World Council

March 7, 2023

Submitted electronically via: IFRS Website

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

Re: Exposure Draft IFRS for SMEs® Accounting Standard

Dear Sir/Madam:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on IFRS' Exposure Draft for *IFRS for SMEs* Accounting Standard (Exposure Draft)[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 87,000 credit unions in 118 countries with USD 3.4 trillion in total assets serving 393 million physical person members.[2]

Based on concerns the IASB received regarding its definition of "public accountability", World Council generally supports the direction of the amendments made to 1.3–1.4 of the IFRS for SMEs Accounting Standard (Standard), but would urge more clarity so that the determination of "public accountability" for member-owned, not-for-profit organizations such as credit unions fall within the scope.

The questions for respondents in the Exposure Draft states as follows:

> "In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability:
>
> (a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.
>
> (b) the users in (a) depend primarily on external financial reporting as their means of obtaining

[1] International Accounting Standards Board; Exposure Draft IFRS for SMEs® Accounting Standard; (September 2022); available at: https://www.ifrs.org/content/dam/ifrs/project/2019-comprehensive-review-of-the-ifrs-for-smes-standard/exposure-draft-2022/ed-2022-1-iasb-ifrs-smes.pdf.
[2] World Council of Credit Unions; 2021 Statistical Report; (2022); available at: https://www.woccu.org/our_network/statreport.

financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves."[3]

World Council made specific comments on 1.3 in response to the consultative report on the *Comprehensive Review of the IFRS for SMEs Standard*[4], requesting clarity to determine whether credit unions fall under the definition of "publicly accountable", and therefore welcome the clarifying language included in the Standard. We believe these amendments add some additional discretion and enable a national level authority to make a determination of whether an entity is publicly accountable. We, however, request additional illumination on the above language in 1.3A, specifically if only one or both paragraphs (a) and (b) must apply in order to be subject to the "public accountability" definition. It would be useful to add either and "and" or "or" after paragraph 1.3A(a). An "and" would bring clarity as to the appropriate application of both paragraphs.

Further, we reiterate our request that the IASB reevaluate and narrowly define "fiduciary capacity", as stated in Paragraph 1.3(b) of the Standard, so that its denotation excludes smaller, less complex financial institutions that should have an opportunity to benefit from the Standard. The term "fiduciary capacity" has broad implications for small financial institutions that provide advantages to underserved communities, and the term can be interpreted to include unintended institutions, which when applied, can contribute the detriment of those institutions the Standard aims to support.

The definition of "high degree of outside interest" standard contained in paragraph 1.3A may also prove difficult to interpret for the credit union industry due to its ownership structure (member-owned not-for-profit). It may result in a bifurcation of the industry with determinations having to be made on a case-by-case basis of whether a particular credit union attracts a "high degree of outside interest". We believe due to credit union ownership structure, with most jurisdictions allowing access to financial records by virtue of membership status and some with access to "call reports", provides financial reporting beyond that contemplated by the IFRS standard. We believe a credit union member would not fall under the category of "outside interest", therefore, most credit unions should not fall under the category of "publicly accountable". The characterization that "often" credit unions will meet the criteria based on the ownership structure should be revisited.

Lastly, we urge the IASB to include language in the Standard that will permit national-level regulators and public accounting authorities to exclude credit unions from the definition of "publicly accountable" and allow for use of the IFRS for SME standards. For example, the U.S. based Financial Accounting Standards Board (FASB) has already taken these steps by exempting all financial institutions that are not publicly traded. Credit unions are not-for-profit, member owned entities that not only provide financial services to underserved and underbanked communities but offer competitive rates that allow their members to access financial products that are ordinarily unobtainable. This is a valuable contribution to the objective of financial inclusion. This is particularly prescient in developing countries where pro form accounting systems are imposed without regard for the size and complexity of the institution subject to the accounting standard. Allowing credit unions to state their financials in conformity with the IFRS for SME standard will not only reduce compliance burdens and provide proportionality but will likely improve the quality of financials provided to their members and regulators.

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[3] See, Exposure Draft IFRS for SMEs® Accounting Standard, Question 1—Definition of public accountability, p. 20.
[4] 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-ifrsfor-smes-standard/request-for-information-comprehensive-review-of-the-ifrs-for-smes-standard.pdf.

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In connection with Question 4 of the Exposure Draft and the views on replacing the incurred loss model for the impairment of financial assets with an expected credit loss model aligned with the simplified approach in IFRS 9, we urge that this approach will be too complex for smaller, less complex institutions such as credit unions. Mandating even a simplified expected credit loss model will impose significant costs and regulatory burden on institutions such as credit unions, which seems to run contrary to the purposes of the IFRS for SME standard. We have already seen the effect of this in many countries, which has resulted in consolidation in the industry, as well as a reduction in the ability to serve members, support the local economy, and make much needed loans due to the expense and additional capital set asides, which are not necessary from a prudential standpoint.

To the extent that the Board desires to allow an expected credit loss model, we urge it to be an optional approach and not a mandatory approach. Further, we urge clarification that various practical expedients can be utilized in the approach. We would urge the Board to consider the approach taken by World Council for its credit unions in countries where full IFRS 9 has been imposed.[5]

We urge the Board to review our previous comment letter where we outlined numerous jurisdictions that were allowed to exclude public accountability in defining the scope of their equivalent IFRS for SME standards. We continue to request clarification of this Standard to reflect the capacity of national-level authorities and practitioners to exclude smaller, less complex financial institutions such as credit unions from the definition of "publicly accountable", given that the purpose of financial disclosures for credit unions differs significantly from that of a listed or publicly traded entity, and the member-owned not-for profit cooperative model warrants such treatment.

World Council appreciates the opportunity to provide comments on the IFRS' Exposure Draft for *IFRS for SMEs* Accounting Standard *t.* If you have any questions, please feel free to contact me at +1 202-510-9347; or at pmonford@woccu.org.

Sincerely,

Panya Monford, Esq.
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World Council of Credit Unions

[5] *See* IFRS 9 Loan Loss Accounting for Cooperative Financial Institutions, World Council of Credit Unions *available at* WOCCU_-_IFRS_9_for_Coop_Financial_Institutions_Dec_2016.

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