

Note concerning the application of IAS 32 to co-operatives

In July 2002, a European Council regulation¹ concerning the application of international accounting standards in the European Union was adopted. By international accounting standards is meant the standards published or adopted by the International Accounting Standards Board (IASB). From January 2005, companies willing to tap into public funding will be obliged to present their consolidated accounts conforming to international accounting standards. This deadline can be delayed to January 2007 for consolidated accounts of other societies and for individual accounts.

The European Commission, assisted by the European Accounting Regulations Committee (ARC) decided on the applicability of the international accounting standards.

Amongst the proposed standards, a standard called IAS 32, would be dangerous for co-operatives.

On 16 July 2003, ARC was asked to give their opinion on the adoption of all the IAS standards in the European Union. Following the mobilisation of enterprises concerned and the co-operative sector, it temporarily delayed the adoption of the accounting standards IAS 32 and IAS 39, in order to allow work on new propositions.

According to the existing IAS 32 standards project, the co-operative social shares will no longer be considered as elements of capital, but as debt instruments. This type of law would as a consequence disrupt the financial ratios of co-operative banks and considerably complicate co-operative enterprises' access to finance.

Over and above the sensitivity of their financial results and, in this way, hindrance to their development, the adoption, in this format, of the IAS 32 standards would constitute a serious re-questioning of the viability of co-operatives in the European Union.

In the first analysis, the co-operative social shares do not respond to the criteria of defined capital by the IASB, because the re-imburement of the shares can be asked by the share holder and that the latter does not have rights to the reserves.

A solid argument can be put forward to mitigate these two criteria, but we cannot be sure that it will allow, on its own, to contradict the IASB criteria. The latter, in its approach, seems not to take into account, either the existing legislation, or the practical and operational consideration, in addition to the question of principle.

In this context and having analysed all possible options, the co-operative movements' position is that the Board of the IAS and the European Commission agree on the enrolment in the IAS 32 standard (and in the annexed commentaries and instruments) of a comment whereby the social shares present characteristics allowing to consider them as equity. It is therefore desirable, over and above presentation of a technical case, to obtain the European commissions' political support in discussions with the IASB.

¹ European Parliament and Council regulation n° 1606/2002 of 19 July 2002 on the application of international accounting standards, JO L 243 of 11/9/2002

Several European co-operative movements, notably in France, Germany, the United Kingdom and Italy are mobilized on this theme. At the European level, the European Co-operative Banking Group (GEBC) and the Co-ordinating Committee of European Co-operatives (CCACE) are very active and are multiplying contacts with the European Commission.

This issue has recently taken a new dimension. The National Co-operative Business Association (NCBA), has announced a consultation launched in the US by the Financial Accounting Standard Board on the FAS 150 standards project which has very similar characteristics to IAS 32.

Furthermore, the International Co-operative Mutual Insurance Federation, members of the International Co-operative Alliance, expressed its concerns, in the light of the IASB standards at the opening session of its World Congress in Paris on 15 October.