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Japanese Co-ops Opposed New Accounting Standards

The International Accounting Standards Board (IASB) has announced their intention to adjust their provisions with regard to the treatment of shares in co-operatives for accounting purposes. Mr. Iain Macdonald, Director-General of the ICA, expressed particular concern that co-operative shares hitherto regarded as equity would be regarded as debt in his circular letter to member organizations. This is a serious issue as it fundamentally challenges the whole basis of ownership in a co-operative enterprise. It is feared the change would have negative impact on co-operative balance sheets and considerably complicate co-operatives' access to finance, thus threatening their viability as enterprises. He called upon co-operatives worldwide to take action at the national and international level to ensure the viability of co-operatives.

Given the expansion of global trade and the increasing need for transparency and global standards, enterprises will increasingly be impacted by the decisions of IASB. Particularly, the European Commission is putting forward proposals that will require all listed companies in the EU to prepare their consolidated financial statements using International Accounting Standards (IAS) in 2005. It is for this reason that ICA European members have made strong representation against IASB's proposals in a number of EU organs. The European Association of Co-operative Banks sent public comments to the IASB. The National Co-operative Business Association of the United States also lobbied the US Financial Accounting Standards Board (FASB) and succeeded to indefinitely defer the application of similar standards to co-ops.

Despite all these criticisms, however, the IASB published the IAS 32 on Financial Instruments Disclosure and Presentation in December 2003 classifying members' shares of co-operative entities as liabilities. Now the discussion is being held on its interpretations.

The Japanese Consumers' Co-operative Union (JCCU) sent comments expressing strong objection

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CCIJ News Now on the Web

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to the publication of Revised IAS 32 in April 2004. Co-ops have succeeded in raising capital by accumulating members' shares in the belief that they constitute the financial basis of co-operatives that are owned by members. To date members' shares account for more than 30% of total assets. Therefore, they cannot accept this classification since it will not only destroy co-operative identity, but also endanger co-operative financial stability.

For this reason, in December 2003 the JCCU set up a working group on members' shares and accounting standards. This group, consisting of academics, accountants and co-operative leaders, met four times and submitted a report including the comments attached below in March, 2004.

Main **F**eatures JCCU's Comments on the Publication of Revised IAS 32

The Japanese Consumers' Co-operative Union (JCCU) expresses strong objection to the publication of Revised IAS 32 classifying members' shares of co-operative entities as liabilities.

From the viewpoint that financial instruments are liable to redemption regardless of the restrictions, the IASB classified co-operative shares as liabilities since they are redeemed to members by the loss of members' status for voluntary or heteronymous reasons.

It may be acceptable to strictly define the financial instruments with elements of liabilities from the standpoint of the IAS that aims for full accurate disclosure of financial information of global firms, which undertake fundraising and financial transactions in international financial markets. We insist there are a number of problems if the same criterion is applied to co-operatives, which have entirely different organizational and management features when compared to for-profit organizations.

The reasons why the Japanese co-operatives strongly oppose the classification by IAS 32 and insist that members' shares are equities are as follows:

1. Members' shares of co-operatives bear members' rights and obligations.

The purchase of share(s) is each member's obligation. Through their share contribution, members are given both rights benefiting shareholders (to use entities' services, to claim dividend or residual assets etc.) and rights to engage in achieving co-operative goals (to vote, to be elected etc.). This means that a person acquires member's qualification to become both a user and an administrator of a co-operative by contributing shares. In addition, the residual assets are distributed among members in proportion to their share holdings when a co-operative is dissolved. These features of members' shares are not conceivable if they are debts.

2. The redemption of members' shares of co-operatives is restricted.

The Co-operative Principles assure voluntary membership. Members' shares have neither fixed term of payment nor a maturity date. They are redeemed within the amount of paid-up shares on the basis of members' requests to reduce or withdraw shares in accordance with the prescribed procedures after designated terms of notice. Such restraints are not conceivable if shares are debts.

3. Members' shares of co-operatives are risk-born capital.

Members are liable for the results of the co-operative business within the amount of paid-up shares. They are obliged to pay debts within the amount of paid-up shares when co-operative's debts exceed equity. This demonstrates that members have limited liability and shares are risk-born capital. These features of members' shares are not conceivable if they are debts.

4. Variable members' shares are based on the Co-operative Principles and present a criterion against which legal reserves are built under the Consumer Co-operative Law.

Variable members' shares guarantee the principle of voluntary membership. If variability of members' shares is denied, members' ability to freely join and leave the co-operative will be made impossible, and the basic co-operative principles will be destroyed. Such principles have attracted a wide range of consumers to co-operatives and have resulted in the accumulation of members' shares for the long term. In addition, members' shares present a criterion against which legal reserves are built under the Consumer Co-operative Law. To build legal reserves is mandatory from the viewpoint of capital consolidation in order to ensure financial stability. Since members' shares are regarded as the criterion against which legal reserves are built, they should naturally be classified as equity.

5. The dividend on shares is not predetermined, but decided by general meetings as a distribution of surpluses.

Dividend on shares is not predetermined when shares are paid up, but decided by the general meetings as a distribution of surpluses when there is disposable surplus. As such, the decision on dividend is made only after the yearly accounts are closed. Therefore it is not shown as costs in the financial statements of that year. In contrast, interest rates for debts are fixed when loan contracts are concluded and shown as costs in the financial statements of that year. From these differences, it is not possible to classify members' shares as debts.

6. The classification of members' shares as liabilities is against co-operatives' interests.

The Japanese co-operatives are widely recognized as consumer organizations under an accounting system whereby members' shares are classified as equity. As such, co-operatives have not only grown to be economic and social entities that contribute to improving members' standard of living, but have also become advocacy organizations for consumers' rights for more than a century. If members' shares are classified as debts in accordance with IAS 32, despite such a long history and their current status, it will endanger co-operative identity and put co-operatives at risk of decline, blurring the lines of who owns them. The accounting standards proposed in IAS 32 are detrimental to co-operatives. Shares, which members have contributed with the understanding that as shareholders they are owners will repel current and future co-operative members, if classified as debts.

We are convinced the classification of members' shares as equity reflects the reality of the Japanese co-operatives most accurately and is the most suitable accounting practice for their future. We strongly request the IASB to clearly include the statement that members' shares of co-operatives have the characteristics of equity in IAS 32.

CCIJ Board decided 4th Mid-Term Plan for 2004-2006

The CCIJ Board decided on the 4th Mid-Term Plan for 2004-2006 and the Action Plan/Budget for 2004 on March 24th. The 4th plan envisages progress towards establishing "Consumer Co-op Studies" as a new area of study combining international and interdisciplinary approaches and bridging theory with practice. This was taken as a vision of CCIJ 3 years ago and since then a number of studies have been organized. To make them more visible, CCIJ will publish a collected volume of essays by outstanding researchers in this field in 2004-2005. In addition, the following two persons were elected to the Board, bringing the board members 24.
Mr. WADA Toshiaki, Managing Director, National Federation of University Co-ops
Mr. KURIMOTO Akira, Chief Researcher and General Secretary, CCIJ

Financial Co-operative Forum Approves Code of Conduct

The Financial Co-operative Forum, established in 1994 aims to promote the exchange of information/experiences and joint research amongst financial co-operatives including agricultural co-ops, labor banks, shinkin banks and credit co-ops. It has 110 members, mainly managers/employees of these banks also with a range of researchers. It organizes bi-monthly meetings and publishes bi-monthly newsletters, with the assistance of CCIJ's secretarial services. It organized a Symposium in Tokyo on March 6th to commemorate its 10th anniversary. Mr. T. Ozeki, a writer, gave a lecture on "How Manufacturing Transforms Japan." This was followed by Prof. T. Saito's keynote lecture on "Tasks of Financial Co-operatives in Activating Communities." A panel discussion followed to discuss "Roles of Financial Co-operatives Today." Finally, the Code of Conduct for Financial Co-operatives was proposed and approved. It contains basic principles and guidelines for the board, management and employees.

JSCS Launched their Website

The Japanese Society for Co-operative Studies (JSCS) launched its website on April 1st at <http://coopstudies.jp/>. The site posts basic items such as the society's rules, board members, newsletters and conference announcements., etc. At this time the site is only available in Japanese.

JSCS Conference Focuses on Accounting Standards

On May 18, 2004, the JSCS held their spring conference at the Labor Bank Hall in Tokyo. The focus of the conference was Co-operative Capital and Accounting Standards and attracted 100 participants. Mr. AKETA Tsukuru, Vice Chair of JSCS, chaired the symposium. The main speakers were as follows:

- HORIKOSHI Yoshiaki, Yamanashi Gakuin Univ, "Institutional Problems of Co-op Capital"
- SAITO Atsushi, Public Accountant, "IAS's Trends and Impacts on Co-operatives"
- MATSUZAKI Ryo, Higashi-Nihon Kokusai Univ. "Accounting Standards and Co-ops"
- AIKAWA Naoyuki, Shinkin Bank Assn., "Financial Policy and Financial Co-operatives"
- SHIMAMURA Hiroshi, Co-op Research Institute, "Capital Problems of Worker Co-ops"

These presentations were followed by comments and answers. This opened up a heated debate on the nature of co-operative capital, how to cope with the new accounting rules and so on. Finally Mr. KURIMOTO Akira, Vice Chair of JSCS, made concluding remarks and closed the conference.