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Brussels, 30 June 2011
VH/JC/B6/11-087

E-MAIL

EACB Comments on CEARC iSORP Discussion Paper n° 6 Co-operative Non-Financial Reporting

Dear Ms. Rixon,

The members of the European Association of Cooperative Banks (EACB) welcome the initiative of the Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) to seek views on its discussion paper on co-operative non-financial reporting, including non-financial performance indicators.

The European Association of Co-operative Banks (EACB) represents, promotes and defends the common interests of its 28 members. With 63.000 outlets and 4.200 banks, co-operative banks are widely represented throughout the European Union playing a major role in the financial and economic system. They have a long tradition in serving 160 million customers, mainly consumers, retailers and SMEs. Quantitatively co-operative banks in Europe represent about 50 millions members, 750,000 employees with a total average market share of about 20%.

Please find below our answers to the questions on the following pages.

With Kind Regards,

Volker HEEGEMANN
Head of the Legal Department

Johanna CARIOU
Adviser Accounting & Audit



EACB responses

1. QUESTION

Do you agree with the view taken by the paper on the role of non-financial reporting that no more than nine non-financial indicators should be reported?

EACB response:

The EACB disagrees with the view taken by the DP that no more than nine indicators should be reported.

Developments:

- (1) EACB took note that the CEARC's Discussion Paper n°6 on Co-operative Non-Financial Reporting does not address legal requirements to produce non-financial information in annual reports or other report formats as these will be specific to particular jurisdictions.
- (2) As an European association, we would like to refer to EU practice regarding European legal obligations in this field.

Background information

- (3) In the European Union, since 1 January 2005, companies (co-operatives as well) are required¹ to include, where appropriate, information (key performance indicators - KPIs) relating to environmental and employee matters in their annual report to the extent necessary for an understanding of the company's development, performance or position. Member States have the option to exempt small and medium-sized companies from this disclosure obligation. Moreover, some Member States have introduced at national level some social and environmental disclosure requirements that are more far-reaching than the European directive.
- (4) Accordingly, European Co-operative Banks currently have to disclose in their annual report every event, decision and factor known at the reporting date, which might from the management's point of view, influence the performance and economic situation of the enterprise. In this respect, the given pieces of information have to be set in relation to past and present experience and evaluated accordingly if they:

¹ Article 46 (1) (b) of Fourth Council Directive 78/660/EC on the annual accounts of certain types of companies. A similar requirement exists regarding the consolidated annual reports.



- a. are subject to assessment for managing purposes and regularly are taken into account in the management's decision making process ;
- b. have to be regarded as crucial criteria for evaluating the general position of the enterprise and the progress of its business.

(5) In addition, some of EACB members communicate environmental, social, and governance data etc. beyond EU mandatory requirements. In some co-operative banks, the Corporate Social Responsibility (CSR) policy is considered as a tool for businesses to assess their social, environmental and economic impact within communities and to launch initiatives and policies that will create extra-financial returns.

(6) In November 2010, the European Commission has launched a [consultation process](#)² on ways to improve the disclosure of non-financial information (i.e. corporate social and environmental information, and respect for human rights) including possible proposals for new initiatives and/or revised legislative measures.

(7) EACB participated in that consultation explaining that members do not support more mandatory non-financial information disclosures under the regime of the European Directive on the annual accounts. EACB would support the development of EU harmonized non-binding indicators to report on non-financial data, which do not hamper reporting on the fulfillment of the mission of cooperative banks.

(8) EACB anticipates that further initiatives on non-financial reporting could be expected in the future at EU level and considers that it is relevant for our association to take part into the ongoing debate on non-financial reporting.

(9) Thus, as European constituents, we consider it crucial that any non-financial reporting standards for cooperatives, do not contradict the existing legislation in the EU.

(10) When developing indicators one has to find the right balance between enhancing the reporting of environmental, social, and governance information and avoiding overly burdensome standards (this is particularly relevant for small and medium businesses). In particular, considering the various already existing framework in the matter (see paragraph 10 below), it would be unnecessary and counterproductive to install a duplication among indicators and principles. Therefore, we agree with the views taken in the discussion paper considering that *"it is important to avoid information overload and to remember that the non-*

² European Commission, DG Internal Market and Services, Financial Reporting Unit, Public consultation on disclosure of non-financial information by companies, From 22.11.2010 to 24.01.2011 (closed). For more info, please click [here](#).



financial reporting is relatively high level. It does not require the same level of detail or number of indicators expected when producing internal management and operational reports" (see DP page 4).

Setting up cooperative indicators

- (11) For the reporting of environmental, social, and governance information, globally accepted guidelines such as GRI, UN Global Compact, OECD guidelines etc. exist already. However, it is sometimes challenging for our members to communicate on their cooperative specificities within those guidelines.
- (12) Moreover, in co-operatives, whose mission differs from joint stock companies, the extension from non-adapted standards could be damaging. In this respect, it might be relevant to make a distinction between rules to be applied to regionally operating co-operative banks and capital market oriented legal forms, such as joint stock companies.
- (13) Therefore, there is an added value in developing specific indicators, which take account of the characteristics of cooperatives³ (i.e. business models, ownership, governance structures etc.).
- (14) EACB agrees that *"the history of co-operatives is one where non-financial performance is as important as financial considerations"* (page 4 of the Discussion Paper). Some of our members even consider that it is to be the cornerstone of co-operatives. Although "responsibility" and "solidarity" have been integral parts of the co-operative banks' activities since their creation and in harmony with the co-operative principles and identity, one should not mix up the concept of "Corporate Social Responsibility policy" and Co-operative principles. For instance, some European co-operative banks may have a corporate and responsible behavior (e.g. due to their specific mandate, mission, values etc.), without having a proper and identified "CSR policy".
- (15) In general, it should be avoided duplicating the initiatives in this field (see paragraph 10) and the focus should be more on specific cooperative elements: a clear distinction has to be made between non-financial reporting applicable to *all* companies and "cooperative non-financial reporting".
- (16) Therefore, considering common "co-op indicators", the focus should be much more on the specific mandate of the cooperative, which is to promote their members' economic interest (on this particular aspect, please see below our response to question 2).

³ The Statute for a European Cooperative Society (SCE) states, "*co-operatives are legal entities with particular operating principles that are different from those of other economic agents*". Council Regulation (EC) No 1435/2003 of 22 July 2003 (Recital 7).



CEARC proposal

- (17) Regarding the number of non-financial indicators to be reported, the paper takes the view that nine key non-financial performance indicators is the maximum number of indicators that could be reported (see in page 4 of the DP). Moreover, it proposes that *"four non-financial indicators should be reported by all cooperatives (the "common co-op indicators" ⁴) and that up to five more should be reported that, in the view of the governing board are particularly appropriate to the co-operative (the "elective co-op indicators" ⁵)"* (see page 4 in the DP).
- (18) EACB does not agree that the number of non-financial reporting indicators should be limited to nine.
- (19) We know that from some of our members' perspective, it is important to have enough flexibility to be able to use (much) more or less than nine indicators. In fact, European Co-operative Banks promote several areas of "corporate and social responsibility" towards their stakeholders, the community, the environment etc. which all characterize the way co-operative banks do business. In this respect, several approaches, strategies and methods have been devised to tackle cooperative banks' non-financial performance.
- (20) Therefore, we rather think that the number of indicators should be determined by the number of issues that have a material impact on the business' activity and are of the greatest relevance and significance to the business and stakeholders.
- (21) Above all, cooperatives non-financial performance should focus on the fulfillment of the cooperative mission (i.e. for co-operative banks to improve access to finance for members, see below our response to question 2). Consequently, many possibilities may exist depending on the sector, the geographical implementation, the coop' own strategy etc. Therefore, we are convinced that any efforts for a non-financial reporting have to come from within the companies (considering their own features) and should not be imposed if meaningful results and progress is to be achieved.

⁴ The DP proposes the four following common coop indicators : member satisfaction (i.e. assessed through a member satisfactory survey) ; the average percentage of members voting in elections ; employee remuneration multiple ; and cooperation with other co-operatives.

⁵ According to the DP, the elected five coop indicators should reflect: the sector in which the co-op operates; the type of activities in which the coop is engaged in ; the size of the coop ; the stage of development ; the type of ownership (i.e. employee led, consumers, businesses, multi-stakeholders) ; the country/community/culture/environment in which the coop operates and their current strategic priorities.



2. QUESTION

Do you agree that the common co-op indicators should comprise (a) member satisfaction, (b) average percentage of members voting in elections, (c) salary and benefits multiple, and (d) co-operation with other co-operatives?

EACB response:

EACB does not support this proposal.

Developments:

- (22) EACB understood that the discussion paper looks at the elements to include in non-financial reporting in order to *"better reflect the true value of the co-operative organisation including co-operative difference and potential co-operative advantages linked to member engagement in its day to day economic, social and governance activity"* (see in page 5 of the DP).
- (23) We agree that co-operative organizations have their own characteristics that differ from other "commercial" organizations (i.e. business models, ownership, governance structures etc.). Although missions and ambitions of co-operatives differs thought countries, as well as the expectations of their members (see our response to question 1), the Statute for a European Cooperative Society (SCE)⁶ describes some principles of European Co-operative societies that are valid for most co-operatives. In particular, it is stated that *"the principal object of a cooperative is the satisfaction of its members' needs and/or the development of their economic and social activities"* (Art 1 (3)).
- (24) Therefore, some of our members think that there is a risk, that four or any other restrictive numbers of factors could limit the ambition of a co-operative business to fulfill its commitment to social responsibility. There are instances, where a co-operative should look to go beyond compliance with certain cultural or regulatory requirements (e.g. reporting environmental impacts such as greenhouse gas emissions etc.).
- (25) Moreover, some other, seriously doubt that the proposed indicators could be appropriate to the business and stakeholders of all co-operatives.
- (26) For instance, although developing an indicator on the member satisfaction (a) might be considered as highly relevant at first glance, looking at more closely, it is too subjective. In fact, considering that the mission of the cooperative should

⁶ OJ L 207 of 18.8.2003, p 1.



be the basis for “cooperative non-financial reporting” our members would instead favor more objective criteria. E.g. looking at cooperative banks criteria such as the “access to credit”, “amount of loans extended to SMEs”, “special rates” etc could be pertinent.

- (27) Moreover, we consider that the other three proposed indicators (i.e. b) average percentage of members voting in elections, c) salary and benefits multiple, and d) co-operation with other co-operatives) could be applied to all cooperatives and do not address specific “cooperative” features.
- (28) For example, although promoting “salary and benefits multiple” is very important in European cooperative banks, this could not be considered as a specific cooperative practice. While it might be especially relevant for workers cooperatives, promoting “salary and benefits multiple” is not part of a classical cooperative banks’ mandate. On the other hand, Co-operative banks were historically founded to improve access to finance for their co-operative members who would have had otherwise limited access to finance at reasonable conditions, not to increase the employees’ salary conditions.
- (29) Besides, in some countries, companies are required to disclosure in the annex of the annual accounts data concerning the entire personnel expenses. While providing the average number of employees as well as the total remuneration of the management and the supervisory board, the added value of reporting the employee remuneration multiple is questionable.
- (30) Similarly, in some cooperatives the “average percentage of members voting in elections” and the “co-operation with other co-operatives”, whether could be qualified elements to describe the governance strategy, are not considered to be part of the entity’s aim (at least according to the statutes).
- (31) In conclusion, the very focus of “cooperative non-financial reporting” should be on the mission/mandate of the cooperative as laid down in the statutes. By consequence, indicators considered as to be the most appropriate may vary considerably from a cooperative to another.

3. QUESTION

Do you agree that the following factors should influence the choice of elective co-op indicators

- a. the sector in which the co-operative operates,***
- b. the particular activities the co-operative is engaged in,***
- c. the size of the co-operative,***



- d. the stage of development of the co-operative,*
- e. the type of co-operative member ownership (e.g. employee led, consumers, businesses, multi-stakeholder),*
- f. the country, community, culture and environment in which it operates,*
- g. the co-operative's current strategic priorities?*

EACB response:

EACB agrees that the see after factors could influence cooperatives in their choice of co-op indicators for co-operatives. However, according to our previous response, sufficient flexibility has to be provided and reporting should remain on a voluntary basis.

Developments:

- (32) We consider that the use of Key Performance Indicators could be useful only if those indicators are simple to use by the entity.
- (33) Moreover when establishing common co-op indicators sufficient flexibility is required both for measuring of and for reporting on member benefit.

4. QUESTION

Are there any additional items to include in the common co-op indicators?

EACB response:

No.

Developments:

- (34) As explained in our previous responses, any developed new indicators should not be too burdensome for companies. Therefore, we will not push for an over-development of indicators, which might lead to overlap of indicators.
- (35) Moreover, some European co-operative banks consider that the current EU regime of disclosure of non-financial information (see above) is convenient and therefore do not want to push forward for additional mandatory reporting in these fields.



- (36) Furthermore, administrative burdens and additional costs are definitely an area of concerns for the smaller European cooperative banks.

5. QUESTION

Are there any items currently listed that you feel are inappropriate for inclusion?

EACB response:

Yes.

Developments:

- (37) As explain in our response to question 2, since missions and ambitions of co-operatives differs, we doubt that all retained indicators would be relevant to the business and stakeholders of all individual co-operative.

In addition, there is a risk that some factors limit the ambition of a co-operative business to fulfill its commitment to social responsibility (for instance, when a co-operative looks to go beyond compliance with certain cultural or regulatory requirements i.e. reporting on environmental impacts etc.).

6. QUESTION

Are there any revisions you would recommend regarding the existing wording, structure and/or order of items?

EACB response:

Please refer to our previous answers.

7. QUESTION

Do you agree that the non-financial information should be audited?

EACB response:

EACB is strongly against an audit of those non-financial information.

Developments:



- (38) As EACB expressed in many occasions⁷, we consider that the non-financial reports should not be audited.
- (39) Auditors could be requested to give their opinion on non-financial information reporting, however, any future steps regarding the publication of the report should remain in the responsibility of the company.

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⁷ See EACB comments on the European Commission consultations on audit policy, December 2010 and disclosure of non-financial information, January 2011.