

## World Council of Credit Unions, Inc.

28 March 2011

Sir David Tweedie Chairman International Accounting Standards Board 30 Cannon Street London, EC4M 6XH United Kingdom

Re: Supplement to Exposure Draft Financial Instruments: Amortized Cost and Impairment of Financial Assets

Dear Sir Tweedie,

World Council of Credit Unions (WOCCU) is the leading trade association and development organization for the international credit union movement, representing more than 49,000 cooperatively-owned, not-for-profit credit unions in 97 countries with assets of US\$1.4 trillion in the retail financial services market. Globally, all types of financial cooperatives by various names (i.e. credit unions, rural credit cooperatives, cooperative banks, savings and credit cooperatives, etc.) serve an estimated 857 million people.

Further to our June 2010 comment letter on the topic of Amortized Cost and Impairment of Financial Assets, we thank the IASB for taking additional time to re-deliberate and issue a supplement to the exposure draft. We believe the impact of this standard for the financial sector is particularly significant.

The IASB's "good" book and "bad" book approach to determining impairment provisions makes sense and is in line with how many financial institutions (large and small) manage their portfolios. However, we have serious concerns regarding the fact that both time proportionate methodologies described in the supplemental exposure draft are too complex for most credit unions in developed and developing markets.

These approaches are entirely reminiscent of Basel II's complexity which in hindsight was a process driven by large complex banks determining their own standards through confusing methodologies. This lead to decreasing "real" reserves and more leveraging. In the process, less complex institutions ended up with simpler methodology, which was still very complex, but ironically required them to hold comparatively *more* capital vis-à-vis systemically important banks. We foresee this same outcome with the ratio based straight line approach and annuity approach which can potentially create greater burden for smaller institutions.

Madison Office 5710 Mineral Point Road Madison, Wisconsin 53705-4493 USA

Phone: (608) 395-2000 Fax: (608) 395-2001 www.woccu.org

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## **Proportionate Standards**

We understand that IASB and FASB have made commitments to the G20 to reform the financial landscape and practices. However, at the Toronto Summit the G20 has also been explicit with its endorsement of the Principles for Innovative Financial Inclusion that standards should be proportionate. Within this framework the 8<sup>th</sup> principle indicates:

<u>Proportionality:</u> <u>Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.</u>

The G20's communiqué in Seoul also directed "standard setting bodies to further incorporate financial inclusion objectives into their work."

We highlight these G20 directives because they support our concern that credit unions will be forced to take disproportionate corrective actions for problems they did not create. Recent credit union losses have been significantly less than bank losses and not a single credit union anywhere in the world has received taxpayer recapitalization as a result of the financial crisis. In addition, we understand that many credit union supervisors have also expressed concerns regarding the complexity of the time proportionate approach.

We do appreciate the IASB's efforts to develop a simpler approach, yet, in our opinion, it failed to attain its goal. We would like to see a practical expedient that relates to how credit unions operate today and which has been largely successful where followed. This methodology could include two pieces: 1) utilizing a loan aging (and type of loan, depending how sophisticated is the credit union) classification system; and 2) a simple forward-looking component that institutions and supervisors can utilize to determine expected impairment.

## Diminishing Returns of Disclosures

Credit unions are owned and governed by their members who often operate as volunteers on their boards of directors. This tight feedback of having users of products be the owners and elected to the board on a one-member, one-vote basis, creates a very consumer-oriented institution. This is augmented by an audit committee (comprised of members) that selects auditors and reports to an annual general meeting of members. Credit unions are also prudentially supervised and oftentimes, but not always, have deposit insurance systems to cover the savings of their working and middle class members.

Some of the largest credit unions in the world are comprised of teachers, law enforcement officials, and military or government workers. These are the users of our financial statements, not analysts and bond traders. This element was missed by excluding credit unions from using the IFRS standards for SMEs which seem to be proportional and in line with the G20's intentions.

## Transition period

The IASB originally proposed a transition period of three years from the current incurred loss impairment method to the expected loss model. From the perspective of small institutions where we don't own our own systems or always have the responsiveness of data service providers, we believe a longer transition period should be provided. We urge the IASB to grant institutions a total of five years before making the application compulsory.

Thank you in advance for considering our comments. If you have any questions, please feel free to contact me at +1-608-395-2087 or via email at  $\underline{dgrace@woccu.org}$ .

Sincerely,

Dave Grace

Senior Vice President

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Copy: FASB Board

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