

Monique F. Leroux, C.M., O.Q., FCPA, FCA
Chair of the Board, President and CEO
Desjardins Group

December 11, 2014

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst,

We refer to our previous letter dated October 8, 2014 in which we shared the recent discussions held by the International Co-operative Alliance's (ICA) International Accounting Standards Working Group, chaired by Mrs Monique F. Leroux and Board member of the ICA, on the potential revisions to the Conceptual Framework. The ICA has been a long-standing partner of the IASB regarding accounting matters of relevance to co-operatives and we welcome the opportunity to contribute further.

The co-operative movement, which includes co-operatives and mutual entities, is important for the global economy and their economic importance is growing. In fact, there are 2.6 million of co-operatives and mutual entities worldwide with 1 billion members and clients. According to the 2014 report of the **World Co-operative Monitor**¹, a partnership between the ICA and the European Research Institute on Cooperative and Social Enterprises, the 300 largest co-operative and mutual organisations have a combined turnover of US\$2,205.7 billion. We invite the IASB to refer to this report for further information on the scope and impact of the largest co-operatives in the world.

General considerations

We support revisions to the Conceptual Framework and we believe it will provide adequate overarching principles necessary to develop individual IFRS. We were pleased to note direct references to co-operatives within the document while we identified certain concerns for us. We appreciate that the comment period on the Revised Conceptual Framework Discussion Paper has ended and at its November meeting the IASB substantially completed its redeliberations on the Discussion Paper, nevertheless, ahead of the upcoming Exposure Draft, the ICA International Accounting Standards Working Group's views summarized below represent the most recent perspective from this recently re-organized group. Furthermore, we wished to comment promptly on public documents made available by the IASB in September 2014 and October 2014 on certain tentative decisions with potentially high consequences to co-operatives. Reporting entity's business model

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¹ World Co-operative Monitor, "Exploring the Co-operative economy, Report 2014" <<http://www.euricse.eu/en/worldcooperativemonitor>>

Lévis (Head Office)

100 Des Commandeurs Street
6th Floor West
Lévis (Québec) G6V 7N5 Canada
418 835-2404
1 866 835-8444, ext. 5562404
Fax : 418 833-4769

Montréal

1 Complexe Desjardins
South Tower, 40th Floor
P.O. Box 7, Desjardins Station
Montréal (Québec) H5B 1B2 Canada
514 281-7039
1 866 866-7000, ext. 5557039
Fax : 514 282-9539

A first area of concern relates to the consideration of the reporting entity's business model as a determining perspective relevant in setting accounting treatments. The Discussion Paper covered the matter of perspective notably within section 9, including references to certain individual IFRS where the business model indeed drives specific accounting treatments. Indeed, since the business model influences the value creation process in various ways, we believe that addressing it in the Conceptual Framework would lead to more relevant information. Absent from these considerations in the Discussion Paper were the perspective of business models away from standard commercial-type entities. Across different sectors, co-operatives are different in the sense that co-operative members are stakeholders and not shareholders. A co-operative will be jointly owned and democratically controlled by its members in an effort to satisfy their common economic, social and cultural needs, and aspirations. In simple terms, a co-operative member does not share the same objectives and needs as an investor or a shareholder in a standard commercial-type entity.

The business model used in the Discussion Paper does not address such diversity in objectives and needs. Linked to our next concern, the absence of specific considerations for the business model and, within certain industries, of the co-operative difference, has historically caused application challenges to the extent that neither the existing Conceptual Framework nor the individual standards addressed characteristics of co-operatives with one notable exception being IFRIC Interpretation 2, *Members' shares in co-operative entities and similar instruments*. IFRIC 2 does serve as a good illustration of those challenges to the extent that general IFRS, such as IAS 32, *Financial Instruments: Presentation* originally led to counterintuitive results and counterproductive debates over its application to the co-operative business model.

In our opinion, the revisions to the Conceptual Framework constitute an obvious opportunity to address variations in business models beyond that of standard commercial-type entities. IFRS serve a broad group of reporting entities and users and it would be necessary for the overarching principles set out in the Revised Conceptual Framework to acknowledge such potential for diversity. This would then benefit development and application of IFRS because of the added flexibility and tailoring. It would also limit the need to address, as a matter of exception in individual IFRS, the co-operative difference within certain business models as was done in IFRIC 2. In our view, this will provide better financial information about co-operatives as reporting entities.

Definitions of liabilities and equity

A second concern identified by the ICA International Accounting Standards Working Group relates to the definitions of liabilities and equity. Most co-operatives have members' shares that give the holder the right to request redemption for cash or another financial resource. This matter is complex and we have grouped our concern into two main aspects being (1) the proposals found in the Discussion Paper and (2) the recent discussions and tentative decisions related to the research project on Financial Instruments with Characteristics of Equity (the Research Project).

With regards to the Discussion Paper, we disagree with views discussed that would imply that an exception should be brought into the Revised Conceptual Framework requiring equity classification for the most subordinated class of instruments issued by an entity (paragraph 5.57). Co-operatives typically have various shares with different features, and consequently this would not be a useful addition. More importantly, this seems to be going beyond the intended scope of the Revised Conceptual Framework since it is providing for a detailed, technical and specific application rather than a concept with which to develop and interpret individual IFRS.

The Discussion Paper also covered two approaches that could simplify the distinction between liabilities and equity: a narrow equity approach and a strict obligation approach. In our view, neither approach would allow for a meaningful model with which to classify members' shares and would potentially take away from the important guidance currently found under IFRIC 2.

It is our understanding that comment letters received by the IASB on the Discussion Paper were consistent with these observations and that the IASB tentatively decided not to provide detailed guidance on how to distinguish liabilities from equity. We support this decision.

On the basis of the feedback received on the Discussion Paper, the staff of the IASB has worked on a Research Project focusing on those questions of distinction between liabilities and equity. The standard-setting due process is ongoing but we trust that providing comments at this early stage will be helpful. We have reviewed the current documentation available on the Research Project, including the four main approaches currently being reviewed (combined settlement and value approach, settlement approach, value approach and the narrow approach).

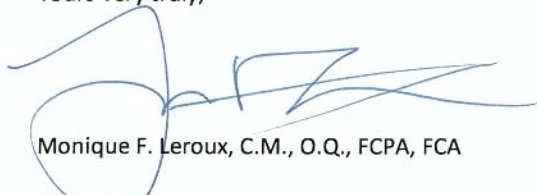
From the September 2014 IASB meeting documents, we are concerned by the potential to re-open the current consensus under IFRIC 2 should these approaches be pursued as presented (with the caveat that the settlement approach would be expected to produce a similar accounting to IFRIC 2). We also note that the October 2014 IASB meeting documents refer to a tentative decision not to change the definitions of a liability and of equity at this time leaving for future work the question of how to distinguish liabilities from equity. At this stage, we believe that the current focus and importance given to the redemption amount being independent of the economic resources of the entity does not serve as a meaningful differentiator of liability or equity for most co-operatives.

From the expected impacts of the approaches under review as they relate to IFRIC 2, we are concerned that these impacts may overlook common variations in co-operatives where redemption is for a fixed amount of currency or where a co-operative has issued various classes of members' shares with redemption rights. As mentioned previously, the co-operative business model does not purport to serve the interests of a standard investor or shareholder. IFRIC 2's fundamental premise is to classify members' shares as equity if the entity has an unconditional right to refuse redemption, in consideration of all terms and conditions relevant to the potential redemption, such as local laws and regulations. This fundamental premise has worked well and we believe should be retained in any potential revision to IFRS addressing liability and equity classification.

Overall considerations

In closing, we wish to reinforce our two key messages, being first that we believe that there is a need and relevance in defining the co-operative business model within the Revised Conceptual Framework. Second, we believe that the principles set out in IFRIC 2 should be retained following completion of the Revised Conceptual Framework along with potential revisions to individual IFRS dealing with financial instruments with characteristics of equity. Members of the ICA International Accounting Standards Working Group value the opportunity to take part in these important projects of the IASB. We would be grateful to meet with you at any time to discuss in greater depth our position and views about this matter, and IFRS in general. In the meantime, we thank you for considering this initiative and informing the IASB members at your next meeting.

Yours very truly,



Monique F. Leroux, C.M., O.Q., FCPA, FCA

Chair of the Board, President and CEO of Desjardins Group
 Board member of the International Cooperative Alliance
 Chair of ICA's International Accounting Standards Working Group

- c.c. Dame Pauline Green, Chair of the Board, International Co-operative Alliance
 Mr. Charles Gould, Director-General, International Co-operative Alliance
 Mr. Christian Talgorn, Chair of the Board, European Association of Co-operative Banks
 Mr. Hervé Guider, General Manager, European Association of Co-operative Banks
 Mr. Shaun Tarbuck, Chief Executive, International Cooperative and Mutual Insurance Federation