The following memo, which should be of interest to all credit unions, was issued to provide NCUA staff with guidance on the supervision treatment of Accounting Bulletin 09-2.

FROM: Director Melinda Love
Office of Examination and Insurance

SUBJ: Accounting Bulletin 09-2 Supervisory Treatment

DATE: April 3, 2009

This memorandum provides additional guidance on the supervisory treatment for Accounting Bulletin (AB) 09-2 and provides discussion on the Corporate Credit Union Stabilization Fund's (CCUSF) potential impact on accounting treatments.

Given the many critical issues you are examining for today, it is important that we put the new accounting bulletin into appropriate perspective from a supervisory standpoint. Supervisory treatment will be different for cash basis versus accrual basis credit unions.

<u>Credit Unions less than $10 million in assets and on the Cash Basis</u>

Credit unions currently using the cash basis of accounting may continue to do so for recognizing both the impairment and the premium on their books and call report. That means that they do not have to recognize the impairment and premium on their books until it is billed. In the interim, for our examination purposes only, examiners will make pro forma adjustments in the AIRES work papers just as for other non accrued expenses. Also until receipt of the NCUSIF billing later in the year any examination items relating to AB 09-2 would rise no higher than *Informal Management Discussion Items*.

<u>Credit Unions on the Accrual Basis</u>

Credit unions on the accrual basis should comply with the entries described in AB 09-2 on their books and call report unless they have accounting guidance from a licensed practitioner providing a different treatment. As stated in AB 09-2, the accounting guidance must be in writing and must state that it is in accordance with generally accepted accounting principles (GAAP). Exceptions to AB 09-2 should be documented in either *Informal Management Discussion Items* or at most an *Examiner's Finding*.

<u>Impact of CCUSF</u>

You may have been receiving questions regarding the impact of the CCUSF, if enacted by Congress, on the NCUSIF Deposit impairment. If enacted as recommended, the NCUSIF would transfer the costs of the Corporate Stabilization Program to the CCUSF. Currently, the NCUSIF is carrying a receivable for the 69 basis points impairment and the premium to be billed in September. The transfer of costs from the NCUSIF to the CCUSF would result in a pro-rata recovery by the NCUSIF on behalf of a federally-insured credit union of its' NCUSIF deposit. The credit union would record the deposit replenishment much as a recovery on a loan is booked. This would take the deposit back to the 1% and provide a .3 % of insured shares level of retained earnings to the NCUSIF. The vehicle to show this recovery will be the NCUSIF billing statement.

There are licensed practitioners who are viewing the NCUSIF Deposit as an investment rather than as a deposit to obtain services. In that view, any impairment write down now cannot be written back up at a later date. **We do not believe that is the appropriate GAAP treatment for the deposit.**

The American Institute of Certified Public Accountant's (AICPA) Statement of Position 01-06 addresses a federally-insured credit union's accounting for its NCUSIF deposit and premiums. The AICPA illustrative financial statements for credit unions list the NCUSIF deposit after "premises and equipment" and before "other assets" not as an investment. Consequently, it should not be considered an investment subject to other-than-temporary impairment charges. That means, that the NCUSIF deposit, as a refundable asset or receivable, can be written down for incurred losses or up for recoveries depending on Board actions to expend the fund or recover incurred costs at a later date.

If you have any questions, or need additional information, please contact your regional office.