



International Accounting Standards Board®

# Press Release

FOR IMMEDIATE RELEASE

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## **IFRIC publishes proposed guidance on members' shares in co-operative entities**

The International Financial Reporting Interpretations Committee (IFRIC)\* today released for public comment a draft Interpretation D8 *Members' Shares in Co-operative Entities* giving guidance on the classification of members' shares in co-operative entities as either financial liabilities or equity.

The publication of this draft 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 and similar instruments have some characteristics of equity, including voting rights and rights to participate in dividend distributions. 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 draft Interpretation proposes guidance on how those redemption terms should be evaluated in determining whether the financial instrument should be classified as financial liabilities or as equity.

The proposals are open for public comment until 13 September 2004.

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

The proposals that were developed after discussions with representatives of European Associations of Co-operative Banks address concerns raised by constituents about the

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

application of IAS 32 to members' shares in co-operatives. The proposed 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.

Subscribers to the IASB's Comprehensive Subscription Service can view the draft Interpretation from the secure online services area of the IASB's Website ([www.iasb.org](http://www.iasb.org)). From 1 July 2004 the complete text of the draft Interpretation will be freely available from the Website.

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**NOTES TO EDITORS**

**About the draft Interpretation**

1. D8 notes that the contractual right of a member of a co-operative entity to request redemption of members' shares does not, in itself, require those instruments to be classified as financial liabilities. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining classification as a financial liability or as equity.

2. D8 proposes 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) Local law, regulation or the entity's governing charter unconditionally prohibits the redemption of members' shares.
3. D8 proposes that members' shares classified as financial liabilities that are redeemable on demand should be measured at the maximum amount that might become payable under the redemption provisions of the entity's governing charter or applicable law.

### **About the IFRIC**

1. 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 every two months 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**

2. 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) reside in 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 cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.
3. 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 2002, several jurisdictions, including Australia, the European Union, and Russia, announced that they would require the application of international standards on or before 1 January 2005. 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.