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AASB HOT TOPICS

CO-OPERATIVE AND MUTUAL ENTERPRISES – COMMENTARY AND FAQs

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Co-operative and mutual enterprises (CMEs) have existed in Australia for centuries. Despite this long history, they are not recognised or understood by many Australians, and their impact on our society and economic life is not sufficiently appreciated.

Who should use this commentary and FAQs?

Existing and potential members of CMEs

Existing and potential members of CMEs and other users of their financial statements will benefit from a greater understanding of how these types of entities differ from other organisations, and what implications these differences might have when assessing their financial position and performance. Users should have a better understanding of the financial statements of CMEs as a result.

Preparers of financial statements of CMEs

This commentary provides guidance for preparers of financial statements for CMEs to encourage the consistent application of Australian Accounting Standards.

In addition, preparers who are more transparent and able to explain the distinguishing features of CMEs and the specific characteristics of their entity that differ from others, should obtain substantial benefits. These benefits include enabling potential customers for CMEs' goods and services to identify suppliers which are aligned with their objectives, and enabling CMEs to access funding for their development more easily due to an improved public appreciation of their financial status and features.

How important are CMEs?

As there is no central definition or register of CMEs, there is no complete data set depicting the extent of their activities. However, we do know that in total upwards of 2,000 CMEs have been recognised ranging in size from local co-operatives operating the general store in a regional town through to pivotal enterprises such as the primary grain handler in the highest grain-producing state of Western Australia. By number there are far more mutual banks/credit unions/building societies licensed by APRA as Authorised Deposit-taking Institutions (ADIs) than there are shareholder-owned banks, though their combined assets are far less than their listed competitors.

Statistics drawn from the National Mutual Economy Report 2017 (refer bibliography) include:

- the Top 100 CME's had a combined turnover of \$30 billion;
- over five years, the turnover of the Top 100 grew by 6.6% per annum;
- the combined assets of the Top 100 reached \$152.9 billion in 2015; and
- there were 29 million active members of CMEs in 2016 – so clearly many people are members of more than one.

What guidance is available?

- **Background Frequently Asked Questions (Q1-Q8)** – addressing what Co-operative and Mutual Enterprises (CMEs) are, how they differ to other entities and some of the relevant issues affecting them;
- **Financial reporting Frequently Asked Questions (Q9-Q15)** – addressing financial reporting issues specific to CMEs, such as accounting for member interests;
- **Additional financial reporting example disclosures** – possible additional reporting by CMEs aimed at informing stakeholders of their CME status and its implications; and
- **Appendices** – a bibliography of some other relevant sources of information on the CME sector and details of the co-operative principles.

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SECTION 1

CO-OPERATIVE AND MUTUAL ENTITIES (CMEs) – WHAT ARE THEY, HOW ARE THEY DIFFERENT AND WHY DOES IT MATTER?

Q1 What distinguishes CMEs from other competitive service providers?

Our every-day goods and services are supplied by a wide variety of enterprise types. They range from the local corner shop run by a family through to well-known companies listed on the Australian Stock Exchange owned by large numbers of shareholders. One thing that many of those enterprises have in common is the desire to return a profit to their investor owners.

Co-operative and Mutual Enterprises (CMEs), however, are established with the objective of benefitting their members and/or the community as a whole by the provision of goods and services rather than with the dominant objective of returns to external investors.

The key areas in which CMEs differ from other entities include the following:

- status and objectives as a mutual entity (Q3 and Q4);
- regulatory regime(s) and legal status (Q3 and Q5);
- taxation status (Q6); and
- types of member interest in profit and net assets (Q7).

Q2 Why does it matter whether an entity is a CME?

From the perspective of an existing or a potential member, or another user of CME financial statements, the differences between CMEs and other entities are important in assessing the performance of the CME and whether resources should continue to be allocated to it. A good performance for a CME with a primary objective of maximising benefits to members through providing goods and services (e.g. all monies received spent on services to members with a low profit margin, but very high member and community satisfaction) may look very different to that for a company that has a primary objective of maximising profits to external investors. Similarly, comparing a CME that is a company limited by guarantee where profits may not be distributed to members to a CME that is a company that can distribute profits may result in a distorted view that one is better to invest in than the other.

From a financial statement preparer perspective, the more transparent a CME in terms of the key risks and opportunities arising from its specific CME status, the more likely existing and potential users are to allocate resources to it. Accounting Standards are not written specifically for CMEs, and so preparers need to ensure their financial statements provide users with relevant information regarding their unique characteristics to enable a proper assessment of their performance. Q15 provides recommendations for additional CME specific disclosures that should be provided.

Q3 What are co-operative and mutual enterprises?

‘Co-operative and Mutual Enterprises’ (CMEs) is a term adopted by the Business Council of Co-operatives and Mutuals (BCCM) to identify those entities that seek to provide goods and services in a commercial manner to the benefit of their members and the community in general, within a

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governance framework of one member, one vote and with limited capital input from non-member investors.

CMEs are established with the objective of benefitting their members and/or the community as a whole by the provision of goods and services rather than with the dominant objective of returns to external investors. The basic tenet of mutuality, that a group of people acting together will achieve more for their mutual benefit than they will by acting alone, is shared by both co-operatives and mutuals.

Co-operatives

A co-operative is an entity that is run by, and for the benefit of, its members. Members of a co-operative actively participate in the setting of policies and decision making, and all members have equal voting rights.

The *Co-operatives National Law* (CNL) is a uniform legislative scheme that now covers all states and territories except Queensland (*Co-operatives Act 1997*) and Western Australia. Western Australia has its own *Co-operatives Act 2009* that is consistent with the CNL. However, the CNL is still administered by separate State and Territory-based registrars. In order to be registered as such, a co-operative must include in its Constitution adherence to the Co-operative Principles as set out in section 10 of the CNL and in comparable sections in the legislation in Western Australia and Queensland. An entity cannot call itself a co-operative unless it is so registered (though in some cases an entity incorporated under the *Corporations Act 2001* with an appropriate constitution will also qualify). The relevant Co-operative Principles are those which have been adopted by the International Co-operative Alliance. They require an active approach to the development of the mutual concept and broader social values (refer Appendix B).

Registration is largely conditional on the registrar approving the rules of the proposed co-operative. More particularly, 'the proposed co-operative must be designed to function under the co-operative principles or, if it is not designed to function entirely under the co-operative principles, the Registrar must be satisfied there are special reasons why the co-operative should be registered' (section 27(2)(c) of the CNL).

The Co-operatives legislation provides Model Rules for a constitution, and each State or Territory Registrar provides fact sheets or guidance materials for the registration process. The rules for registration under the CNL are found in sections 21-27, and the co-operative principles are set out in section 10.

Mutuals

Mutual entities, on the other hand, are not defined in legislation. Mutuals may take many different legal forms, such as a company or an incorporated association. A mutual entity is an organisation based on the principle of mutuality. Unlike a co-operative, members usually do not contribute to the capital of the company by direct investment, but derive their right to profits and votes through their customer relationship. Examples of mutuals include financial institutions like Bank Australia, Beyond Bank, Employers Mutual and Rabobank; motorist clubs such as RACV, RACQ, etc; pharmacies like National Pharmacies; and a variety of other businesses.

Mutuals are regulated under the Corporations Act, various State/Territory-based Incorporated Associations legislation (e.g. the *Incorporated Associations Reform Act 2012* (Vic)) or the general law relating to trusts, depending on their legal structure.

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One guide as to what a mutual entity is can be found in ASIC's Regulatory Guide RG 147 *Mutuality – Financial Institutions*. RG 147 specifies the two basic planks of the Principles of Mutuality to be (1) the economic relationship between the company and its members and (2) the requirement for democracy in governance, which is often expressed as the 'one member, one vote' rule. The latter is also Principle 2 of the Co-operative Principles.

Most mutuals retain all profits in order to develop their ability to achieve the objectives for which they were established, in service to their members and the community. This is not necessarily the case for co-operatives (see Q4).

Q4 What are the differences between co-operatives and mutual enterprises?

Co-operatives fall into two main categories:

- Distributing co-operatives – typically these are formed by groups of either producers or purchasers of supplies who band together to either use common processing and/or marketing facilities or to establish a central purchasing facility. They range in size from state-wide enterprises down to localised set-ups which run just one establishment, such as a fish shop. Profits are distributed to members.
- Non-distributing co-operatives – such as a secretariat that provides advocacy and/or marketing services on behalf of participants in a particular industry. Profits are not distributed to members.

Mutuals also fall into two broad categories:

- Building societies, credit unions, friendly societies and mutual insurance companies were originally established under colonial/State-based legislation and only serviced their members, who came from a particular locality or profession, etc. Some have retained the restricted membership but many have broadened their activities and transact with members and non-members alike in competition with similar investor-based companies. They were brought under the then Corporations Law in 1999. Yet others were originally co-operatives or incorporated associations and adopted company status. Typically profits are not distributed to members.
- cultural associations, sporting clubs and industry groups, which are registered under the various State and Territory-based Incorporated Associations Acts – the majority by number of mutual entities. Typically profits are not distributed to members.

Q5 What legal structures can CMEs use?

CMEs can operate through various legal structures by reason of the multiplicity of ways in which laws have developed in Australia over the years. They can be registered as a co-operative either under the CNL or under Western Australia's or Queensland's individual State Acts. Alternatively, they can be registered under the Corporations Act as a company limited by shares, a company limited by guarantee or a company limited by both shares and guarantee. Some substantial CMEs are registered under their relevant State's Incorporated Associations legislation. Finally, many member-owned superannuation funds are trusts under the general law and some own their own corporate trustee.

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Accordingly, it is important from a financial reporting perspective that financial statement users are able to clearly identify what type of entity a CME is, and its regulator(s), as there will be different regulatory and compliance requirements depending on its legal structure and type of operations.

Q6 What is the tax status of CMEs?

The tax status of CMEs can be summarised as follows:

- Prima facie all co-operatives and mutuals are subject to income tax under section 4-1 of the *Income Tax Assessment Act 1997*, like any other individual or company.
- Some mutuals by the nature of their activities are entitled to Public Benevolent Institution status or a specific exemption under the Act and so do not pay tax on the net surpluses they generate for re-investment in their businesses. They are usually structured as companies limited by guarantee, as such companies are specifically excluded from making distributions to their members by section 254SA of the Corporations Act.
- All other mutuals are subject to taxation even if they do not distribute to members, but under the mutuality principle they receive an exemption from tax on that part of their profits generated from transactions between the entity and its members. The exemption arises from a legal principle established by case law that you cannot make a profit from dealing with yourself.
- The exemption under the mutuality principle is specifically overridden by various provisions in the Act which apply to those entities carrying on certain activities, such as life insurance or ADI business, irrespective of whether they are mutuals.

Therefore, it is important from a financial reporting perspective that financial statement users are able to clearly identify the tax status of a CME, as this may not be obvious from its legal status or its regulator.

Q7 What types of member interests are there?

There are many different types of member interests, ranging from shares to debentures, with some restricting distributions to members and others not.

Distributing co-operatives must issue member shares but not ordinary shares. Non-distributing co-operatives may elect to issue member shares. A co-operative may issue member shares in more than one class. Any co-operative may issue Co-operative Capital Units (CCUs) to members and non-members if provided for in its constitution. CCUs are similar to debentures and do not bestow membership on the holder.

Mutual companies limited by shares (or by shares and guarantee) may issue shares, both member shares and investor shares. Many mutuals require a new member to purchase a small number of member shares of nominal value, which are redeemable on cessation of membership.

ASIC's Regulatory Guide RG147 *Mutuality: Financial Institutions* envisages that mutuals could issue investor shares (entitled to a dividend only, not a vote or a share in surpluses) but not to such an extent as to allow the company's dominant purpose to become the individual gain of its investors. ASIC's guidance is that the portion of profit allocable to investors should not exceed 50%. The restriction is the embodiment of what ASIC refers to as the test for the economic relationship between the mutual and its members. If a mutual company issues investor shares, the more that these shares resemble ordinary shares rather than shares redeemable at the option of the holder

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and the bigger proportion that they represent of the total capital of the company, the more likely it is that the company will in effect be demutualising.

Accordingly, it is important from a financial reporting perspective that financial statement users are able to clearly identify the nature of the member interests, whether they are classified as equity or a liability (see Q14) and the particular terms and conditions for each class of member interest.

Q8 Are there current legislative proposals that might impact CMEs?

During 2015 the Senate Economics References Committee carried out a public enquiry into co-operatives, mutuals and member-owned firms. Its report in March 2016 (together with the submissions made to it) provided a substantial commentary on the CME sector as at that date. The report includes 17 recommendations, most of which encourage either further education on the sector or various measures to combat discrimination against it.

Two pivotal recommendations call for changes to the Corporations Act – to recognise mutuals as a separate type of company and to allow mutuals to issue capital instruments without resulting in involuntary demutualisation. These recommendations were referred by the Australian Treasurer to an independent review for further examination. The Independent Facilitator Review published in July 2017 (refer Appendix A) included recommendations that the Corporations Act be amended to include a definition of a mutual company and to expressly permit mutuals registered under the Act to issue capital instruments without risking their mutual structure or status. The Australian Government has agreed to these recommendations.

The Senate Committee also recommended that the role of directors in mutual enterprises be defined in the Corporations Regulations to align with the proposed definition of a mutual enterprise in the Corporations Act. This regulatory addition would make clear that in ensuring that they act in the best interests of the corporation as required by the Corporations Act, directors of mutuals would consider as paramount the purposes for which the mutual was established and its defined structure. In relation to investor-based companies, in the absence of any definition in the Act or regulations as to what might constitute the best interests of the company, the obligation has generally been construed as being to maximise the pecuniary returns to investors, which may not be consistent with mutual principles. The Australian Government has agreed to the Independent Facilitator's recommendation that it encourage ASIC to provide regulatory guidance on the duties of directors of mutuals.

Section 192(2) of the CNL allows a director of a co-operative to take into account the co-operative principles where relevant in forming a judgement as to what is in the best interests of the co-operative.

SECTION 2

ACCOUNTING AND REPORTING ISSUES

Q9 Are there any particular financial reporting requirements for CMEs?

CME reporting is based on the requirements of the legislation under which they are incorporated, their constitutional documents and their determination as to whether they are reporting entities under Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*.

The Corporations Act reporting requirements do not distinguish between investor-based and mutual companies. The Act provides relief for small companies limited by guarantee in section 285A.

The CNL establishes a reporting framework for all co-operatives and imposes lower requirements on those that fall within its definition of small co-operatives.

Q10 Are CMEs subject to Australian Accounting Standards?

If a CME is a “reporting entity” as defined in SAC 1, then it is expected to prepare general purpose financial reports that comply with Australian Accounting Standards.

Furthermore, the Corporations Act requires disclosing entities, public companies, large proprietary companies, certain small proprietary companies, certain companies limited by guarantee and registered schemes to prepare financial reports that comply with Australian Accounting Standards.

The Co-operatives National Law and Regulations provide direction on the nature of financial reporting, however this too is governed by the size of the co-operative (large or small) and whether it is a ‘reporting entity’ as defined in SAC 1 – section 274 of the CNL requires the financial report of large co-operatives to comply with Australian Accounting Standards.

Q11 Are there any Accounting Standards specific to CMEs?

None of the Australian Accounting Standards apply only to CMEs. Prima facie there should not be any such Standards, as CMEs are commercial enterprises engaged in varying levels of competition with investor-based companies and so it is highly desirable that their performance and financial status can be directly compared through applying the same Standards.

However, AASB Interpretation 2 *Members’ Shares in Co-operative Entities and Similar Instruments* applies particularly to co-operatives and similar entities. AASB 1053 *Application of Tiers of Australian Accounting Standards* also specifically identifies co-operatives that issue debentures as being publicly accountable entities that need to prepare full general purpose financial statements (Tier 1).

Q12 Are all CMEs not-for-profit entities for the purpose of financial reporting?

The distinction as to whether a CME is a not-for-profit (NFP) entity or a for-profit entity is important. NFP entities, as defined for financial reporting purposes,¹ have modified financial reporting requirements as compared to for-profit entities. The modified requirements under Australian

1 Not-for-profit entities are defined in various AASB Standards, including AASB 102 *Inventories*, paragraph Aus6.1: a NFP entity is an entity whose principal objective is not the generation of profit.

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Accounting Standards comprise some differences in accounting policies between NFP and for-profit entities, rather than differences in the scope of the financial reporting.

CMEs, like other entities, generally need to make a small profit in order to invest in their business and so meet their objectives of service to their members or beneficiaries. Many of them are NFP entities for taxation purposes because their rules require them to utilise their assets solely in pursuit of their objectives and prohibit them from distributing profits to their members.

The ATO and ASIC (in its economic relationship test for mutuality in RG 147) view a NFP organisation as one that does not operate for the profit or gain of its individual members either while the organisation is operating or when it winds up. The entity may make a profit, but the profit must be used to carry out its purposes and must not be distributed to owners, members or other private people.

CMEs need to carefully consider all relevant facts and circumstances, including their constitutional documents, published strategies and policies regarding their principal objectives, and their legal status, to determine whether they identify themselves as NFP entities. Effective financial reporting may depend on understanding the nature of the legal form used by the entity and the applicable legislative requirements.²

Some mutuals are NFP entities as they do not have their principal objective as generating profits from their activities.

Other CMEs, mainly distributing co-operatives, are specifically established to generate revenues by aggregating the produce or activities of their members and then return the profit to the members. Typically a group of producers or purchasers in the same industry agree to aggregate their produce, process it efficiently in a co-operative owned facility and sell it in bulk through a single sales force. The co-operative may return to members a portion of the profit generated through sales of their produce as a bonus/rebate on the amount delivered to/purchased from the co-operative and another portion as a dividend based on how many member shares are held. Similarly some mutuals, such as insurance companies, are run with the express purpose of achieving the best financial result through lower acquisition costs and returning the bulk of the savings to their members (though not in the form of dividends). These types of CMES are for-profit entities.

Q13 Which Accounting Standards have particular relevance to CMEs?

The following Standards are of particular relevance to CMEs:

- AASB 101 *Presentation of Financial Statements* is important because it sets the objectives, the presentation framework and the minimum disclosure requirements for General Purpose Financial Statements. See Q15 for further comments.
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires CMEs to develop their own accounting policies in the absence of a Standard or an Interpretation, provided it results in reliable information that is relevant to the economic decision-making needs of users.

2 For example, as noted in Q9, co-operatives that are classified as 'small' under the Co-operatives National Law will have reduced legislative reporting requirements in comparison with 'large' co-operatives.

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- AASB 112 *Income Taxes* specifies disclosure requirements relating to income tax. It is particularly important for CMEs to clarify their tax status because it depends on their individual circumstances (see Q6).
- AASB 124 *Related Party Disclosures* – although the connection between the members of a CME and the entity is very strong, members *per se* do not fall within the definition of related parties in paragraph 9 of the Standard, and so the disclosure requirements are not triggered in respect of members generally. Some members may have a controlling interest in a CME or have significant influence such that they as individual members are related parties of the entity.³ Nevertheless it is likely that additional voluntary disclosures of the extent and nature of the transactions between the entity and the members in aggregate would assist in understanding the nature of the activities of the organisation. Where members' financial interests in the CME represent equity instruments (see Q14), the Statement of Changes in Equity will provide details of transactions with members. However, where the members' financial interests represent liabilities, then it is recommended that a Statement of Changes in Member Liabilities is provided (see Q15 and the illustrative example).
- AASB 132 *Financial Instruments: Presentation* – based on their characteristics, members' shares are typically classified as financial liabilities. However, AASB 132 provides some specific exceptions where a CME might classify members' shares as equity (see Q14 for more detail).
- AASB Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments* sets out how the redemption conditions attached to members' shares affects whether (or the extent to which) members' shares can be classified as equity.
- AASB 1053 *Application of Tiers of Australian Accounting Standards* – for-profit co-operatives that issue debentures are deemed to have public accountability, and therefore must prepare Tier 1 general purpose financial statements, which requires compliance with all of the relevant requirements of the Standards. For-profit CMEs that do not have public accountability and not-for-profit CMEs are permitted to prepare general purpose financial statements based on either Tier 1 or Tier 2 requirements. Tier 2 comprises the recognition and measurement requirements of all of the Standards, but significantly reduced disclosure requirements.
- AASB 1058 *Income of Not-for-Profit Entities* (which will come into effect in 2019) is relevant to CMEs that are not-for-profit entities as defined in the Accounting Standards (see Q12). It provides direction on how to account for transactions where the consideration paid for an asset is significantly less than fair value principally to enable the entity to further its objectives. It also addresses the receipt of volunteer services.

Q14 How are member interests classified as equity or liabilities?

AASB 132 defines an equity instrument in paragraph 11 as 'any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.' A financial liability is defined basically as a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under potentially unfavourable conditions. The definition also covers contracts that may be settled in an entity's own equity instruments, where the holder is not exposed to equity risks.

³ See AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* for further discussion of 'control' and 'significant influence'.

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As an exception to the definition of a financial liability, a puttable instrument that meets certain requirements, including that it entitles the holder to a pro rata share of the entity's net assets in the event of liquidation, is also classified as equity (see paragraphs 16A and 16B). Another exception applies to non-puttable instruments that entitle the holder to a pro rata share of the entity's net assets in the event of liquidation (see paragraphs 16C and 16D). Paragraphs AG13-AG14J provide guidance on these conditional exceptions.

These definitions and exceptions provide creditors and lenders intending to deal with a CME with the necessary confidence that the equity reported in the statement of financial position should be there for the long term and capable of absorbing losses. That protection is not provided by shares redeemable at the unconditional option of the holder, which cannot be classified as equity if the exception in AASB 132 does not apply.

It is generally expected that member shares in CMEs are issued when the member joins and are redeemed when they leave. In many cases, the dollar value of each member's contribution is nominal and so the total amount classified as a liability may be relatively small in proportion to the reserves and retained earnings, and consequently there is little distortion in the level of equity. In other cases, especially that of distributing co-operatives and start-ups, the dollar value of member shares can be much greater and can represent a much larger proportion of the total equity in the entity – especially if earnings are retained only to the extent necessary for capital expenditure. It is always open to a CME to issue irredeemable member shares, which would be classified as equity, but that is contrary to the general ethos of CMEs, which look for active participation by members.

A range of illustrative examples are attached to AASB 132. Presented under the heading 'Entities such as Mutual Funds and Co-operatives whose Share Capital is not Equity as Defined in AASB 132', Example 7 'Entities with no equity' and Example 8 'Entities with some equity' provide template presentations that show the composition of the total ownership interests, although other formats are possible. The examples also illustrate formats for the statement of comprehensive income. AASB 1056 *Superannuation Entities* also provides illustrative examples of a Statement of Changes in Member Benefits that can be used to reconcile the opening and closing balances of CME member liabilities. Managed Investment Schemes are another type of entity that typically have member interests as liabilities and provide a statement of changes in member benefits.

AASB Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments* provides extensive guidance on classifying members' shares, classifying them as equity only to the extent that they are unconditionally irredeemable, and as financial liabilities to the extent of the maximum amount that is not unconditionally irredeemable. Liquidity constraints, for example, do not result in member shares being equity. The Interpretation includes some useful examples. Interpretation 2 is subject to the exceptions to the definition of a financial liability that permit instruments with certain features and conditions to be classified as equity.

AASB 101 contains a number of requirements for owners' interests to be shown separately as well as a general requirement (in paragraph 30A) not to reduce the understandability of financial statements by aggregating material items that have different natures or functions. Consequently, members' shares that are classified as equity should be presented as a separate item in the equity section of the statement of financial position, and those classified as liabilities should be presented separately in liabilities.

Q15 What CME-specific disclosures should be provided?

AASB 101 provides CMEs with strong encouragement to make disclosures that will enhance readers' understanding of their financial statements:

- paragraphs 5 and 6 envisage that entities may need to amend the descriptions for particular line items and may need to adapt the financial statement presentation of members' interests where they do not have equity as defined;
- paragraph 7 defines owners as "holders of instruments classified as equity", which is adequate to determine the owners of shareholder-based companies but not wide enough to encompass the circumstances of all CMEs. Members of a CME do not always hold instruments classified as equity but typically they are entitled to the retained earnings and reserves (i.e. the equity) on demutualisation or on liquidation (or to specify which similar entity should benefit). CME member shares are typically classified as a liability unless they are not redeemable (see Q14). Consequently, the dealings with members of a CME in their capacity as owners typically will not be fully covered by just the statement of changes in equity;
- paragraph 9 specifies that to meet the objective of providing information about the financial position, financial performance and cash flows of an entity, financial statements provide information on *inter alia* contributions by, and distributions to, owners in their capacity as owners (as defined in the Standard);
- paragraph 17 states that "A fair presentation also requires an entity ... to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance."; and
- paragraph 116 specifies that "An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements."

Taken together, all these paragraphs provide a clear authority and incentive to ensure that the entity's disclosures elaborate on any area which might afford a reader a more comprehensive understanding of the entity's characteristics. Consequently, CMEs are strongly encouraged to provide the following CME-specific disclosures:

- where member interests are classified as liabilities – a Statement of Changes in Member Liabilities, showing movements in redeemable instruments owned by members that are classified as liabilities. Combining the statement of changes in equity with a statement of changes in member liabilities may be possible where a CME is not reporting under ASIC requirements (e.g. having a Statement of Changes in Member Interests, with separately identifiable equity and liability sections). CMEs reporting under ASIC requirements will need to have a separately labelled statement of changes in equity due to ASIC's interpretation of the financial reporting requirements of the Corporations Act. See also the illustrative examples Example 7 'Entities with no equity' and Example 8 'Entities with some equity' accompanying AASB 132;
- specific narrative concerning an entity's objectives, policies and processes for managing capital (AASB 101, paragraph 134), such as the rate of growth in capital resources, the adequacy of

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capital for meeting the organisation's objectives, the balance between equity and non-equity capital and any proposed measures for managing that capital;

- the entity's status and objectives as a CME, particularly what is specified in the constitution;
- regulatory regime(s) under which the entity is registered and its legal status. For example, companies that are mutual entities might explain how they meet the definition of a mutual entity in ASIC RG147 in respect of an objective other than profit and democratic governance;
- the tax status of the entity, including whether subject to or exempt from tax, on what basis and to what extent (e.g. with reference to specific Income Tax legislation, the mutuality principle, or non-assessable non-exempt income);
- the number of members and, if relevant, information about classes of members and member shares;
- the terms of issue of any shares, including requirements or plans for redemption if permitted, and whether the shares are classified as equity or liabilities under AASB 132;
- if limited by guarantee, the extent of the guarantees and the circumstances in which they can be called;
- the extent to which service objectives have been met during the period; and
- progress in terms of their application of mutual principles and any impediments.

Examples of additional disclosures are included in the next section.

SECTION 3

ILLUSTRATIVE EXAMPLES OF ADDITIONAL DISCLOSURES

Statement of co-operative or mutual status and objectives

A Statement of Co-operative/Mutual Status and Objectives might be positioned prominently in the General Purpose Financial Statements to highlight the specific features and characteristics of a CME for the users of the financial statements. For example, such a statement could be placed before the financial statements required by paragraph 10 of AASB 101 or between them and the notes to the financial statements. Its positioning could also be specifically referred to in the Directors' Report. Some of the information it contains would currently be included at various places in the notes to the financial statements and so those notes could cross-reference this statement.

Illustrative statements of co-operative/mutual status and objectives follow separately for co-operatives and for mutual entities, drawn from actual examples.

A. ILLUSTRATIVE STATEMENT OF CO-OPERATIVE STATUS AND OBJECTIVES

The following extract appears in the "Who We Are" statement in the 2018 Annual Report of **The Community Co-operative Store (Nuriootpa) Limited**.⁴ The annual report is separate to the financial statements and contains much more information about the vision, mission and values of the co-operative, its achievements in relation to members, the community, producers and suppliers, and its people, and its strategic direction. The extract below could be included in or with the financial statements.

Who We Are

Heart of the Barossa since 1944

The Community Co-operative Store (Nuriootpa) Limited, known as 'The Co-op', is one of Australia's leading retail co-operatives. Formed in 1944, The Co-op is the largest and longest standing consumer co-operative in Australia. It has over 18,000 members who currently own the Barossa-based The Co-op Shopping Centre, as well as operating 6 businesses in and around the Centre. This allows The Co-op to directly employ more than 350 people.

Membership is open to any individual through the minimum purchase of a single share for \$2. The Co-op's membership growth in the past year has been significant, with 729 new members. In 2017, members not only benefited through the distribution of approximately \$520,000 in interest on share capital, interest on accumulated rebates and rebates on qualifying purchases, they also shared in savings worth over \$2.85 million through The Co-op's instant discounts and bonuses at the cash registers. Additionally, The Co-op supported over 100 local sporting clubs, schools, community organisations and local events. The Co-op is a community asset and fulfils a social function, providing an informal meeting place for people in the Barossa. Moreover, it gives additional value to its members, suppliers and the local community, which is often not reported in financial statements. The Co-op is not only a successful business, supplying products and services to its members and community, but also creates financial, human, social and relationship capital for its members, suppliers and employees.

4 Available online at <https://barossa.coop/annualreport2018/>.

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B. ILLUSTRATIVE STATEMENT OF MUTUAL STATUS AND OBJECTIVES

The following extract appears in the “How we operated” statement in the 2017 Corporate Report of **Bank Australia Limited**.⁵ The corporate report is separate to the financial statements and contains much more information about how the company operated, performed and met customer needs, and created positive impact for people and the planet. The extract below could be included in or with the financial statements.

How we operated

We focus on creating a positive impact on people, communities and the environment.

Let’s go through the basics first ...

Bank Australia Limited is a mutually owned, unlisted public company limited by shares:

- Our core business is retail banking for personal customers and community and public sector organisations.
- We are 100% customer owned. Each customer has one share, which cannot be sold or transferred to anyone else. As part owners, customers have a say in how we operate the bank, and they can vote on matters of importance at our Annual General Meeting.
- We operate in Australia, with our headquarters in Melbourne, Victoria. Our national lending and contact centres are based in Victoria’s Latrobe Valley, our contracts processing team is based in Bendigo, and we operate a network of 27 branches across Australia.
- We are regulated in the same way as all Australian banks, and deposits up to \$250,000 are protected by the Australian Government Deposit Guarantee.

In 2017 we continued to champion responsible banking in Australia, with a focus on creating a positive impact on people, communities and the environment.

To deliver positive, responsible banking outcomes, we had two key drivers:

1. Focusing on our customers’ needs and improving their banking experiences. We continued to provide a pricing benefit for our customers and acted to address the issues that are important to them.

RESULT: We provided a strong pricing benefit (page 19) and we successfully reached our profit target (page 11) while creating positive social and environmental impacts (pages 22-23).

2. Expanding awareness of values based banking into new areas. We wanted to grow the bank, not just for the sake of growth but to help change the banking system so it serves people, is more transparent, supports economic, social and environmental sustainability, and serves the real economy.

RESULT: We grew our asset base by \$1.1 billion, successfully merged with Intech Credit Union, expanded our distribution channels, and opened up new branches (pages 13 and 15), which allowed us to employ 20 new people (full time equivalent). We also invested \$969,000 through the Bank Australia Impact Fund (page 47).

We achieved these results with our simple customer owned operating model: we paid our depositors fair and competitive interest rates, and we responsibly lent those funds to individuals, organisations and businesses that share the same values.

5 Available online at <https://bankaust.com.au/globalassets/about-us/customer-centre/corp-report/corporate-report-2017.pdf>.

Statement of changes in member interests

The following example illustrates a format of a statement of changes in member interests that may be used by a CME that classifies member shares as liabilities rather than equity. Other formats are possible, such as a statement of changes in member liabilities separately from a statement of changes in equity, which CMEs reporting under the Corporations Act generally are required to present. Comparative figures are not illustrated.

Statement of Changes in Member Interests for the year ended 30 June 20XX	\$000
<i>Member shares classified as liabilities</i>	
Opening balance	2,000
Member shares issued	150
Member shares redeemed	(90)
Closing balance	<u>2,060</u>
<i>Components of equity*</i>	
Opening balance	15,700
Change in net assets attributable to members	<u>1,080</u>
Closing balance – retained earnings, revaluation surplus	<u>16,780</u>
 Total member interests	 <u><u>18,840</u></u>

* The components of equity presented in this statement could be expanded to include the disclosures required in the statement of changes in equity as set out in AASB 101 (paragraph 106), such as a reconciliation of the opening and closing balances for each component of equity.

APPENDICES

APPENDIX A – REFERENCES

- *National Mutual Economy Report 2017*, published by the Business Council of Co-operatives and Mutuals with the research collaboration of the University of Western Australia.
- Report of the Senate Economics References Committee into co-operatives, mutuals and member-owned firms (March 2016).
- Independent Facilitator Review, Report on Reforms for Cooperatives, Mutuals and Member-owned Firms (July 2017) (the Hammond Review).
- Year Book Australia 2012: International Year of Co-operatives 2012.
- ASIC Regulatory Guide RG147 *Mutuality – Financial Institutions*.
- Felicity McLean, [*Taking the pain out of co-op business models*](#), Acuity, CAANZ (May 2018).
- Relevant websites
 - [Business Council of Co-operatives and Mutuals](#)
 - [Get Mutual](#)
 - [International Co-operative Alliance](#).

APPENDIX B – CO-OPERATIVE PRINCIPLES

Extract from the Co-operatives National Law as set out in the Appendix to the *Co-operatives (Adoption of National Law) Act 2012* (NSW).

Section 10 Co-operative principles

The co-operative principles are the following:

- 1 Voluntary and open membership
Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- 2 Democratic member control
Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (1 member, 1 vote) and co-operatives at other levels are organised in a democratic way.
- 3 Member economic participation
Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of the capital is usually the common property of the co-operative. They usually receive limited compensation (if any) on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes:

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- (a) developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible;
- (b) benefiting members in proportion to their transactions with the co-operative;
- (c) supporting other activities approved by the membership.

4 Autonomy and independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5 Education, training and information

Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of co-operation.

6 Co-operation among co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7 Concern for the community

While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.

Note.

The co-operative principles are those adopted by the International Co-operative Alliance.

Section 11 Interpretation to promote co-operative principles

In the interpretation of a provision of this Law, a construction that would promote the co-operative principles is to be preferred to a construction that would not promote the co-operative principles.