



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** June 17, 2010
FROM: Chief Financial Officer **SUBJ:** FASAB adoption

ACTION REQUESTED: Board approval to adopt accounting standards promulgated by the Federal Accounting Standard Advisory Board for the Temporary Corporate Credit Union Stabilization Fund.

DATE ACTION REQUESTED: June 17, 2010

OTHER OFFICES CONSULTED: The Office of General Counsel and the Office of Examination and Insurance were consulted.

VIEWS OF OTHER OFFICES CONSULTED: All concurred

The purpose of this action is to request Board approval for the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) to adopt accounting standards promulgated by the Federal Accounting Standard Advisory Board (FASAB) effective as of June 30, 2009, the fund's creation date.

Background:

The, *Helping Families Save Their Homes Act of 2009*, created the Stabilization Fund, 12 U.S.C. 1790e. The purpose of the Stabilization Fund is to borrow funds from the U.S. Treasury to stabilize the corporate credit union system and to assess the credit union system to repay related borrowings over time.

By memorandum from General Counsel Fenner to Chief Financial Officer Woodson, dated June 23, 2009, the General Counsel reviewed accounting application questions deriving from §209(b) of the Federal Credit Union Act, 12 U.S.C. 1789(b). Specifically, the General Counsel's opinion addresses whether the Government Corporation Control Act (GCC Act) required the National Credit Union Share Insurance Fund (NCUSIF) to follow U.S. generally accepted accounting principles (GAAP). The General Counsel's opinion concluded that "section 105 of the GCC Act, as interpreted by the General Accounting Office, does not preclude NCUSIF from using an alternative set of accounting rules such as FASAB in preparing the NCUSIF's financial statements." While this conclusion addresses the NCUSIF, the same section of the Federal Credit Union Act is applicable to the Stabilization Fund because the NCUA Board is required "to administer the Stabilization Fund as prescribed by section 209," 12 U.S.C. 1790e(a).

By separate memorandum from General Counsel Fenner to Chief Financial Officer Woodson, dated May 12, 2010, the General Counsel confirmed that the Stabilization Fund is exempt from the Federal Credit Reform Act of 1990, 2 U.S.C. 661e(a). The exemption is from additional and complex federal reporting requirements primarily related to loan and guarantee programs.

With the creation of the Stabilization Fund, the NCUA Board has the opportunity to select the accounting standards that would be most appropriate for fulfilling the Board's stewardship responsibilities to the fund's stakeholders. A major function for effective stewardship is the timely communication of financial activities in a format that is clear and understandable to stakeholders.

The American Institute of Certified Public Accountants (AICPA) has designated the FASAB as the source of GAAP for federal reporting entities. As such, the FASAB is responsible for designating the GAAP hierarchy for federal reporting entities). FASAB's Statement of Federal Financial Accounting Standard No. 34, *The Hierarchy of Generally Accepted Accounting Principles* (SFFAS No. 34), requires the application of FASAB standards for federal entities, but also allows, in rare instances, application of Financial Accounting Standards Board accounting standards, commonly referred to as commercial accounting standards, to federal entities.

Reasons for adopting FASAB standards:

The following sets out the reasons for adopting FASAB standards for the Stabilization Fund:

- a) Clear financial reporting to NCUA's prime stakeholders – The prime stakeholders of the Stabilization Fund are Congress, the Office of Management and Budget (OMB), and the public.

The majority of federal entities reporting to Congress and OMB prepare FASAB financial statements. Accordingly, Congress and OMB are educated users of FASAB financial statements, familiar with the nuances and methods of evaluating programs presented therein.

Additionally, FASAB considered the public as significant users when it established the framework for the form and content of its financial statements. Accordingly, the FASAB financial statements address the needs of the public.

In reporting to our prime stakeholders in a format designed for them, we can promote complete, accurate, and transparent communication of the financial condition.

- b) Preferred standard for federal entities – FASAB is the body designated by the AICPA as the source of GAAP for federal reporting entities. SFFAS No. 34, at

paragraph 10, states “a federal entity that is preparing GAAP based general purpose financial reports for the first time should implement FASAB standards as FASAB is the preferred method of reporting for federal entities.” In rare instances, exceptions are allowed.

While the majority of NCUA’s current accounting practices align with FASAB standards, there are differences. For instance, there are two additional statements, the Statement of Changes in Net Position and Statement of Budgetary Resources.

OCFO’s professional accounting staff has limited FASAB experience and will be subject to a learning curve requiring training and/or external advisory resources. Staff will become responsible to ensure that appropriate processes are developed, implemented, and continuously monitored to enable auditable financial statements.

Whether or not the Stabilization Fund adopts FASAB standards, the financial issues in the corporate credit union environment may result in unforeseen and/or complex accounting and financial reporting issues requiring external advisory resources.

Recommendations:

Based on our review of the reasons for adopting FASAB standards, balanced against other factors as explained above, we recommend that the NCUA Board:

- 1) Adopt for the Stabilization Fund accounting standards promulgated by the FASAB retroactive to the date the Stabilization Fund was created; and
- 2) Set a budget of \$250,000 to establish accounting resources, policies, and processes for FASAB financial reporting and to review the applicability of adopting FASAB standards for other NCUA funds (i.e., Share Insurance Fund, Operating Fund, Central Liquidity Facility, and Community Development Revolving Loan Fund).