

Dr. Alexander Schaub
Director General
European Commission
Directorate General for the Internal Market

1049 Brussels

17 January 2005

Dear Dr. Schaub,

Adoption of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* (IFRIC 2), which is based on IFRIC D8 and finally published by the IFRIC on 25 November 2004.

EFRAG welcomes the objective of IFRIC 2 to provide guidance on the classification of members' shares in co-operative entities as either financial liabilities or equity. It has been issued responding to concerns that the classification of such instruments under IAS 32 *Financial Instruments: Disclosure and Presentation* as equity or financial liabilities requires further clarification.

IFRIC 2 clarifies that the classification of members' shares depends on all characteristics of such shares and in particular the redemption features.

IFRIC 2 becomes effective for annual periods beginning on or after 1 January 2005.

EFRAG has evaluated IFRIC 2 based on input from standard setters and market participants in accordance with EFRAG's due process.

EFRAG supports the new interpretation and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

- i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* and, accordingly, EFRAG recommends its adoption.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Stig Enevoldsen
EFRAG, Chairman