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VH/MM

**EACB Comments on
EFRAG Secretariat Working Paper: Early stage analysis
Potential Effects of the IASB Discussion Paper
Financial Instruments with Characteristics of Equity [FICE
DP/2018/1]**

The European Association of Cooperative Banks (EACB) gladly takes the opportunity to comment on the EFRAG's "Working paper: Early-stage analysis – Potential Effects of the IASB Discussion Paper on Financial Instruments with Characteristics of Equity (FICE)" issued by the EFRAG Secretariat on 28th February 2019.

The EACB appreciates the EFRAG's efforts to address a first overview of some of the possible effects of the IASB's DP FICE, and in particular the elements referred to in page 26 para. 4.50 and 4.51 regarding co-operative shares.

We are delighted that EFRAG points out in para. 4.26 that cooperative shares could be impacted due to the application of the amount feature, and that in para. 5.8 that this could result in a potential adverse impact on capital adequacy due to potential reclassification. As indicated in the same para. 4.26 also the EBA has indeed highlighted to the IASB the concerns of cooperative entities. These references will ensure that the matter gains due attention

Nevertheless, we understand wording of para. 4.50 and 4.51 of the EFRAG Secretariat Early Stage analysis as suggesting that the classification of the members' shares would not be affected by the proposals in the IASB DP due to the fact that IFRIC 2 provisions would be retained. In its presentation for "Key themes emerging from feedback" about the DP FICE for the Board Meeting on 13th March 2019, the IASB also seem to illustrate this at page 29.

As indicated in our response (letter 18-080 from 30th November 2018) to the consultation on the draft EFRAG comment letter to the IASB, the fact that the provisions in IFRIC 2 alone would be carried forward is not sufficient to unequivocally dispel doubts regarding potential adverse effects on the equity classification of cooperative shares. Several supervisors and National standard setters – notably including the EBA, BCBS, EFRAG, ANC, ASCG – highlighted the problem of the interaction between IFRIC 2 and the amount feature.

As very appropriately mentioned in the comment letter that EFRAG submitted to the IASB:

- *"the DP has not considered in detail the business model of co-operative entities and how the 'amount feature' would apply to those that currently apply IFRIC 2. EFRAG considers that use of the 'amount feature' would place a large question mark upon the equity classification of cooperative member shares and member certificates. This is because the 'amount feature' does not take into account the way in which members participate in the capital of the cooperative (e.g. on liquidation members of cooperative entities typically receive their 'capital paid in' amount (face amount) and may participate in the losses)";*

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- *“In addition, EFRAG recommends to the IASB to consider integrating IFRIC 2 to IAS 32 during any revisions to IAS 32”.*

We would encourage EFRAG to resume these arguments also in its early stage impact assessment.

Indeed, it must be beyond any doubt that co-operative member shares and certificates are equity in the financial statement, if they are in line with the principles of IFRIC 2 and in consideration of their current loss absorbency features. We believe that the integration of IFRIC 2 into IAS 32 would allow to stress the undisputed recognition by the IASB of members' shares as equity, and to mitigate the fact that they are treated by exception. However, if the IASB were to move on with its preferred approach, IFRIC 2 would have to be complemented with additional elements.

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