日本生活協同組合連合会
JAPANESE CONSUMERS' CO-OPERATIVE UNION
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JAPAN

20th October 2006

Professor Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David,

Sub: Comments on the amendment to IAS 32 Financial Instruments Puttable at Fair Value

On behalf of the Japanese Consumers' Co-operative Union, National Federation of Consumer Co-operative Societies in Japan, which has 625 affiliated co-op societies totaling 23.4 million individual members nation-wide, we are pleased to comment on the Exposure Draft of proposed amendments to IAS 32 and IFRIC 2

We have discussed and accepted many of the IAS standards, once they are established. The Proposed Exposure Draft, however, added, "Financial instruments puttable at fair value" into a category of equity classification, which is creating some confusion to our understanding, mainly at the following points:

<u>IAS32 paragraph 11 "Liability", paragraph 16 (a) and paragraph 17A</u>
<u>IFRIC 2 paragraph 6 and paragraph 9</u>
In these paragraphs, "financial instruments puttable at fair value" are set aside and do not go through definition process. If such financial instruments are members' shares of co-operative entities and classified as equity, they should go through paragraphs 7 and 8 of IFRIC 2, i.e. "whether or not the entity has an unconditional right to refuse redemption" and "whether or not redemption is prohibited by local law or governing charter", and/or examples 1 through 7 of the same. If they do not satisfy these definitions and conditions, financial instruments puttable at fair value should not be classified as equity. Although they may look similar to ordinary shares, they are not the same. IASB should keep stiff attitude as a standard setter.

Another issue is that the proposed amendment seems to have a tentative nature. The Exposure Draft says that this is a short-term solution and the Board will undertake in its long-term project with the FASB. Thus we would have to expect that both IAS32 and IFRIC 2 are subject to possible changes in the relatively near future. Apparently IASB acknowledges that proposed exposure draft is not consistent with the definition of framework. Your people set out the standard. Sorry to say, but, such approach is less responsible, if IASB is seriously trying to establish common accounting standards applicable worldwide.

IFRIC 2 fine-tuned how to classify members’ shares for us (paragraphs 7 & 8). Also it has introduced more practical approach applying a concept of “sole discretion” (Example 1). After IFRIC 2 came into effect, we have started working on it. Our presentation practice of the members’ shares is against either existing or proposed standard. Japanese jurisdiction does not allow us to immediately accept the standard. We are not comfortable with it. Although we would try to match up with the standard, we have to do lots of things. Since the exposure draft was proposed, we feel we have got lost. “Conflict with existing law” seems to be a very common problem in the world. We would hope IASB to listen to as many co-operatives as possible, in order to re-establish consistent standard for co-operatives.

Sincerely submitted,

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Toshifumi Yamashita
Vice President

cc for Mr. Ivano Barberini, President, International Co-operative Alliance (ICA)

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Dear Sir David,

Besides submitted comments on the proposed exposure draft, we would ask you to respond to the following questions and/or give good consideration in the final IAS text:

(1) Amendments to Paragraphs 6 and 9 of the IFRIC 2
 We have no English grammar to have a good grasp on the amended paragraphs. Do they collectively mean:
 a. Member's shares are liability if members have right to request redemption?
 b. Members' shares are equity, if they are financial instruments puttable at fair value?

(2) Financial instrument puttable at fair value is now classified as equity. Our members' shares are financial instrument puttable at book value, which is to be classified as liability. Is "Fair Value" or "Book Value" a key element to classify equity vs. liability?

(3) In our case, redemption happens only between the issuers and holders. Under such situation, IAS 39 does not help us to figure out the Fair Value (Paragraphs 48 & 49; AG69 through 82). The only formula that we can think of, is as follows:
 ("Total Assets" minus "Total Liabilities")
 divides "Number of Shares Issued".

Is it correct, or does the Board have intention to give additional guidelines on how to determine fair value of financial instrument like our members' share?

(4) If we give part of retained earnings of the entity to members as their shares and account for at book value, could we classify them as equity?

(5) Do you require additional information as to fair value, even for members' shares that are not redeemable?

(6) We know some of the European co-operatives changed their governing charter already, so that they could reject redemption. In Singapore, one of the co-operatives already changed classification of its members’ shares to liability instead of equity, because they are redeemable upon request. Do you acknowledge those facts?

(7) Japanese Co-operative Law entitles residual interests of members only at liquidation. Does it form a reason that we classify members’ shares in equity category? Under such situation, do we have to disclose the fair value at the end of each fiscal year as a “Going Concern”, which will be applicable to possible redemption in the next year?

Awaiting your reply,

山下 俊史

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cc for Mr. Ivano Barberini, President, International Co-operative Alliance (ICA)