March 3, 2014

Filed electronically on www.ifrs.org
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: *IFRS for SMEs: Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities* Exposure Draft ED/2013/9

Dear Sir or Madam:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the International Accounting Standards Board's (IASB) proposed limited amendments to *IFRS for SMEs*, which the IASB issued in October 2013.[1] World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are 56,000 credit unions in 101 countries with approximately US$ 1.7 trillion in total assets.

Credit unions are cooperative depository institutions that accept share subscriptions and deposits from their members but are not publicly traded. The average sizes and technical capacities of credit unions vary significantly, with institutions ranging in size from as small as only a few thousand US dollars in assets to over US$ 55 billion in assets. The level of credit unions' size and technical capacity also varies based on jurisdiction; for example, the 125 credit unions in Liberia have total combined assets of only US$ 972,000,[2] while the over 6,700 credit unions in the United States have approximately US$ 1.1 trillion in total assets.[3]

Summary of World Council's Comments:

- World Council supports the proposed amendments to the definition of "fiduciary capacity" in Paragraph 1.3(b) and believes that the amended definition, if finalized as proposed, is sufficiently clear for purposes of the *IFRS for SMEs* standard's application to credit unions. We urge the IASB, however, to follow the approach taken by the Financial Accounting Standards Board (FASB) under US generally accepted accounting principles (US GAAP) and exclude credit unions and other non-publicly traded financial institutions from the definition of "publicly accountable."

- World Council strongly supports the myriad "undue cost or effort" exemptions proposed in the Exposure Draft. These proposed revisions will help reduce compliance

[1] http://www.ifrs.org/IFRS-for-SMEs/ED-October-2013/Pages/Exposure-Draft-and-Comment-letters.aspx
[2] World Council of Credit Unions, *2012 Statistical Report* (2013), *available at* http://www.woccu.org/publications/statreport.
[3] Credit Union National Association, *Monthly Credit Union Estimates* (Jan. 2014), *available at* http://www.cuna.org/Research-And-Strategy/Credit-Union-Data-And-Statistics/.

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burdens on small credit unions as well as likely help facilitate mergers to resolve troubled institutions subject to the *IFRS for SMEs* standard.

Question 1—Definition of 'fiduciary capacity'

World Council supports the proposed amendments to the definition of "fiduciary capacity" in Paragraph 1.3(b) and believes that the amended definition, if finalized as proposed, is sufficiently clear for purposes of the *IFRS for SMEs* standard's application to credit unions.

We urge the IASB, however, to go further and exclude credit unions from the definition of "publicly accountable" similarly to how the FASB has excluded credit unions from the definition of "public business entity" under US GAAP.[4]

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, as well as to reduce the use of less stringent pro forma accounting systems at financial institutions in developing countries.

Specifically, amended Paragraph 1.3(b) would read 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:[5]

> 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:[6]

> 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.

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

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 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.[7] 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 for "exotic" financial instruments that are drawn from IFRS 9. Only publicly traded British and Irish companies will apply full IFRS.

We request 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.[8]

[7] Financial Reporting Council, *FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland* (Mar. 2013), *available at* https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRS-102-The-Financial-Reporting-Standard-applicabl.aspx.

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

Further, the FASB has recently excluded all US 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" FASB stated as follows:[9]

> 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 supports the proposed amendments to the definition of "fiduciary capacity" in Paragraph 1.3(b) and believes that allowing some credit unions—especially smaller institutions and those in developing countries—to be considered *IFRS for SMEs* compliant is sound public policy. 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.

We urge the IASB, however, to exclude credit unions from 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.

Question 3—Other proposed amendments to the *IFRS for SMEs*

World Council strongly supports the proposed expansions of the "undue cost or effort" exemptions, including the following specific "undue cost or effort" provisions:

- The proposed general discussion of "undue cost or effort" exemptions in Paragraphs 2.14A, 2.14B, and 2.14C;
- The proposed addition of an "undue cost or effort exception" for financial instrument valuation in Paragraphs 2.47, 12.8, and 12.9;
- The proposed "undue cost or effort" exemptions for measuring investments in equity instruments at fair value in Paragraphs 11.4-11.14 (c), 11.27, 11.32, and 11.44; and
- The proposed approaches to determining the fair value of intangible assets and contingent liabilities for business combinations in Paragraph 19.15.

The "undue cost or effort" exemptions are likely to help reduce accounting compliance burdens on small credit unions employing *IFRS for SMEs* or standards derived from *IFRS for SMEs*. In

[9] 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.

addition, these "undue cost or effort" exemptions are likely to help reduce the complexity of mutual business combination accounting.

This is especially true in the case of "supervisory" business combinations where a well-capitalized credit union acquires a troubled credit union in order to resolve the problem institution and protect the acquiree's members, their savings deposits, and the governmental savings guarantee fund and/or stabilization fund.

The undue cost or effort exemptions are likely to reduce the cost of supervisory business combinations both in terms of the costs of the merger to the acquirer of a small problem credit union, as well as in terms of likely reducing the amount of state assistance needed from the applicable savings guarantee fund or stabilization fund to facilitate the acquisition.

Conclusion

Thank you for the opportunity to comment on the IASB's limited amendments Exposure Draft of *IFRS for SMEs*. If you have questions about our comments, please feel free to contact me at medwards@woccu.org or +1-202-508-6755.

Sincerely,

Michael S. Edwards
VP and Chief Counsel
World Council of Credit Unions