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Credit Union Chair
By E-Mail

2 September 2016

Re: Credit Union Financial Year End 30 September 2016 – Year End Approach

Dear Chair

In preparing the 2016 annual accounts we expect directors of credit unions to comply with all legislative and regulatory requirements and guidance issued by this office. In addition, this is the first year the annual accounts will be prepared in accordance with FRS 102.

We are of the view that FRS 102 is consistent with section 110 of the Credit Union Act, 1997 and expect its full adoption. Indeed, FRS 102 requires an explicit and unreserved statement of compliance with the Standard. Given the significant change in the accounting methodology arising from the adoption of FRS 102, the Registry of Credit Unions ("RCU") expects that there will be extensive interaction between individual credit unions and their professional advisors and representative bodies. As responsibility for ensuring that accounts are prepared in accordance with the relevant accounting standards lies with the Credit Union, in conjunction with their auditors, the Central Bank does not intend to provide guidance on the adoption of this Standard. However, it should be noted that compliance with the adoption of FRS 102 will form part of our ongoing regulatory assessment of Credit Unions.

We have set out below the key areas on which boards of directors should give greater focus for the 2016 year-end in the context of FRS 102:

- Loan Provisioning
- Dividend Policy
- 2016 Year End Process

1. Loan Provisioning

The new accounting standard introduces fundamental changes to the way loan impairments will be provided for in the credit union's accounts. Under FRS 102, loan impairments will be immediately recognised on the basis of loss events as they occur. General provisioning is not permitted and if matrices are applied to calculate impairments, credit unions must satisfy themselves that these are fully compliant with FRS 102. Each credit union will be required to apply a methodology to their provisioning that reflects the new Standard. This should also be reflected in your updated provisioning policy and fully disclosed in the accounts in keeping with the significant disclosure requirements in FRS 102. The provisioning methodology must be sufficiently robust and conservative to capture all possible loan impairments.

As part of our focus, supervisors will assertively challenge, where doubts exist, as to the adequacy of provisions.

2. Dividend Policy

With the introduction of FRS 102, it is to be expected that there will be some increase in the year to year volatility of certain figures in the annual accounts. This increased volatility will normally be as a result of the application of the new accounting treatment and will not necessarily reflect a change in the underlying performance of the credit union.

In particular, it can be expected that loan provisioning figures will be impacted by the introduction of FRS 102. Depending on the methodology applied by an individual credit union to its loans, this may result in a reduction in the amount to be set against impaired loans and will, therefore, impact on the surplus/deficit figure. Each credit union Board should ensure that it pursues a prudent distribution policy that seeks to distribute funds to members from any surplus generated by the credit union's operations and not from surpluses generated by a change in the accounting treatment.

3. 2016 Year End Process

The adoption of FRS 102 requires retrospective restatement of the 2015 annual accounts.

All credit unions should be aware of this and when examining the financial performance for 2016, the board should use the restated 2015 figures for comparative purposes. The process will be complicated further if the credit union was involved in a transfer since 1 October 2014. Where such transfers took place, credit unions should apply acquisition accounting rules. Credit Unions should assess the implications of this on their year-end accounts preparation with their auditors as soon as possible.

Credit unions should prepare well in advance to ensure that the 2016 year-end process operates as smoothly as possible. With the new accounting Standard in place, as part of the year end process, the Registry will seek to review the draft audited financial statements and accompanying notes in advance of their finalisation.

Credit unions will be required to submit the draft audited financial statements including accompanying notes via the secure file online reporting facility ("ONR") whilst simultaneously submitting the draft financial statements on the ONR. Credit unions are advised to refer to the 26 July 2016 email outlining the changes to the year-end return reporting requirements to take account of the adoption of the FRS102 Standard. RCU reserves the right to request other financial data and/ or meet relevant parties to assist in assessing the financial performance of the credit union and the appropriate adoption of the FRS102 Standard.

Credit unions should be aware that as a result of these changes it is expected that the year-end review process undertaken by your supervisor will take longer than previous years. Where credit unions require further clarification on this they should contact their line supervisor.

A copy of this circular will also be sent to the auditors of all credit unions.

Finally, if you have any queries on the above please contact Pearse O'Sullivan in this office on (01) 224 4188 or by e-mail at pearse.osullivan@centralbank.ie.

Yours faithfully

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Anne Marie McKiernan
Registrar of Credit Unions