Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions

Consultation Paper CP 76

ACCA Response to Consultation Paper

January 2014

Introduction to ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

ACCA works to strengthen a global profession based on the application of consistent standards, which we believe best supports international business and the desire of talented people to have successful, international careers. We champion the needs of small and medium sized business (SMEs) and emerging economies, and promote the value of sustainable business.

To achieve this we work with global bodies such as the International Federation of Accountants (IFAC) and with 77 global partnerships. Above all, we seek to bring long-term value to economies in which we develop and support professional accountants.

We support our 162,0000 members and 426,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 89 offices and centres and 8,500 Approved Employers worldwide, who provide high standards of employee learning and development. There are over 20,000 members and students in Ireland and a staffed office at 9 Leeson Park, Dublin 6. The head of ACCA Ireland is Liz Hughes liz.hughes@accaglobal.com, direct phone line 01 4988906.

ACCA works in the public interest, assuring that its members are appropriately regulated for the work they carry out and, promoting principles-based approaches to regulation. We actively seek to enhance the public value of accounting in society through international research and we take a progressive stance on global issues to ensure accountancy as a profession continues to grow in reputation and influence.

Limited nature of response

The Central Bank is seeking views on six areas, only one of these areas is a matter of direct relevance to the accounting profession. The other five areas are more correctly addressed by the Credit Union movement. The one area on which we would comment is:

(iv) Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2? If you have additional proposals please provide them along with the supporting rationale.

Comments of ACCA

We welcome the specific inclusion of a requirement for "recognition of loan losses as early as possible within the context of accounting standards" and note that in your document this includes an amount for incurred but not reported (IBNR) losses. What we would discourage is some sort of "general" reserve or round sum reserve with no basis for the amount provided. For some time now, the provisions of the Credit Unions Acts have diverged from the requirements of accounting standards and specifically the concept of "prudence" which is imbedded in the credit union legislation but no longer a priority under accounting standards.

Credit unions are being encouraged (some say required) to use a proprietary expected loss model and there is concern that while the model includes specific and IBNR bad debts, it was reported to us that there is an additional general amount being added that does not appear to have a basis for inclusion under GAAP. The method being used is being referred to as the "rolling rate" methodology and there is concern that the underlying algorithm is not available for inspection and the assumptions being used are unchallenged. It is also unclear if the model has been tailored to a credit union where much of the loan book is guaranteed by way of deposits. We fully accept that the historical methodology: the Resolution 49 model, is no longer appropriate, but we would question whether the rolling rate methodology being applied is either being correctly applied or is the correct model to use or if the assumptions used are appropriate. At a minimum we would suggest that the model be made transparent, that the assumptions used are disclosed and each credit union is given a fully worked calculation of their provision where a provision is imposed on the credit union.

We fully understand the Central Banks concern with the current GAAP requirements in respect of loan loss provisioning, especially when any international developments in this area are unlikely to take cognisance of the special business model of credit unions. We therefore suggest that any loan provision amount in excess of GAAP, that the Central Bank deems necessary, be provided by way of a reserve movement either as a specific bad debt reserve (an allocation of profits) or as an addendum to the regulatory reserve.

In respect of GAAP, it is conceivable that some credit unions will use IFRS accounting. However, we believe that any model developed should be based on FRS 102 as this is likely to be used by the majority of credit unions. If IFRS is used, it is likely to be used by only the larger credit unions and they will have the resources to implement a mainstream banking solution. The general bad debt provisioning model that is developed needs to be open source and transparent and available to both preparers and auditors and be absolutely FRS 102 compliant. If the model is not FRS 102 compliant then the additional non GAAP provision should be dealt with by way of reserve movements rather than imposing an accounting requirement on credit unions that is different to the rest of the economy and banking sector.