National Credit Union Administration
Office of the Chief Financial Officer

March 30, 2016

SENT BY EMAIL

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The National Credit Union Administration appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Insurance Programs*.

NCUA is an independent federal agency that insures deposits at federally insured credit unions, protects the members who own credit unions and charters and regulates federal credit unions. NCUA protects the safety and soundness of the credit union system by identifying, monitoring and reducing risks to the National Credit Union Share Insurance Fund. Backed by the full faith and credit of the United States, the Share Insurance Fund provides up to $250,000 of insurance at a federally insured credit union. NCUA provides insurance to more than 102 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions. As of December 31, 2015, NCUA, through the Share Insurance Fund, insures $961.3 billion in member shares in 6,021 federally insured credit unions.

Overall, NCUA is supportive of the ED's intent toward uniformity and transparency of financial reporting for insurance programs. Please see our responses to the ED questions below.

Insurance Programs

Q1. The definition for an insurance program (par. 9) identifies the fundamental nature of these programs. The substance and not the name of a program will determine if it is an insurance program and therefore subject to these standards.

Do you agree or disagree with the definition of an insurance program? Please provide the rationale for your answer.

Response

NCUA agrees with the definition of an insurance program. We believe that the definition is explicit to include any federal insurance program by the substance of its operation and/or mission, while not making any substantial departure in the previous definition as stated in current FASAB standards.

Q2. Additional new terms were introduced (par. 10–25) in order to provide definitions needed to consistently report on insurance programs.

a. **Do you agree or disagree with the proposed definition of each term? Please provide the rationale for your answer.**

b. **Do you agree or disagree that the additional terms will assist insurance programs in producing consistent reporting? Please provide the rationale for your answer.**

Response

NCUA generally agrees with the proposed definitions provided in paragraphs 10-25. We believe that consistency in terminology will promote transparency and consistency in reporting for both agency general purpose federal financial reports (GPFFRs) and the consolidated financial report of the U.S. Government for insurance programs.

We did find a potential conflict in the application of the ED with an insurance program that receives funding both by exchange and nonexchange transactions. This conflict could affect Exchange Transaction Insurance Programs Other Than Life Insurance (para 15) and Nonexchange Transaction Insurance Programs (para 23). This potential conflict is addressed in the response to Q3.

Additionally, we suggest that the definition of Insurance Claim and Insurance Contract be inclusive of claims that are statutory-based rather than explicitly contract-based. For instance, deposit insurance claims from a failed financial institution are based on a function of the Federal Credit Union Act rather than a formal contract. Consider adding the following to the Insurance Contract paragraph: “A contract may be created directly in an exchange transaction or indirectly by statute.”

We agree that no other additional terms are needed in the ED that would add additional consistency and clarity to insurance program financial reporting.

Q3. Insurance Programs are to be classified in one of the three categories defined in par.15, 22, and 23: Exchange Transaction Insurance Programs other Than Life Insurance, Life Insurance Programs, and Nonexchange Transaction Insurance Programs.

Do you agree or disagree with these categories? Please provide the rationale for your answer.

Response

Generally, NCUA agrees in concept with the use of the predefined categories presented in the ED. While we agree that life insurance programs should have their own category, the nomenclature of the other two proposed categories is potentially conflicting. The naming convention appears to focus on the method of revenue recognition rather than the type of insurance provided.

When applying the ED following its revenue recognition categories (i.e., Exchange Transaction Insurance Programs versus Nonexchange Transaction Insurance Programs), a potential conflict exists for an insurance program where funding comes from both exchange and nonexchange transactions.

NCUA's main insurance program is the National Credit Union Share Insurance Fund (Share Insurance Fund). The program reports using FASAB reporting standards and recognizes revenue in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

The Share Insurance Fund has multiple sources of funding that include both exchange and nonexchange funding. Each insured credit union is required to deposit and maintain in the Share Insurance Fund one percent (1%) of its insured deposits, which is deemed a nonexchange transaction. The fund has other funding sources that have been deemed exchange transactions in applying SFFAS No. 7. While the overall insurance product is the same (e.g., deposit insurance), a potential conflict may exist on which revenue recognition, liability and disclosure requirements to apply (i.e., Exchange Transaction Insurance Programs versus Nonexchange Transaction Insurance Programs) from the ED.

This potential conflict may exist with other insurance programs where their enabling legislation allows funding by exchange and nonexchange transactions. Accordingly, additional clarity may be provided with a statement such as, "The majority source of funding designates an insurance program as an Exchange Transaction Insurance Program or Nonexchange Transaction Insurance Program."

Responses to Q4 and Q5 will be answered independently of this potential category discrepancy.

Q4. New standards were introduced (par. 26-43) for exchange transaction insurance programs other than life insurance. These programs will be required to recognize a liability for losses on remaining coverage. The liability for losses on remaining coverage has been separated from the liability for unpaid claims to address the uncertain nature of losses on contracts open beyond the end of the reporting period. Insurance programs must first use the expected cash flow model to estimate these future losses. However, there are various methods to estimate cash flows and probabilities. To the extent that a method explicitly or implicitly incorporates the characteristics of expected cash flow, then its use is consistent with this Statement. One member expressed concern in that expected cash flow may be too limiting to allow other methods currently in use to continue to be used for estimating future cash flow in. (See Basis for Conclusion par. A17)

a. **Do you agree or disagree that the recognition guidance for exchange transaction insurance programs other than life insurance (par. 27-39) is clear and appropriate? Please provide the rationale for your answer.**

b. **Would the expected cash flow approach (par. 35-37) prevent use of any methods you believe should be used? Please provide the rationale for your answer.**

c. **Would the measurement standard (par. 35-37) allow the method currently used by your entity to estimate future losses continue to be used? Please provide the rationale for your answer.**

d. **Do you agree or disagree with the disclosures for the exchange transaction insurance programs other than life insurance (par. 40-43)? Please provide the rationale for your answer.**

Response

NCUA agrees in concept with the revenue recognition model presented in the ED. The definition for this category appears to focus on revenue recognition concepts based on the existence of a contract with an expressed time period, as described in paragraphs 26 (“through contracts”) and 27 (“earned over the period of the contract”). This does not appear to be inconsistent with SFFAS 7, paragraph 36(d).

The expected cash flow approach proposed in paragraphs 35 – 37 should not hinder NCUA’s current approach to the estimation of its current or future credit union losses. For example, the Share Insurance Fund uses an internal econometric model that applies estimated failure and loss rates and takes into account the historical loss history, insuree risk ratings, insuree financial ratios, and other conditions. In addition, specific reserves are established for those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.

The proposed disclosures for exchange transaction insurance programs other than life insurance appear to be adequate. Based on our current GFFPR, we do not anticipate any substantial changes to the type of insurance program information presented in our GFFPR. NCUA welcomes the option to reference relevant notes rather than duplicate information provided in other areas that are necessary to comply with specific disclosure requirements in OMB Circular A-136, *Financial Reporting Requirements*.

Q5. New standards were introduced (par. 44–53) for nonexchange transaction insurance programs.

a. **Do you agree or disagree that the recognition guidance (par. 45-49) for nonexchange transaction insurance programs is clear and appropriate? Please provide the rationale for your answer.**

b. **Do you agree or disagree with the disclosures for the nonexchange transaction insurance programs (par. 50-53)? Please provide the rationale for your answer.**

Response

NCUA agrees with FASAB that revenue recognition standards currently prescribed by SFFAS 7 should be used for nonexchange transaction insurance programs. NCUA uses SFFAS 7 for revenue recognition for its FASAB reporting funds and believes that the current revenue recognition model is adequate.

The proposed disclosures for nonexchange transaction insurance programs appear to be adequate. The type and amount of insurance program information provided in the proposed disclosures for nonexchange transaction insurance programs appear sufficient to adequately provide information required to present an insurance program in the consolidated financial report of the U.S. Government, as listed in paragraph 69.

Q6. New standards were introduced (par. 54–68) for life insurance programs.

a. **Do you agree or disagree that the recognition guidance (par. 55-64) for life insurance programs is clear and appropriate? Please provide the rationale for your answer.**

b. **Do you agree or disagree with the disclosures for the life insurance programs (par. 65-68)? Please provide the rationale for your answer.**

Response

NCUA does not have any insurance programs that are life insurance programs. We note that the proposed standards for life insurance program appear consistent with proposed standards for the other two categories.

Q7. New disclosures were introduced (par. 69) for the consolidated financial report of the U.S. Government.

Do you agree or disagree with the disclosures applicable to the consolidated financial report of the U.S. Government (par.69)? Please provide the rationale for your answer.

Response

NCUA agrees with the new disclosures for the consolidated financial report of the U.S. Government. As noted in the FASAB's basis for conclusions, the required information will be provided to the Department of Treasury at a high level and drawn from disclosures already present in agency GPFFRs.

Q8. The Board proposes that the requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

Do you agree or disagree? Please provide the rationale for your answer.

Response

NCUA agrees with the effective date. NCUA would consider early application of this ED once issued if allowed by FASAB. NCUA does not believe that the standard will substantially change the content of its GPFFR to external financial statement users, but the standard may alter the overall format of the information currently presented in our agency GPFFR.

Again, we thank you for the opportunity to provide comments to this ED. If you have any questions regarding our response, please contact Chris McGrath at (703) 518-6520.

Sincerely,

P. Sherry

for Rendell L. Jones
Chief Financial Officer

OCFO/PS:td
SSIC 1670