Institute of Chartered Accountants of Barbados
Guidance Document on the use of IFRS for SMEs by credit unions in Barbados

Approved by Council on June 11, 2019

Summary

The Institute of Chartered Accountants of Barbados supports the view that there is a rebuttable presumption that local credit unions with total deposits less than $4 million do not hold assets in a fiduciary capacity for a broad group of outsiders, and therefore do not have public accountability as defined in the IFRS for SMEs. Such credit unions would therefore be permitted, but not required, to use the IFRS for SMEs in the preparation of their annual financial statements. It is recommended that where any such credit union prepares its financial statements in accordance with the IFRS for SMEs that they be guided by the disclosure requirements of FRS 102 applicable to credit unions.

Background

The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) is a simplified version of full International Financial Reporting Standards (IFRS) which has been developed for entities that are not publicly accountable. The IFRS for SMEs is based on full IFRS with modifications to reflect the needs of users of SMEs' financial statements and cost-benefit considerations.

In developing the Standard the International Accounting Standards Board (IASB) Standard acknowledged that the circumstances of SMEs can be different from those of larger, publicly accountable entities in several ways, including:

(a) The users of the entity's financial statements and their information needs;
(b) How the financial statements are used by those users;
(c) The depth and breadth of accounting expertise available to the entity; and
(d) SMEs' ability to bear the costs of following the same standards as the larger, publicly accountable entities.

Under paragraph 1.3 of Section 1 of the SME standard, an entity has public accountability if:

(1) Its debt or equity instruments are traded in a public market; or

(2) It holds assets in fiduciary capacity for a broad group of outsiders as one of its primary business.

The IASB has clarified that some credit unions would be permitted to use the IFRS for SMEs, once they do not meet the second criterion above. However as the IASB has not published detailed interpretative guidance, whether a specific credit union is eligible to use the Standard is a matter for professional judgment.

Eligibility to use the Standard must be considered on a case by case basis and particularly in the context of whether a specific credit union hold assets in a fiduciary capacity (ie. deposits) for a broad group of outsiders.

The Standard itself does not define the terms “broad group” and “outsiders” but consideration may given to indicators such as the size of the credit union’s deposit base and number and composition of its depositors, whether the depositors are members of the credit union, and whether the depositors are involved in the management of the credit union or have full access to all required financial information.

Based on data received from the Barbados Financial Services Commission and the Barbados Cooperative & Credit Union League Limited, at December 31, 2018 (or closest year end thereto):

Number of credit unions	Number of members	Total members	Total assets	Total deposits
24	< 1,000	10,387	$136,515,631	$81,983,378
6	Between 1,000 and 6,000	13,994	$303,302,338	$91,756,683
3	> 20,000	181,433	$1,982,290,235	$1,607,165,713
33		205,814	$2,422,108,204	$1,780,905,774

Total credit union assets represent 8% of total financial sector assets (source: Central Bank of Barbados Financial Stability Report 2017) and the vast majority of these assets are held by the largest three credit unions as shown above.

10 credit unions have an open bond, including the largest 4 credit unions, which collectively account for 186,850 members or about 91% of total credit union membership. Where the credit union has a closed bond, where specific criteria must be met to be admitted as a member and where deposits are only

taken from members, this may be taken as an indicator that the credit union does not hold assets for a broad group of outsiders.

Use of the IFRS for SMEs by credit unions is supported by the World Council of Credit Unions (WOCCU) based on that organization's March 3, 2014 comment letter to the IASB (see attached):

> "We agree that 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 excessive compliance burdens on small credit unions…"

WOCCU goes on to state:

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

Some financial institutions in the UK, including credit unions, are permitted to use FRS 102, which is the UK equivalent of the IFRS for SMEs. In order to achieve this, the restriction on public accountability was removed from FRS 102. Financial institutions that use FRS 102 in the preparation of their financial statements are required to comply with the specific disclosure requirements in Section 34 of FRS 102 (see attached extract), and with specific capital adequacy requirements of Bank of England Prudential Regulation Authority (see http://www.prarulebook.co.uk/rulebook/Content/Chapter/320142/10-10-2018).

In supporting this decision, the Association of British Credit Unions wrote (see

https://www.frc.org.uk/getattachment/980d89a3-f2b5-4fd5-8de3-49cdc24834f5/CL67-ABCUL;.aspx):

> "Public accountability" would have imposed upon the credit union sector an entirely inappropriate and disproportionate set of accounting standards which, we calculate, would have cost the credit union sector between £6 million and £7.5 million annually; this despite not delivering any material improvement in credit union financial reporting and instead producing even less intelligible accounts for the lay member".

The Institute believes that similar factors apply to the credit union movement in Barbados. Pending further discussion on the matter, the Institute has no objections to a rebuttable presumption that local credit unions with deposits less than $4 million do not have public accountability as it would be reasonable to conclude that such a credit union does not hold deposits for a broad group of outsiders. This is potentially an interim measure, as a specific size threshold is not implicit in the definition of public accountability. The threshold of $4 million is based on the existing audit threshold in the Companies Act of Barbados.