International Accounting Standards Board®

Press Release

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IFRIC issues guidance on classification of members' shares in co-operative entities

The International Financial Reporting Interpretations Committee (IFRIC)* today issued its Interpretation IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* giving guidance on the classification of members' shares in co-operative entities either as financial liabilities or as equity.

The publication of this Interpretation is a direct response to concerns expressed by constituents that the classification of members' shares in co-operative entities under International Accounting Standard (IAS) 32 *Financial Instruments: Disclosure and Presentation* is unclear.

Members' shares in co-operative entities have some characteristics of equity. They also give the holder the right to request redemption for cash or another financial instrument, although that right may be subject to limits on whether the instruments will be redeemed. The Interpretation gives guidance on how those redemption terms should be evaluated in determining whether the financial instrument should be classified as financial liabilities or as equity.

Introducing the Interpretation, the Chairman of the IFRIC, Kevin Stevenson, said:

> IFRIC 2 has been developed after extensive discussions with representatives of the European Association of Co-operative Banks. The guidance addresses the concerns raised by constituents about the application of IAS 32 to members' shares in co-operatives. The Interpretation clarifies that the classification of members' shares as financial liabilities or as equity depends upon the characteristics of such shares, especially the redemption features.

* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

30 Cannon Street, London EC4M 6XH, United Kingdom
Telephone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411 Email: iasb@iasb.org Web: www.iasb.org

Subscribers to the IASB's Comprehensive Subscription Service can view the Interpretation from the secure online services area of the IASB's Website (www.iasb.org).

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Press enquiries:
Kevin Stevenson, Chairman, IFRIC
Telephone: +44 (0)20 7246 6460, email: kstevenson@iasb.org

Sandra Thompson, Senior Project Manager
Telephone: +44 (0)20 7246 6452, email: sthompson@iasb.org

Kumar Dasgupta, Project Manager
Telephone: +44 (0)20 7246 6454, email: kdasgupta@iasb.org

NOTES TO EDITORS

About the Interpretation

1. IFRIC 2 notes that the contractual right of the holder of a financial instrument (including members' shares in co-operative entities) to request redemption does not, in itself, require that financial instrument to be classified as a financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or equity.

2. IFRIC 2 states that members' shares that would be classified as equity in the absence of the members' right to request redemption are equity if either of the following conditions is met.

   (a) the entity has an unconditional right to refuse redemption of the members' shares.

   (b) redemption is unconditionally prohibited by local law, regulation or the entity's governing charter. However, provisions in local law or regulations or the entity's governing charter that prohibit redemption only if conditions—such as liquidity constraints—are met (or are not met) do not result in members' shares being equity.

About the IFRIC

3. The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about nine times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of International Financial Reporting Standards and the

IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

About the IASB

4. The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

5. A Deloitte & Touche study indicates that 92 countries will either require or permit the use of IFRSs for publicly traded companies beginning in 2005. The 92 countries include Australia, the member states of the European Union, and Russia. At present, some 35 countries require the use of international standards for all domestic listed companies, six other countries require the use of international standards for some companies, and many countries base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. Recently, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions to eliminate differences between IFRSs and Japanese standards.