Association of British Credit Unions Limited

Jenny Carter
Financial Reporting Council
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Dear Jenny,

Triennial review of UK & Ireland accounting standards

We appreciate the opportunity to respond to this consultation. The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales. Out of the 323 credit unions which choose to be a member of a trade association, approximately 65% choose to be a member of ABCUL.

Credit unions are not-for-profit, financial co-operatives owned and controlled by their members. They provide safe savings and affordable loans. Some credit unions offer more sophisticated products such as current accounts, ISAs and mortgages.

At 30 June 2016, credit unions in Great Britain were providing financial services to 1,281,270 people, including 136,023 junior savers. The sector held more than £1.43 billion in assets with more than £781 million out on loan to members and £1.22 billion in deposits.[1]

Credit unions work to provide inclusive financial services has been valued by successive Governments. Credit unions' participation in the Growth Fund from 2006 – 2011 saw over 400,000 affordable loans made with funding from the Financial Inclusion Fund. Loans made under the fund saved recipients between £119 million and £135 million in interest payments that otherwise would have been made to high-cost lenders. The DWP has contracted ABCUL to lead a consortium of credit unions under the Credit Union Expansion Project, which is investing up to £38 million in the sector and aims to make significant steps towards sustainability.

Response to the consultation

We limit our comments in this response to the proposals around incorporating IFRS 9 into FRS 102. For credit unions, as savings and loans co-operatives, the implications of the impairment requirements in IFRS 9 in particular could be profound in terms of increased cost and complexity vis a vis provisioning procedures.

[1] Figures from unaudited quarterly returns provided to the Prudential Regulation Authority

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For all British credit unions, the standard calculation of expected loan losses under IFRS 9 would represent a significant new cost burden to the credit union which, we argue, would be disproportionate to any benefit that such calculations are likely to yield. The vast majority of credit unions are engaged in a simple savings and loans model on a localised level and do so in many cases with a social mission of making safe, regulated savings and affordable sources of credit available to those in society who find difficulty in accessing such services elsewhere from mainstream, affordable sources. As such, credit unions are less able to absorb new costs. Similarly, as local entitites accountable only to their membership, we believe that the benefits of such a model would be very limited, particularly given the lay-readership of any financial statements produced by the credit union.

On this basis, we are encouraged by the suggestion in the consultation document that the FRC is minded not to apply the full IFRS 9 requriements to FRS 102 but only to a sub-set of financial institutions thereunder. The FRC's stated preference is to apply for other users of FRS 102 an approach based on the simplified approach appearing in IFRS 9. Another option is also suggested whereby the majority of FRS 102 users are permitted to continue to use historical loss calculations in respect of impairment, rather than expected loss models, with only certain financial institutions required to apply the full IFRS 9 model.

With regard to this suggested direction of travel we would make three general points.

Firstly, we are strongly of the view that the model of financial asset impairment calculation adopted must represent a significant simplification of the model under IFRS 9. Therefore, we would prefer the FRC to pursue its third option – that of no change for most FRS 102 users – as this represents the simplest approach for smaller users of the standard. Failing that, at the very least, FRS 102 must adopt a simplified model for credit union users as specified under the preferred option.

Secondly, it is imperative that the dividing line between those users of FRS 102 that are required to adopt impairment models akin to IFRS 9 and those that are permitted to use a simplified approach (of whichever kind) must be drawn such that credit unions are among those categories of institution which are able to adopt the simplified approach. Credit unions are small instititutions accountable to their lay-membership who own the credit union as users of its services. They are regulated by the PRA which sets its own requirements as far as provisioning for doubtful debts is concerned. These are prescriptive and simple. We therefore feel there is no tangible benefit to be had from applying the full IFRS 9 standard to credit unions which will increase costs significantly while making credit union accounts less accessible.

Finally, we also take this opportunity to express some concern at the lack of clarify as regards the proposed simplified approach to IFRS 9 which is alluded to in the description of the FRC's preferred approach to applying IFRS 9 to FRS 102. It is not clear to us what is meant by this simplified approach having reviewed the IFRS 9 documentation from July 2014. We would appreciate if, in responding to this consultation, the FRC might make it clear what is being referred to here and provide more detail as to how it intends this to apply in practice to credit unions.

We would be happy to discuss this further should you wish to.

Yours sincerely

Matt Bland - Head of Policy & Communications