Brussels, January 4th , 2019

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Re: IASB Discussion Paper Financial Instruments with Characteristics of Equity (FICE) (DP/2018/1).

Dear Sirs,

Cooperatives Europe, the voice of cooperative enterprises in Europe would like to bring to your attention a number of aspects of the IASB DP on FICE that are of concern for Cooperatives Europe.

Our organisation represents 84 members cooperative organisations from 33 European countries across all business sectors. Our members represent 141 million individual member co-operators owning 176.00 co-operative enterprises and providing jobs to 4.7 million European citizens.

Cooperative Europe is following the discussions on equity/liability distinction considering the impact it might have on cooperatives. We highly welcomed IFRIC 2 in 2004 since it confirmed with clear language the equity treatment of member shares of cooperatives. By today, IFRIC 2 is fundamental for cooperatives -and even more so for cooperative banks, due to its relevance for the qualification as regulatory capital- as it provides a blueprint for cooperative equity instruments under IAS 32.

We therefore highly appreciate that the "Discussion Paper Financial Instruments with Characteristics of Equity (FICE) (DP/2018/1)" clearly states that IFRIC 2 should not be affected and should be carried on.

This being said, we do not think that IFRIC 2 "was developed for a very specific fact pattern with limited effect in practice". In fact, IFRIC 2 defines one parameter for the equity classification for a vast number of enterprises all over Europe, which could otherwise have to face discussions regarding their capitalization.

In fact, IFRIC 2 addresses primarily the redemption of cooperative shares/certificates. We would like to point out, however, that there are also other particularities of member shares in cooperatives. Due to some other of those particularities, we are seriously concerned by one of the key elements of the discussion paper, i.e. the "preferred approach" and its "amount feature" ("amount independent of the entity's available economic resources"). We fear that the application of the "amount feature" to cooperative member shares and member certificates could question their classification as equity.

In terms of capital, there are two features of member shares that are relevant in the current discussion that we see being put in question by the “amount feature”:

- Cooperatives are variable capital companies: when a member enters, shares are generated according to the capital paid in (in common denominations). When a member leaves the cooperative, that paid- in amount is redeemed. During this time of membership, cooperators will receive dividends, if profit is generated. However, usually the biggest part of the profit is transferred into retained earnings. Such increases of retained earnings over the years will however not affect the redeemable amount when a member leaves the cooperative. Losses will not affect the redeemable amount unless retained earnings are consumed and the subscribed capital is affected. In such case, the share capital reduced by such losses could be redeemed.

- In liquidation, member shares are the most subordinate claim and are paid back after all other claims. However, only in some jurisdictions, the remaining residual after repayment of shares is divided among members per shares or by another formula.

We understand that it was not intended to touch upon IFRIC 2 and upon the equity classification of cooperative member shares. We therefore remain confident that the IASB will find an appropriate solution to cater for the features of cooperative shares, dissipating any doubt on their equity classification.

More in general, we see that IAS 32 has worked well so far and we do not see a strong need for a conceptual change but rather only targeted amendments.

Finally, we would strongly recommend including IFRIC 2 into the standard itself in order to ensure that the treatment of cooperative shares and certificates is established at a fundamental level.

Thanking you for your attention.

Yours sincerely,

Agnes MATHIS
Director

Cooperatives Europe • European Region of the International Cooperative Alliance • Operational address (mail to): Rue du Trone 4 • BE-1000 Brussels • Headquarters: Av. Milcamps 105 • BE-1030 Brussels • VAT: BE 0879.795.938 • T. 32 2 743 10 33 •
www.coopseurope.coop