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IRELAND
Irish League of Credit Unions

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Mr. Peter Godsall,

ACCOUNTING STANDARDS BOARD,

5th Floor, Aldwych House,

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London,

WC2B 4HN

29th January 2010

Policy Proposal: The future of UK GAAP

Dear Mr Godsall,

The Irish League of Credit Unions (ILCU) has considered the Accounting Standards Board's (ASB) Consultation Paper 'Policy Proposal: The future of UK GAAP' and is pleased to respond to the Consultation Paper on behalf of its member credit unions.

The ILCU represents the interests of a total of 505 credit unions in Ireland, (402 credit unions in the Republic of Ireland and 103 credit unions in Northern Ireland). Membership of the ILCU is open to every credit union in Ireland. The ILCU promotes the credit union idea and ethos, represents affiliated credit unions with Government, the EU and other agencies and provides central services to those credit unions.

In our role of representing Irish credit unions we welcome the ASB's initiative and commitment to strengthening financial reporting requirements in Ireland and the UK, to offer higher levels of transparency and accountability. However, the ILCU, while recognising the proposed definition of 'public accountability' and acknowledging the fact that credit unions will typically be considered to be 'publicly accountable', would like to bring to your attention a number of concerns about the proposal that all publicly accountable entities prepare financial statements in accordance with EU adopted International Financial Reporting Standards 'IFRS' for financial periods beginning on or after 1 January 2012.

Representatives of the ILCU attended the event hosted by Chartered Accountants Ireland, in conjunction with the Consultative Committee of Accountancy Bodies in Ireland (CCAB-I), with approximately 400 attendees in Dublin on the 9th December 2009 at which the ASB's proposals on the future of Irish and UK GAAP and the role of IFRS therein were discussed. We would like to reiterate the high level of support among the attendees at the meeting for excluding the majority of credit unions from the requirement to prepare their financial statements under EU adopted IFRS, and recognition of the burden that such a requirement would impose on credit union boards of directors without generating equivalent additional benefits for users of credit union financial statements.

By way of background, the credit union movement in Ireland dates from the 1950's. A credit union is an organisation, owned by its members, operating as a 'not for profit' financial co-operative allowing members to save and lend to each other at a fair and reasonable rate of interest. Credit unions have as their objective the use and control of members' savings for their mutual benefit. Deposits and loans are transacted among members only. A common bond defines the area within which a credit union operates and the factor that unites all members of a credit union. This mutuality is one of the significant characteristics which distinguish credit unions from other financial institutions.

The ILCU currently represents 402 credit unions in the Republic of Ireland. The average savings (combined shareholding and deposits) per member in the Republic of Ireland is €4,026 and the average loan per member is €8,933. The ILCU represents 103 credit unions in Northern Ireland. The average savings per member in Northern Ireland is £1,916 and the average loan per member is £3,451.

In every respect the vast majority of credit unions are typically very small and often rural organisations. On average the credit unions that we represent employ approximately 9 staff, with approximately 19 additional volunteers involved in the day to day running of the credit union. For financial years 2008/09 the average total income of the credit unions in the Republic of Ireland that we represent was €1.4 million and £460k for the Northern Ireland Credit Unions (see tabular analysis below).

Turnover		Number
Republic of Ireland		
Total income less than €1 million		235
Income €1-€2 million		87
Income €2-€5 million		63
Income €5 million+		17
Average Turnover	€1,361,326	402

Turnover		Number
Northern Ireland		
Total income less than £1 million		94
Income £1-£2 million		6
Income £2-£5 million		3
Income £5 million+		0
Average Turnover	£459,558	103

On the basis of employee numbers and total income, by analogy to the Irish Companies Acts, the majority (95%) of the credit unions in the Republic of Ireland that ILCU represents would meet the definition of small companies under the criteria laid out in the Irish Companies (Amendment) Act 1986. (Credit unions in the Republic of Ireland are not subject to the Irish Companies Acts.) Without the reference to 'deposit-taking entities' within the ASB's definition of 'public accountability' ILCU believes that the vast majority of our member credit unions would be entitled to prepare their financial statements in accordance with the ASB's Financial Reporting Standard for Smaller Entities, based on the ASB's proposed three tier structure.

Credit unions hold assets in a fiduciary capacity for their members, and not for a broad group of outsiders and therefore would typically not meet the IASB's definition of 'public accountability'.

The purpose of this letter is to highlight areas of the proposals that ILCU feels impact directly on the credit unions that we represent by providing responses to the questions within ASB's Consultation Paper that are directly applicable to credit unions.

Responses to specific questions in the consultation paper

Question 1: *Which definition of Public Accountability do you prefer; the Board's proposal (paragraph 2.3) or the current legal definitions (paragraph 2.5)?*

Section 2.3 (ii) defines an entity as publicly accountable if

"it is a deposit-taking entity and/or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities broker/dealer, mutual funds or investment banks."

Credit unions by their co-operative nature are non-listed entities and only accept deposits from member-owners who are defined by a common bond, for example occupation, residence in a particular locality or employment with a particular employer. Whilst acknowledging that the deposit-taking activities of credit unions mean that credit unions would be included in the ASB's definition of public accountability, we believe that the co-operative, 'not for profit' and small nature of credit unions means that the majority of credit unions should and could justifiably be identified as an exception to the ASB's definition of public accountability and subjected to the financial reporting requirement of Tier 2 of the ASB's proposed 3 tier structure.

Furthermore, credit unions are not banks or credit institutions. The First Council Directive defines a credit institution as *"an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account."* Credit unions do not deal with *the public.* The following significant characteristics differentiate credit unions from other financial institutions, and support the premise that the vast majority of credit unions should be excluded from the scope of Tier 1 within the ASB proposals;

- Democratic control – credit union members enjoy equal rights to vote,
- Mutuality – business is transacted among members only,
- Common bond – the common bond is the factor that unites all members of a credit union,
- Volunteer operation – credit unions boards are managed and operated by elected volunteer directors,

- Not-for-profit – credit union services are directed towards improving the economic and social well being of all members,
- Operating limits - statutory limits apply to shareholding, deposits, loans, interest on loans, and dividends, loans are granted on the basis of a savings record and strict statutory criteria apply in respect of withdrawal of savings where there is an outstanding loan liability,
- Restriction on investments – a credit union may only make investments out of surplus funds and the nature of instruments that a credit union can invest in are also restricted,
- Cohesion and loyalty – the overall policy of the credit union is determined through a democratic process, and
- Regulation – operating and procedural rules apply to credit unions (see further details below).

To clarify, ILCU believes that credit unions should be excluded from the ASB's definition of 'public accountability' and included in Tier 2 of the proposals. ILCU believes that credit unions should be allowed to prepare their financial statements in accordance with IFRS for SMEs, with a voluntary option on a credit union by credit union basis to prepare their financial statements in accordance with EU adopted IFRS.

Given their nature of a credit union's operations, inclusion of a typical credit union in Tier 2 of the ASB's proposals would ensure that the measurement criteria would be appropriately aligned to IFRS without the requirement for extensive disclosures which would be of little or no benefit to our members.

***Question 2:** Do you believe that all entities that are publicly accountable should be included in Tier 1? If not, why not?*

ILCU appreciates the ASBs attempts at simplification of the proposed tier system, with the inclusion of all publicly accountable entities within Tier 1 of the proposed three tier structure. However, ILCU is of the opinion that further consideration with regard to particular entity circumstances and size needs to be included within the definition of public accountability, and an exemption included within the definition for entities such as credit unions that are small, non-complex and 'not for profit' by their nature.

For the reasons and characteristics outlined above, the vast majority of credit unions are by their nature different from other financial institutions, listed entities and publicly liable entities. As previously mentioned the majority of credit unions, while not subject to the Irish Companies Acts, would satisfy the definition of 'small' under Irish company law.

We acknowledge that preparation of financial statements in accordance with EU adopted IFRS, which would include compliance with IFRS 7 on disclosures relating to financial instruments, may provide members with additional information on a credit union's financial risk management policies and procedures, and operations. However, it should be noted that credit unions, notwithstanding the fact that credit unions on an individual basis are small in nature, are subject to detailed regulatory requirements. Credit unions in the Republic of Ireland are regulated by the Registrar of Credit Unions, a statutory officer within the Irish Financial Regulator. All credit unions affiliated to the ILCU must adopt Standard Rules, which are registered under the Credit Union Act by the Registrar. The Department of Enterprise, Trade and Investment operate the regulatory function for credit unions in Northern Ireland.

In conclusion, ILCU believes that credit unions should be included within Tier 2 of the ASB's proposed framework for financial reporting. ILCU believes that preparation of a credit union's financial statements in accordance with IFRS for SMEs would achieve the ASB's objectives for transparent and effective financial reporting, enabling effective communication of a credit union's financial performance and standing, while allowing members to gain an understanding of the financial health of the credit union. ILCU believes that the preparation of financial statements in accordance with IFRS for SMEs, together with appropriate regulation, would provide a high level of transparency and information to credit union members, and achieve high-quality financial reporting for all credit unions.

Question 15: *If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as appropriate.*

As indicated in 1.8 (i) and (ii) the proposals aim to improve financial reporting as:

(i) *"Reporting arrangements will be simplified by having more targeted and proportionate reporting requirements based on the nature of an entity's accountability obligations and its size",* (ii)*"basing UK GAAP on IFRS provides a consistent basis for preparing financial reporting and also reduces the burden associated with understanding and complying with differences in reporting requirements and interpretations of accounting principles. There are also advantages in terms of accounting education and professional development of accountants and auditors."*

Based on the ASB's proposals inclusion of credit unions within the definition of 'public accountability' would require compliance by credit unions with the reporting requirements of EU adopted IFRS.

Credit unions generally do not invest in complex financial instruments, use derivatives, enter into business combinations, enter into share based payment transactions or hold investments in subsidiaries.

Preliminary analysis by the ILCU indicates that, for credit unions, from the perspective of recognition and measurement there would be very little difference between preparation of financial statements in accordance with full IFRS and IFRS for SMEs. However, ILCU believes that the additional disclosure requirements of IFRS (in particular IFRS 7) would lead to a significant cost increase from both a monetary and time perspective, as a result of the need for the adaption of reporting systems and accumulation of information to ensure compliance with the disclosure requirements of IFRS 7.

ILCU also believes that it is pertinent that the members and users of a credit union's financial statements are individuals and not corporate bodies, and due to the limits on shares and deposits per member, regulation by the Financial Regulator and the democratic process for election to the board of directors, transparency and investor/member confidence is currently achieved without a need for extensive additional disclosure within a credit union's financial statements.

ILCU, whilst agreeing with the ASB ethos, believes that compliance with all the disclosure requirements of full IFRS is not required to present transparent and understandable financial statements for a credit union. Compliance with full IFRS, as opposed to IFRS for SMEs would, in our opinion, not offer improved comparability and understandability of financial reports for the user/members of credit unions.

In conclusion, ILCU believes that the cost to credit unions of complying with full IFRS would outweigh any benefits that compliance with full IFRS may provide.

Conclusion

The ILCU would strongly encourage the ASB to consider the aforementioned points in its deliberations in relation to the future of UK GAAP. ILCU believes that credit unions should be appropriately excluded from the ASB's definition of public accountability and included within Tier 2 of the ASB's proposed framework for the future of financial reporting in the UK and Ireland.

ILCU would welcome an opportunity to participate in the development of the ASB's proposals and would be very keen to meet with the ASB to discuss the proposals, the content of our letter and the Credit Union movement in Ireland.

Should you wish to discuss the comments above please contact our financial controller Ed Farrell at efarrell@creditunion.ie or on 00-353-1-6146940.

Thank you for your consideration.

Yours Sincerely,

Kieron Brennan

Kieron Brennan

Chief Executive Officer