



Ms Kris Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Melbourne VIC 8007

11 April 2017

Dear Kris

Firstly may I thank you and Clark for the time you spent with Judith Downes, Kevin Franey, Tony Connon, Kay Plummer (by phone) and myself on 3 April. We found the discussions very helpful in understanding your approach and processes so enabling us to refine our thinking in relation to possibilities for future co-operation.

As we mentioned, our approach to you follows on from the issue of the report of the Senate Economic References Committee inquiry into 'cooperative, mutual and member owned firms'.

The report highlighted the scale and contribution of these sectors to the Australian economy and development of community. Co-operative and mutual enterprises are a significant contributor to the Australian economy: 8 in 10 Australians is a member of at least one co-operative or mutually owned organisation and annual turnover of the top 100 firms (excluding member-owned superannuation funds) was \$30.5 billion in FY2014/2015. With an estimated 2000 co-operative and mutual enterprises operating nationally representing a total of 14.8 million memberships the top 100 Australian co-ops and mutuals (including mutual superannuation funds) have combined assets of \$143.7 billion and operate in a diverse range of sectors including agriculture, finance and banking, insurance, motoring services, health services, aged care, disability employment, education, indigenous services, social housing and retail.

The report also highlighted that one of the major reasons why our members (hereafter Co-operative and Mutual Enterprises – CMEs) are sometimes constrained in the achievement of their objectives is that too few people have an understanding of what differentiates a CME from a shareholder based company. One of the causes for the lack of comprehension is that the picture is indeed a little 'murky' with CMEs having been established under a variety of regulatory regimes including the Corporations Act, the various state-based Co-operatives Acts and the Incorporated Associations Acts. The main reason however is that CMEs are not generally part of the education curricula for either the business-related courses of the universities or for the qualifications of professional bodies covering accountants and lawyers.

We believe that a focus on reporting by CMEs will help to address the current lack of awareness of the sector.

More importantly, we would like the sector to have guidelines that assist CMEs to ensure they have reported fully to their members on their achievements, their regulatory framework and their attainment of their purpose.

Our two main requests are for you to:

- Issue a guidance note for CMEs setting out desirable standards of reporting of those characteristics which separate them from shareholder-based companies; and
- Initiate a project to identify appropriate principles and measures for reporting on the activities that CMEs have undertaken in order to achieve their purpose

On our part, we have committed at the meeting to draft a set of 'staff' FAQs to provide helpful guidance. We will provide this to the AASB shortly.

The rationale for the request for a Guidance Note is the other side of the 'lack of understanding of CMEs' coin. The CME sector cannot be aggrieved about being unrecognised as different if it does not ensure that it reports its differences as thoroughly as possible. Your Guidance Note would ensure as far as possible that the reporting is of the desired high quality and consistency. In Appendix A attached, we set out those areas which we suggest should be covered by your Guidance Note and would be happy to discuss the relative importance of any characteristics of CMEs which you think should be reported on. You will note that philosophically we regard CMEs as a viable alternative to shareholder based companies in the commercial provision of goods and services with neither form better than the other – just different.

A few examples might provide an initial appreciation of the range of entities within the CME sector:

- Co-operative Bulk Handling is the largest CME by turnover in Australia. It is based in Western Australia and handles the vast bulk of the grain harvest there from silo to end user. It is owned by its grower deliverers and registered under the state based WA Co-operatives Act. It is also registered as a Charity by the ATO and so does not pay company tax on member activities in that part of the business (subsidiaries are not exempt as a charity). Its 4000 members pay tax on income as individuals.
- Bank Australia, originally established as the CSIRO Credit Society in 1957 and licensed by APRA as the first Mutual Bank in 2011, provides retail banking and financial services products. It has approximately 130,000 members and is a company limited by shares. Each member is issued one share free of charge but they are not transferable. This mutual pays tax at the standard corporate rate.
- HCF is the third largest health insurance fund in the country with approximately 675,000 contributors. It is operated by a not-for profit company limited by guarantee with 24 members and although not a charity is exempt from tax due to a specific provision in the Income Tax Assessment Act.
- RAA SA is a motoring organisation founded in 1903. It is constituted as an Incorporated Association under that state's relevant legislation and has approximately 670,000 members (with health insurance covering 1.5 million Australians). It pays tax at the standard corporate rate.
- Australian Unity Ltd was originally established as a Friendly Society in 1840. It provides its approximately 1 million customers (of which about 300,000 are members) with a range of services including healthcare, health insurance, funds management, building society products, personal financial services, aged and home care and retirement living. It is a public company limited by shares and guarantee. There are no shares on issue and the guarantee amount is \$2 per member. It has issued a listed simple corporate bond and pays tax at the standard corporate rate except in relation to certain friendly society bonds. It is regulated by APRA under the Life Act as well as in relation to Health Insurance and its Building Society.

The rationale for the request to initiate a project on principles and measurement that report on the achievement of purpose stems from the fact that CME's may not have financial performance as their principal objective. The objectives of CMEs are usually expressed in terms of the provision of services to members and/or specific communities and/or the community at large. The current financial reporting regime is based on listed company reporting, and focuses on financial outcomes. However, some users of the CMEs reports may not feel that they are satisfactorily informed of the comparative performances of various (competing) organisations without being provided with the additional yardsticks which clarify all of the principal outcomes from the deployment of the entities' resources. Some aspects of the context for this requirement are that alternative suppliers of similar services might be:

- A registered charity which may only use its resources to pursue specific goals but does not pay tax on any revenue generated;
- A for-profit mutual which may use its resources in any way it wishes to (within the objects in its constitution) for the benefit of its members but will pay tax on any net surplus it generates or just on that part which relates to non-members;
- A distributing co-operative which will have purchased its 'raw materials' from its members at prices it determines (not necessarily the market price) and distributes some of its surplus after tax back to those same suppliers but not necessarily in proportion to their deliveries;
- An unlisted proprietary company which is not required to report more than some basic facts even if it is the among the largest players in a particular marketplace;

- A listed public company whose directors have a duty under the Corporations Act to manage it in the best interests of the corporation. What the 'best interests' are is not defined and, in spite of there being over a hundred years of case law, whether the allocation of resources to anything else other than profit-oriented activities has not yet been fully tested.

Financial criteria alone certainly do not allow a full appreciation of the relative merits of the outcomes from these diverse operating circumstances.

We appreciate that you have many calls on your time but if you were to undertake the project we would certainly provide advice and any information which we can reliably source, and we have formed a working group of industry practitioners to effect this assistance, and secondly we could make available to you on a contract basis an appropriately experienced professional in the CME space to work on the guidance note.

Without wishing in any way to question the expertise you have developed in formulating accounting standards we would like to ask you to give consideration to three further matters which might allow you to be even more confident that the standards you promulgate are as applicable to CMEs as they are to the other entities. We suggest that you consider:

- The incorporation of an additional specific step in your standards development process which seeks to test the applicability of each standard to CMEs and whether further guidance is needed for them;
- Inclusion on any advisory panel of at least one member with expertise in the CME space;
- Nomination at a suitable time of a suitably qualified CME expert for appointment to your Board.

Once again we would like to thank you for your time and look forward to working with you in relation to our requests and in any other way which would assist us all in ensuring that CMEs achieve proper recognition.

I look forward to your reply in relation to whether we can put forward an experienced professional to work with your team.

Yours sincerely



Melina Morrison  
Chief Executive Officer

### POTENTIAL GUIDANCE NOTE TO BE ISSUED BY THE AASB FOR ADOPTION BY CO-OPERATIVE AND MUTUAL ENTERPRISES (CMEs) IN THE PREPARATION OF GENERAL PURPOSE REPORTING.

The following additional disclosures should be made by CMEs:

- 1. Corporate Status**  
The specific Act of either the Commonwealth or a State that the entity is constituted under and any specific regulations which apply to it.
- 2. Membership**  
The basis of eligibility for voting membership and movements in voting member numbers (voting rights to be defined in terms of entitlement to appoint directors).
- 3. Objectives**  
A brief outline of the objectives of the organisation as specified by its constitution and the metrics which are used in order to determine success in meeting them.
- 4. Tax status**  
Disclosure of whether the entity is subject to income tax at the standard rate on all of its revenues and expenditures and, if not, which revenues and expenditures are exempt and under which provisions of the Income Tax Assessment Act.
- 5. Accounting Policies**  
Whether the entity has adopted any specific accounting policies to cater for the fact that it is a member-owned organisation.
- 6. Distortions in reporting**  
Whether or not the implementation of accounting standards results in any perceived distortions in the reporting of financial status or results due to a lack of applicability to the particular circumstances of a CME. Quantification of the effect of the distortion (examples might include donations being taken through the profit and loss account rather than direct to equity or assets belonging to members being treated as owned by the CME simply because they are registered in the name of the CME).
- 7. Member interests**  
The exact nature and the terms of issue and redemption of any member interests in the organisation and the movements thereon.
- 8. Member/Community benefits**  
A table of the movements in the level of benefits provided to members.
- 9. Member transactions**  
An analysis of the revenues and purchases of the organisation split between members and third parties.