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CEARC Report no. 1

Report on comments received on CEARC working paper 1:

Towards an international statement of
recommended practice (iSORP) for
co-operative accounting and reporting

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The Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) is sponsored by:

- Saint Mary's University
- Canadian Institute of Chartered Accountants
- The Co-operators
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1. BACKGROUND

CEARC Working Paper 1: *Towards an international statement of recommended practice (iSORP) for co-operative accounting and reporting*, was published in November 2007. It was made available for download on the CEARC website and was also e-mailed out to those on the CEARC distribution list. The list includes: sponsors, Co-operative Management Education Co-operative (CMEC) members, co-operative apex organizations, accounting bodies, academics, accountants and co-operators who have indicated an interest in the topic.

The deadline for comments was 28 February 2008. The working paper included seven questions for feedback:

1. Do you see current GAAP and the existing accounting framework as adequate in guiding co-operative accounting and reporting?
2. Is development of a co-operative iSORP a useful addition?
3. What, if any, of the issues covered under iSORP topics are currently of concern to you?
4. What other issues would you want an iSORP to provide guidance on?
5. To what extent do you think an iSORP can improve accountants' understanding of co-operatives?
6. Should co-operative identity, purpose, values and principles influence co-operative accounting and reporting?
7. Is the proposed process of dissemination and feedback appropriate?

2. RESPONSES RECEIVED

Nineteen responses were received (Table 1 below provides a breakdown by type of organization). Eight of the nineteen respondents provided comments related to the working paper. The remaining eleven included: one who indicated they had passed it on for consideration by a sub-committee, eight who indicated an interest in the idea without providing detailed comment and two who did not indicate a view. This report focuses on the eight respondents providing comments relating to the CEARC working paper (see Table 2, on page 4).

Table 1: Breakdown of all nineteen responses by type of organization

Accounting body	3
Co-operative	4
Co-operative apex organization	6
Co-operative regulatory organization	1
Co-operative researcher	5

While the number of responses is relatively small this compares favourably with accounting standards setters in relation to responses to their exposure drafts. For example, of the five exposure drafts with comments letters on the Canadian Accounting Standards Board website on July 4, 2008, only one had received more than twelve comment letters while two had received

only five comment letters.¹ Similarly, the first three New Zealand International Financial Reporting Standards (NZIFRS 1, 2 and 3) received between three and seven comment letters².

Table 2: Breakdown of eight respondents providing comments, by type of organization

Accounting body	3
Co-operative	3
Co-operative apex organization	1
Co-operative regulatory organization	1

It should be noted that although the above analysis is by organization type, respondents were not necessarily providing comments endorsed by their organization.

3. FEEDBACK ON QUESTIONS

Of the eight respondents providing comments, four responded directly to the seven questions in the working paper.

Question 1: adequacy of current GAAP

Three out of four indicated that current GAAP was not adequate for co-operative accounting and reporting, while one did not indicate a view either way.

Question 2: iSORP a useful addition

Four out of four view an iSORP as a useful addition. One pointed out its potential for improving transparency, while another indicated the need to recognize and consider potential difficulties in accommodating different co-op models and jurisdictions in the iSORP recommendations. Two respondents also mentioned the need for appropriate international bodies to approve/support the iSORP. In particular, the International Co-operative Alliance (ICA) and the International Accounting Standards Board (IASB) were mentioned.

Questions 3 and 4: iSORP topics

The most frequently mentioned topic was the classification of financial instruments and the ongoing debate and uncertainty regarding the classification of co-operative member shares as equity or liabilities. A number of other co-operative specific accounting issues were mentioned, which appear to link to various aspects of co-operative identity, including co-operative

¹ Canadian Institute of Chartered Accountants website, http://www.cica.ca/index.cfm/ci_id/11252/la_id/1.htm, retrieved July 4, 2008.

² New Zealand Institute of Chartered Accountants website, <http://www.nzica.com/NavigationMenu/StandardsPolicy/FinancialReportingStandards/SubmissionsAnalysis/isonEDs/default.htm>, retrieved July 4, 2008.

membership characteristics, co-operative purposes and goals. Of the ten topics identified by respondents (see Table 3, below) two have relevance to non-financial reporting (i.e. compliance with co-operative principles and multiple bottom line reporting).

Table 3: Breakdown of potential iSORP topics mentioned by respondents

Classification of financial instruments as liabilities or equity	3
Payments to members and community	2
Reporting on mandated reserves/funds	2
Reporting members interests on balance sheet	1
Business combinations	1
Related party disclosure	1
Presentation of financial statements	1
Funeral bonds/pre-payment plans	1
Compliance with co-operative principles	1
Multiple bottom line	1

Question 5: iSORP improving understanding of co-operatives

Three out of four respondents answered this question and indicated its potential for improving understanding and potentially making co-operatives more visible. One respondent felt that there was currently no recognition of any co-operative difference by the accounting profession. All three respondents answering this question felt an iSORP could assist recognition of co-operatives in accounting. One respondent made mention of the current imbalance and absence of co-operative examples in accounting textbooks.

Question 6: Should co-operative identity influence accounting?

Three out of four respondents answered this question. All three agreed that co-operative values and principles should influence co-operative accounting and reporting. One respondent indicated that profit was not the primary motivation in co-operatives while another mentioned the importance of meeting member need and promoting self help and social justice.

Question 7: CEARC approach to dissemination and feedback

Two out of four respondents provided suggestions regarding dissemination and feedback. Two respondents suggested that accounting bodies and the larger audit firms should be approached with a view to encouraging their consultation and involvement in the process. One respondent suggested increasing the comments deadline from three months to four months. One respondent pointed out that interested persons in developing countries may have limited access to the internet. Use of co-operative apex organizations as a bridge was suggested.

4. OTHER COMMENTS

Six of the eight respondents provided comments outside of the list of seven questions. These comments are summarised below.

Importance of involvement and or recognition by appropriate international bodies

Three respondents point to the need for approval and/or support at the international level. Specifically, the support/approval of the IASB and ICA is described as “critical”, “crucial”, while one respondent mentions the “clout” provided by umbrella organizations.

Other challenges to implementation

In addition to the question of involvement of appropriate international bodies, other factors were mentioned regarding the successful implementation of an iSORP. These included: securing funding for implementation, administration and development; defining the co-operative sector; defining the scope of the iSORP; gaining widespread agreement, approval and acceptance; and recognition for the iSORP body. These factors were mentioned by one respondent as reasons why they had not sought to develop their own national SORP.

Need for a conceptual framework

One respondent suggested the need to develop a conceptual framework in order to lay the foundation for iSORP discussion and content. Key issues mentioned in respect of developing an iSORP included: the centrality of accountability and transparency; information overload; complexity; advances in IT; and importance of narrative reporting.

A comprehensive international SORP

One respondent noted that an international SORP may avoid the hurdles that a national SORP could face in any attempt to apply it outside of its existing national setting. It was also noted that a SORP that seeks to provide a comprehensive set of recommendations may prove to be a stronger document, more likely to be of use to co-operators and accountants. One respondent noted that globalization of accounting standards may make an international SORP an appropriate response.

Visibility and improved understanding

A number of respondents noted the potential of the iSORP to raise the visibility of co-operatives in accounting. This has the potential for: greater, more transparent and open discourse of co-operative accounting issues; improved understanding of co-operatives by accountants; improved clarity through application of recommended practice and improved practical assistance to preparers and users of co-operative financial reports.

5. CONCLUDING REMARKS

The responses received were generally supportive of further exploration of the idea of a co-operative international SORP. A number of respondents identified a range of accounting issues and topics where a distinct co-operative accounting approach may be of benefit to the users of financial reports. Some respondents also pointed to the variety of challenges facing development, recognition and implementation of an iSORP.

The comments point to a number of areas for further co-operative accounting research, including:

- Development of a conceptual framework for co-operative accounting.
- Identification and discussion of those areas of accounting and reporting where a co-operative approach could differ from the mainstream investor owned business approach.
- Consideration of the degree to which the co-operatives do or don't represent a homogeneous sector and the implications for developing appropriate accounting recommended practice.
- Consideration of co-operative non-financial reporting.
- Relating co-operative identity and purpose to reporting to members.
- The effectiveness of existing SORP examples and lessons for co-operative accounting.

In addition, some of the comments highlight issues around the practicalities of developing an iSORP. For example: the crucial role of co-operative and accounting apex organizations in any process of administration and implementation, the value to co-operators and accountants of a comprehensive form of guidance, and the importance of allowing sufficient time for dissemination, consultation and comment.

The iSORP offers a useful focus and direction for CEARC research in that it is possible to explore those areas of co-operative accounting and reporting of concern to co-operators while also considering the degree to which such areas and topics can be addressed at a practical level through the a single comprehensive form of guidance. The iSORP provides a useful link between research and practice, while also offering considerable flexibility in relation to allowing us to consider what a co-operative approach to financial reporting might look like.