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Mr. Jean Paul Gauzès,
President of the Board
EFRAG
European Financial Reporting
Advisory Group
35 Square de Meeûs
1000 Brussels

Brussels, 20th December 2018

Re: IASB Discussion Paper Financial Instruments with Characteristics of Equity (FICE) (DP/2018/1) – EFRAG response letter to IASB

Dear Mr. Gauzès,

In view of the EFRAG response to the IASB concerning the Discussion Paper on Financial Instruments with Characteristics of Equity (FICE), we would like to flag our serious concern that arise from the proposals set forth by the IASB regarding the classification of cooperative shares as equity instruments.

As representatives of European agri-cooperatives, we enthusiastically welcomed IFRIC 2, as a complement of IAS 32, when adopted in 2004. It is a essential element for cooperatives, since it confirmed the equity treatment of member shares of cooperatives.

A liability treatment would be highly inappropriate as would impact affect the economic situation and the overall external image of all cooperatives with a significant position in the markets. It would create the impression that cooperatives are less stable and operate with low levels of capital, which it is not the case.

With regards to the publication of the Discussion Paper on FICE by IASB, we highly appreciated that it clearly stated that IFRIC 2 should not be affected and should be instead carried on. Nevertheless, we do not share the Board's analysis that "*it was developed for a very specific fact pattern with limited effect in practice*". In fact, considering its essential role and established importance as constituting piece and essential acquis of the accounting framework, we strongly advocate that IFRIC 2 should be included into the standard itself, as it addresses the redeemability of cooperative member shares.

Additionally, we would like to highlight our concerns on key elements of the discussion paper, i.e. the "preferred approach" and more precisely its "amount feature" ("amount independent of the entity's available economic resources"). The use of such "amount feature" would place a large question mark upon the equity classification of cooperative member shares and member certificates.

Cooperative Member Shares are the instrument to create and steer a cooperative. They grant the right to dividends, the right to attend and vote in the general assembly and the right to use the services of the cooperative. In terms of capital there are two features of member shares on which we would focus:

- 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 the time of adherence, members 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. In some jurisdictions the remaining residual would be transferred to a cooperative fund, to charitable organisations or deposited at the national central bank until the cooperative can be re-established.

These features are the reflex of the specificities of cooperatives, which according to Regulation (EC) 1435/2003 are *“legal entities with particular operating principles that are different from those of other economic agents. [...] These particular principles include notably the principle of the primacy of the individual which is reflected in the specific rules on membership, resignation and expulsion, where the ‘one man, one vote’ rule is laid down and the right to vote is vested in the individual, with the implication that members cannot exercise any rights over the assets of the cooperative.”*

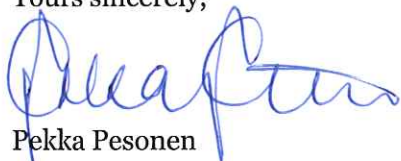
The limited rights to the assets is a logical consequence of the primary purpose of a cooperative which is not the generation of profit. Its *“principal object is the satisfaction of its members’ needs and/or the development of their economic and social activities.”*

Thus for us there can be no doubt that cooperative member shares and certificates are equity in the financial statement.

The discussion paper does not give a clear answer in this respect, as the “amount feature” as specified in the paper does not take into account the way in which members participate in the capital of the cooperative, instead it rather raises doubts. We therefore believe that the preferred approach and especially the “amount feature” as they are defined today should be rejected.

IAS 32 has worked well so far, and beside possible targeted amendments to reflect new instruments, we see no need for an overhaul of its philosophy. We appeal to EFRAG to stress these elements in its response to the IASB and exclude any doubts on the classification of cooperative shares as equity instruments.

Yours sincerely,



Pekka Pesonen

Secretary General