union Updates for 2018

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

The Credit Union industry has had more than a year to begin reflecting on Current Expected Credit Losses (CECL) and how this will impact individual credit unions' allowance for loan and lease losses (ALLL) balance, net worth ratio, and systems for gathering and maintaining data. While the Financial Accounting Standard Board (FASB) continues to further clarify some outstanding items, such as credit card portfolios, the majority of the standard is expected to be unchanged going forward.

There are no clear lines with CECL implementation, and each credit union will need to determine reasonable and supportable periods and methodologies. This will be done on an individual institution level and loan pool level, as it may differ between entities, and the methodologies could differ by loan pool within an institution.

The effective date of this transition for calendar year-ends is January 1, 2021, to be recorded in Q4 2021.

CECL 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.
- Off balance sheet arrangement such as commitments to extend credit are subject to credit risk and are within the scope of the CECL model.

This will be a continued focus for the industry until the implementation is complete. We would be happy to discuss this topic with management or your board or directors, and assist in identifying needed information, useable methodologies, and potential impacts of this change.

Update 2014-09 – Revenue from Contracts with Customers (Topic 606)

The new revenue recognition standard has not had a significant impact on the credit union industry due to the scope-outs of the majority of its revenue sources. However, you may encounter some areas that will be affected, and these will need additional, sometimes substantial note disclosures for financial statement audits.

Out of Scope	In Scope
Interest Income	**Service Charges on Deposit Accounts**
Trading Revenue	**Asset Management Fees**
Loan Servicing Fees	**Gains or Losses on Other Real Estate Owned**
Credit Card Fees	**Interchange Fees**
Guarantee Fees	

The note disclosures will describe how the entity recognizes revenue from the in-scope sources as applicable, and how judgment is utilized in recognizing revenue. Examples of this judgment aspect might include discounts, refunds, or reversals of fees.

Update 2016-02– Leases (Topic 842)

For the new lease standard, credit unions will need to recognize leases they enter into with a term of more than 12 months by recognizing a right-of-use asset and a lease liability. This change in accounting will impact both the credit unions and the members who enter into long-term leases.

From the lending side, the loan officers will need to be aware of this change as it will impact reporting liabilities on a member business loan. From the credit union operation side, the credit union will need to determine their long-term leases and the related liability to ensure that this increase in assets on their books will not decrease their net worth ratio below requirements.

Upcoming Supervisory Priorities

Each year NCUA selects supervisory priorities to be a focus of the upcoming examinations. These areas can be similar from year to year based upon issues NCUA has discovered.

For 2018 the supervisory priorities are:

- Cybersecurity – Risk assessment and preparedness
- Bank Secrecy Act – A focus on relationships with money service businesses
- Internal Controls and Fraud Prevention – Separation of duties
- Interest Rate and Liquidity Risk – Revised interest rate risk supervisory tool
- Commercial Lending – Member business lending
- Consumer Compliance – Military Lending Act, Servicemembers Civil Relief Act

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

Sincerely,

Sciarabba Walker & Co., LLP