January 2019

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 2019

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

The Credit Union industry has had more than two years to begin implementing Current Expected Credit Losses (CECL) and to consider 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.

The effective date of this transition for calendar year-ends was January 1, 2021, to be recorded in Q4 2021. However, the Financial Accounting Standard Board (FASB) extended this implementation date to January 1, 2022, to be recorded in Q1 2022. This shift removes the retrospective aspect of implementation that would have been required in Q4 2021. The update also clarified that operating lease receivables are not within the scope of CECL.

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.

CECL will result in significant changes in the methodology of the ALLL and 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 of 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	

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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.

Cybersecurity Assessment

Cybersecurity remains a key supervisory focus. In 2018, the NCUA implemented the Automated Cybersecurity Examination Tool (ACET) to improve and standardize cybersecurity supervision. ACET applies only to credit unions exceeding $1 billion in assets, but NCUA is modifying the tool for smaller credit unions. These Small Credit Union Core Practices are expected to be deployed and tested throughout 2019. The final stage of the program implements the Cyber Security Evaluation Tool (CSET), which provides users with a systematic and repeatable approach for assessing their security of cyber systems and networks and offers both high-level and detailed questions related to all industrial control and IT systems. Final implementation is expected in 2020. In accordance with current developments and NCUA's concentration on cybersecurity, we recommend you evaluate your cybersecurity risk assessment to ensure it is contemporaneous with your credit union's risk.

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 2019 the supervisory priorities are:

- CECL guidance and training
- Expansion of cybersecurity risk assessment and reviews
- BSA issues – system of internal controls, including member due diligence and beneficial ownership
- Focused operational risk analytics
- Focused interest rate risk/liquidity risk prioritization
- Staged technology implementation
- Process reengineering

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