Dear Ms. Bielstein,

COOPERATIVES EUROPE, the Europe region of the International Cooperative Alliance, hereby presents its comments on the Preliminary Views Paper. FASB’s conclusions on equity-liability distinction will not only be relevant for US companies but in the course of ongoing convergence of financial reporting standards may become relevant on a global level and thus for cooperatives in the EU as well.

We think that an accounting standard that is designed for universal application should be suitable to different industries and legal forms of company. All types of enterprises and companies, regardless of their legal structure, may distinguish between assets and liabilities in a way that is conducive to economic substance capital contributed by the entities owners. It is important to ensure that international differences in corporate law and capital instruments commonly used by businesses are adequately reflected.

However, the basic ownership approach takes a very specific approach to ownership that does not correspond to all forms of ownership. It is based on the presumption that an economic agent is acting to draw a maximum return from an activity and pass this return back to its shareholders. The Preliminary Views Paper is clearly based on that kind of business as starting point of view solely adequate for publicly listed companies rather than for cooperatives. It does not leave room for differing approaches to business and legal form. We encourage the FASB to review its point of view.

In fact, the application of the ownership approach to EU cooperatives would lead to the result that there is no ownership interest at all. While such a result may appear to be consequent from the perspective of the approach, we seriously doubt that it reflects realities, since members bring in capital in the cooperatives, participate equally in financial and economic advantages of membership, cover losses, decide in the general assembly and determine the charter of the cooperative. We therefore refuse an approach to equity definition that denies that members are the real owners of the cooperative and capital paid in by members is equity.

While we support FASB’s conclusion that redeemable basic ownership instruments may be classified as equity, we seriously doubt that the proposed criteria for equity classification in par. 20 are operational or adequate to instruments not listed on an active market. As stated above we think that “full participation in the entities fair value” does not reflect the economic substance of the membership in a cooperative entity, thus it should not reign the distinction between equity and liabilities.

Furthermore, we regret that FASB rejects perpetual instruments as equity. IAS 32 stresses the aspect of "permanence of capital" by classifying every instrument as a liability, which includes a contractual obligation to deliver cash or another financial asset to another entity. Indeed, the durable availability of sufficient resources is of paramount significance from an entity perspective. It is also a vital feature for all creditors of the entity. For them full participation/limited participation of owners in profits is not a decisive criterion. Thus, the notion of permanent availability of capital in the definition of the accounting concept of equity is highly valuable and delivers meaningful information from creditors' point of view. We therefore ask FASB also to reconsider its approach and also to allow an equity treatment of perpetual/non-puttable instruments, as currently stipulated by IFRIC 2.

We therefore suggest that FASB should consider as an alternative for the discussion the "Loss Absorption Approach" proposal forwarded by the European Financial Reporting Advisory Group (EFRAG) in January 2008 that was based on the conclusions of a European joint project. The "Loss Absorption Approach" defines capital that has the potential to cover losses from a creditor's perspective as equity. In our opinion, the basic idea of the "Loss Absorption Approach" takes into consideration both investors' interests and the concerns of non-listed companies, in particular co-operatives. The approach provides a broader range of users with decision-useful information concerning entities in different legal forms across different jurisdictions.

We welcome any question regarding our comments.

Yours sincerely,

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