



IASB OBSERVER NOTE – AGENDA PAPER 11B

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards. These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

EUROPEAN ASSOCIATION OF COOPERATIVE BANKS



Co-operative Shares, IFRS and the FASB Approaches

Presentation on the Occasion of the IASB Board Meeting

London, 17 September 2008



General Aspects

- **Relevance of co-operatives and co-op banks**

- **Specific Features and Governance:**
 - **Promotion of members' interest**
 - **Democratic principle: Prevailing role of the individual**
 - **Variable capital entities**
 - **Principle of personal responsibility**
 - **The member/customer relationship**



The Purchase of Shares

- **Purchase at face value (nominal value)**
- **Share = most subordinated financial instrument in a coop**
- **„Head vote“ principle**
- **Limitations of number of shares that can be purchased**



Dividends

- **Not guaranteed, approved by general assembly**
- **Generally restricted to accumulated earnings;**
- **Sometimes even limitations;**
- **Taxation of such dividends equal to that of other Companies;**
- **More typical: „Patronage Dividends“: Payment to the members based on the volume of business done with coop; however rare for banks, due to difficulty to establish meaningful data;**
- **Also trend with many „Commercial Co-operatives“ towards immediate price reduction;**



Redemption of Shares

- **General principle: redemption of share at nominal value;**
- **To be reduced by any accumulated losses;**
- **In case of Insolvency shareholders can be assessed for a portion of any amounts necessary to pay creditors;**
- **Most European jurisdictions provide for time periods during which members remain responsible;**
- **Following the adoption of IFRIC 2, the board or management may unconditionally refuse redemption in many jurisdictions;**



Liquidation

- **Jurisdictions Type A:**
 - **Net assets are distributed, proportionately to the number of members/shareholders, or based on the number of shares owned;**

- **Jurisdictions Type B:**
 - **Member/shareholder receives only the Amount paid for shares, and any remaining net assets are distributed to another cooperative organization, etc. (“indivisible” reserves). In some jurisdictions members have right to determine to whom the remaining funds will be allocated.**



Co-op Shares under the Ownership approach

- Most residual claims (+)
- A claim to share of net assets (in liquidation)(+/?)
- Redeemable instruments (going concern):
Redemption formula is designed to approximate fair value (-)



Co-op Shares under the Ownership Settlement Approach

- Other Perpetual Instruments?
- Some Common Ground with IFRIC 2:
 - *7 Members' shares are equity if the entity has an unconditional right to refuse redemption of the members' shares.*



Co-op Shares from a Creditor Perspective

- **Current practice**
- **Relevant criteria**



Thank you for your attention !

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