World Council

October 26, 2020

Submitted electronically

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf, London E14 4HD
UK

Re: Comprehensive Review of the IFRS for SMEs Standard

Dear Sir/Madam:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on your Consultative Report on the *Comprehensive Review of the IFRS for SMEs Standard.*[1] Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 86,000 credit unions in 118 countries with USD 2.6 trillion in total assets serving 291 million physical person members.[2]

Credit unions are member-owned financial institutions that provide safe and affordable financial services to their members. They often have limited financial staff and resources because of their relatively small size (average EUR 20 million in total assets the European Union) and are typically run by volunteer boards and volunteer employees. This exacerbates the impact of any complex reporting requirements due to their small size and limited access to resources. Credit unions often have to rely on outside firms and vendors to provide solutions for their accounting needs.

For this reason, we continue to strongly urge the International Accounting Standards Board (IASB) to consider changes to the scope of the standard such that credit unions and other financial cooperative depository institutions can utilize the IFRS for SMEs Standard. We fully believe this can be accomplished without increasing the complexity of the standard and without significant difficulty in defining the group of entities that should be permitted to apply the IFRS for SMEs Standard.

Some credit unions—especially smaller institutions and those in developing countries—should be able to state their financials officially in conformity with *IFRS for SMEs* in order to help limit

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[1] International Accounting Standards Board, *Comprehensive Review of the IFRS for SMEs Standard* (January 2020); available at: https://cdn.ifrs.org/-/media/project/2019-comprehensive-review-of-the-ifrs-for-smes-standard/request-for-information-comprehensive-review-of-the-ifrs-for-smes-standard.pdf.
[2] World Council of Credit Unions, *2019 Statistical Report* (2019), *available at* https://www.woccu.org/documents/2019_Statistical_Report.

excessive compliance burdens on small credit unions, as well as to reduce the use of less stringent pro forma accounting systems at financial institutions in developing countries.

To that end, we attach hereto as Exhibit "A" results from our survey distributed to our member credit unions and Leagues in the Caribbean region to elicit the impact of the implementation of IFRS 9. Almost all responses reflected that due to the increase in the ALLL, the credit unions were considering or have seen a reduction of member interest rates on fixed term deposits, lower interest rate on loans to build the loan portfolio, and a likely reduction in dividends paid to members. Some indicated impact on their ability to grow the assets of the credit union and mentioned the impact on development and expansion projects. These results support the need to allow for an alternative that is more appropriately tailored to their size and complexity.

Specifically, Paragraph 1.3(b) of the IFRS for SME standard contains the word "Most" as follows to clarify that some, but not all, credit unions are publicly accountable as follows:

An entity has public accountability if:

> (a) . . .
>
> (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Most ~~This is typically the case for~~ banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks will meet this second criterion.

The replacement of "typically the case" with "most" in Paragraph 1.3(b) implies that some credit unions (but not "most") can be considered not "publicly accountable" and therefore their financial statements are eligible to be considered "conforming" to the *IFRS for SMEs* standard under Paragraphs 1.3 and 1.5. Paragraph 1.5 reads as follows:[3]

If a publicly accountable entity uses this IFRS, its financial statements shall not be described as conforming to the *IFRS for SMEs*—even if law or regulation in its jurisdiction permits or requires this IFRS to be used by publicly accountable entities.

Paragraphs 1.3(b) and 1.5 also affect application of *IFRS for SMEs* Paragraph 3.3, which states:[4]

An entity whose financial statements comply with the *IFRS for SMEs* shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with the *IFRS for SMEs* unless they comply with all the requirements of this IFRS.

The interrelationship between Paragraphs 1.3(b), 1.5, and 3.3 means that credit unions which apply *IFRS for SMEs* pursuant to national accounting interpretations will need to state whether or not they are "compliant" with *IFRS for SMEs.* This "compliance" determination likely

[3] IASB, *IFRS to SMEs* ¶ 1.5 (2009), *available at* http://www.ifrs.org/IFRS-for-SMEs/Pages/IFRS-for-SMEs.aspx.
[4] *Id.* at ¶ 3.3.

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depends on whether the credit union's accounting practitioner determines that the credit union is considered "publicly accountable" as defined by Paragraph 1.3(b).

Allowing practitioners to consider some credit unions to be officially *IFRS for SMEs* compliant is especially important in developing countries. The frequently pro forma accounting systems used in smaller or "micro" sized financial institutions in some developing jurisdictions often fail to recognize losses in an appropriate and timely manner and can therefore result in opaque accounting which does not reflect the institution's true financial position.

Adherence to an international standard like *IFRS for SMEs* that is scaled to the small size and limited complexity of these developing-country financial institutions has the potential to improve significantly the usefulness of these institutions' financial reports to credit union members, regulators, counterparties, and other stakeholders.

Similarly, accounting standards that are scaled to the complexity of a credit union's business activities or to its asset size are the norm in many jurisdictions, including in the Republic of Ireland, the United Kingdom, and the United States of America.

In Ireland and Great Britain, the Financial Reporting Council (FRC) has determined that credit unions and other private companies will be subject to the FRS 102 standard.[5] FRS 102 is based on *IFRS for SMEs* but has abandoned the "publicly accountable" concept and is more stringent than *IFRS for SMEs* in some respects, such as by requiring enhanced reporting requirements[6] for "exotic" financial instruments that are drawn from IFRS 9. Only publicly traded British and Irish companies will apply full IFRS.

We therefore urge further clarification regarding whether the financial statements of a credit union or other firm applying a standard that is based on *IFRS for SMEs* but that is more stringent in some respects, such as FRS 102, can be considered compliant with *IFRS for SMEs* under Paragraphs 1.5 and 3.3.

The United States of America also has a long record of credit unions following accounting regimes that are scaled to the size and complexity of the credit union's operations. Federally insured credit unions with less than US$ 10 million in assets are exempt from compliance with US GAAP and instead comply with less stringent regulatory accounting principles promulgated by the National Credit Union Administration.[7]

Further, the FASB has recently excluded all financial institutions (including credit unions) from the definition of "public business entity," as noted above, meaning that US credit unions are subject to US GAAP's private company standards instead of public company standards. In making the determination to exclude credit unions from the definition of "public business entity"

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[5] Financial Reporting Council, *FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland* (Mar. 2018), *available at* https://www.frc.org.uk/getattachment/69f7d814-c806-4ccc-b451-aba50d6e8de2/FRS-102-FRS-applicable-in-the-UK-and-Republic-of-Ireland-(March-2018).pdf.

[6] Financial Reporting Council, FRS 102, Paragraphs 34.17 through 34.22, *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (Mar. 2018) at Page 263 *available at* https://www.frc.org.uk/getattachment/69f7d814-c806-4ccc-b451-aba50d6e8de2/FRS-102-FRS-applicable-in-the-UK-and-Republic-of-Ireland-(March-2018).pdf.

[7] *See* National Credit Union Administration, *Accounting Manual* (2002), *available at* http://www.ncua.gov/Legal/GuidesEtc/Pages/Accounting-Manual.aspx.

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FASB stated as follows:[8]

> The Board discussed whether to include all financial institutions in the definition of public business entity on the basis of public accountability because financial institutions hold and manage financial resources for a broad group of individuals for investment purposes and act in a fiduciary capacity. That notion of public accountability is consistent with the decision reached by the IASB when it finalized its IFRS for SMEs. The Board rejected that alternative because of its view that public accountability applies to many regulated industries and should not be a factor in determining whether an entity is considered public for financial reporting purposes.

World Council urges clarifications or amendments to the definition of "fiduciary capacity" in Paragraph 1.3(b) to clarify that allowing some credit unions—especially smaller institutions and those in developing countries—to be considered *IFRS for SMEs* compliant is sound public policy. A revised Paragraph 1.3(b) will help limit excessive compliance burdens on small institutions, as well as likely increase the usefulness of accounting statements prepared by small financial institutions in developing jurisdictions.

Even further, we would urge the IASB to review the jurisdictions referenced in this letter to determine why these jurisdictions were able to exclude public accountability in defining the scope of their equivalent SME standards to determine whether the same approach could be adopted in the IFRS for SME Standard. Alternatively, we urge the provision of and exclusion or amendment that will allow national level prudential regulators to exclude credit unions from their interpretation of the definition of "publicly accountable" in general, as the FASB has done under US GAAP with respect to all financial institutions that are not publicly traded.

Thank you for the opportunity to provide comments on the IASB's *Comprehensive Review of the IFRS for SMEs Standard.* If you have any questions, please feel free to contact me at +1 850-766-5699 or at aprice@woccu.org.

Sincerely,

Andrew T. Price
Sr. Vice President of Advocacy
World Council of Credit Unions

[8] FASB, *Definition of a Public Business Entity*, Accounting Standards Update No. 2013-12, ¶ BC25 (Dec. 2013), *available at* http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FNewsPage&cid=1176163702686.

Exhibit "A"
IMPLEMENTATION OF IFRS 9
Survey Results

The following represents the results of a survey distributed to credit unions and Leagues in the Caribbean region to elicit the impact of the implementation of IFRS 9. Almost all responses reflected that due to the increase in the ALLL, the credit unions were considering or have seen a reduction of member interest rates on fixed term deposits, lower interest rate on loans to build the loan portfolio, and a likely reduction in dividends paid to members. Some indicated impact on their ability to grow the assets of the credit union and mentioned the impact on development and expansion projects. The following represents the findings of the survey reports.

AFFILIATE TERRITORY	Number of Credit Unions	Number Of CREDIT UNIONS COMPLIANT	COMMENTS	Individual Credit Union Impact of IFRS 9	Individual Country Impact of IFRS 9
Antigua & Barbuda	6	4	7TH Day Adventist Financials late. Christian CU v small & just registered		
Barbados	31	8	25% compliant as reported by League manager		IFRS 9 accounting will increase the Allowance for Loan and Lease Losses (ALLL) by a range of 1.25 to 4 percentage points. Two societies have seen significant decreases in their capital, one declined by 2 percentage points and the other declined from 7% to 1.5%. Several noted decreased deposit rates between 50 to 100 basis points.
Belize	9	1	Update: Survey received and will be forwarded to CCCU	A credit union in asset size $33,826,000 reported an increase of	

			soonest.	$32,902.32 in their ALLL reserving. It impacted retained earnings at the credit union. They reduced interest rates on deposits, lowered rates on loans, and paid lower dividends to members.	
Bermuda	1		Still using GAAP		
Cayman Islands	1	1	-		
FEKOSKAN (Curacao)	7	1	Only the largest CU the ACU because it was imposed by the Central Bank		In Curacao with assets of approximately US $222 million it is estimated that the impact based on 2017 financials will be approximately US $6 million.
Commonwealth of Dominica	6	5	The 6th CU, West Coast CU was closed on that day.		
Grenada	10	10	-		
Guyana	25	None			
Jamaica	26	26	-		The increase in ALLL (for 23 credit unions) as of January 1, 2018 was J$1.18 billion (US$9.16 million), which is an increase of 122% when compared with the IAS 39 requirements. The increase in allowance for investments was J$98.18 million (US$764,000). The impact on retained earnings was a decrease of J$1.11 billion (US $8.64 million). Some

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					credit unions had to curtail some of their strategic initiatives to give priority to adopting IFRS 9. Distribution of dividends to members was impacted as some credit unions had insufficient retained earnings to offset the increase in allowance as of January 1, 2018.
Montserrat	1	1	-		
St. Kitts & Nevis	4	4			
St. Lucia	16		Update: League's personnel indicated that a letter will be sent shortly to explain the situation.		
St. Vincent & the Grenadines	4	4	All 4 implemented but only 1 responded to survey	One credit union reported reduced capital in the amount of XCD 434,667. They noted it affected their ability to meet statutory obligations and took significant manpower and resources to adopt the new accounting structure. They were required to obtain outside assistance to comply. This all took away from other development/expansion projects. One credit union reported	

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				an increase in 18% of their ALLL. Their ability to declare a dividend was impacted.	
Trinidad & Tobago	56	34	League Manager reported some have implemented, some in the process and some haven't. Out of the 50 + CUs affiliated to the League, approx.. 60% are IFRS9 compliant.		
Anguilla (Liberty Credit Union)	1	1			
TOTAL	**204**	**66**			

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