

Analysis of the Financial Structure of the Co-operative Societies and Their Accounting Treatment in Spain

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Abstract

This paper deals with the financial structure of cooperative societies in Spain and their accountancy. Bearing this objective in mind, first we describe the legal framework of cooperatives in Spain which is characterized by a pluralist framework. Cooperatives are a regional government legal competence (Autonomous Communities) resulting in 16 Autonomic (Regional) Cooperatives' Laws plus a State Cooperatives' Law. In addition, Credit (Bank) Cooperatives have a sectoral Law. We study the changes motivated by the international accounting harmonization in the Spanish GAAP and the Spanish Accounting Standards for Cooperatives, also the subsequent changes in the Cooperatives' Laws in order to introduce a new and optional regimen of members' shares that can retain the accounting classification of members' shares as equity. We critically review the criteria of IAS 32 and IFRIC 2 to classify members' shares as equity or liability. Financial resources are described comprehensively; we focus in financial resources obtained from members and self-financing, we highlight the new sources of finances (shared titles and special participations), a new hybrid cooperative form, mixed cooperatives and the

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commented introduction of a new and optional regimen of members' shares whose redemption can be refused by the cooperative.

Conclusions are set out on financial structure and accounting standards. We point out the difficult balance between Cooperative Principles and financing needs. New forms of financing and hybrid cooperatives have the risk of denaturalization of the cooperative. From accounting standards is highlighted their impact in cooperatives (Polo, 2014), they have motivated changes in the regimen of members' shares, changes that otherwise have not been introduced. Finally, a very short reference is made about the current IASB's Discussion Paper "Financial Instruments of characteristic of equity".

Key words : Spanish Accounting Standards for Cooperatives, Cooperative Law, Financial Structure, Members' Shares

스페인 협동조합의 재무구조와 회계처리 분석

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국문요약

본 논문은 스페인 협동조합의 재무구조와 회계처리를 분석한다. 먼저, 다원적 구조가 특징인 스페인 협동조합의 법적 구조를 기술한다. 스페인에는 16개의 자치주 협동조합법과 1개의 연방협동조합법이 있다. 이외에도 금융(신용·공제)협동조합을 위한 특별법이 있다. 본 논문은 국제적 회계기준의 통일이 스페인의 GAAP와 협동조합회계기준에 미친 변화를 분석하고, 아울러 조합원출자금이 계속 자본으로 분류될 수 있도록 하는 새로운 출자금 제도의 도입을 위해 변경된 협동조합법 조항들을 살펴본다. 또한, 조합원 출자금을 자본 또는 부채로 분류하기 위한 IAS 32와 IFRIC 2 기준을 비판적으로 고찰한다. 본 논문은 조합원 출자에 의해 자체적으로 조달되는 재원에 초점을 두고, 새로운 자금조달원(공동명의로 특별 참가), 새로운 하이브리드 협동조합형태, 복합협동조합, 협동조합에 의해 상환청구가 거부될 수 있는 새로운 임의의 조합원출자금 형태의 도입 등을 집중분석한다. 재무구조와 회계기준에 대한 결론에서, 본 논문은 협동조합원칙과 자금조달니즈 간 균형을 맞추기가 어려우며, 새로운 형태의 자금조달 방식과 하이브리드 협동조합은 협동조합의 독특한 특성을 잃을 위험이 있다는 점을 지적한다. 협동조합에 대한 회계기준의 영향에 대해서는, 국제회계기준이 조합원출자금 형태의 변화를 가져 왔음을 강조하고, 마지막으로, 현재 IASB 토론회 “자본의 금융상품 특성”에 대해 간단히 언급한다.

주요어 : 스페인협동조합회계기준, 협동조합법, 조합원출자금, 재무구조

I . Introduction

This paper deals with the financial structure of co-operative societies (co-operatives) in Spain and their accountancy.

The paper is focused mainly in the financing obtained through the members (patrons), well for resources contributed by the same ones, well through their patronage (co-operative returns); and in new financial instruments that can be subscribed by members of co-operatives (members) or third parties. These instruments have been created with the purpose of saving the difficulties that cooperatives may have in obtaining financing. Also it is analysed applicable accounting standards for co-operatives.

The purpose is to show the current situation, in which co-operatives find themselves in Spain. The Spanish legal framework: the reform and adaptation of Spanish Trade Code and mercantile legislation in 2007 in order to harmonize it internationally based on the regulations of the European Union adopted since 2002 to apply the IFRSs.

II. State co-operative law and the Autonomous co-operative laws in Spain.

The Spanish Autonomous Communities have ability to legislate on substantial cooperative matters. When a co-operative carries out its activity in two or more Autonomous Communities, or in the autonomous cities of Ceuta and Melilla, or in an Autonomous Community which has not enacted its cooperative law, it is governed then by the general co-operatives' law, the cooperatives' state law, Law 27/1999, of July 16.

However, the adaptation of the Spanish General Accounting Plan for co-cooperatives does deal with the accounting for all the co-operative societies independently of the substantial normative which the co-operative is subjected. First it was the Order ECO/3614/2003, of December 16, but more recently -after the entry into force in Spain of the classification criteria of the IAS 32 by means of a new Spanish General Accounting Plan enacted in 2007- the Order EHA/3360/2010, of December 21, picks up the Norms for the Accounting Aspects of Co-operative Societies that is applicable for accounting years starting from January 1th of 2011.

It is necessary to make an exception from all the above-mentioned to the credit

co-operatives and mutual insurance companies because they have their own legislation and their own accounting standards and guidelines provided by the Bank of Spain, and the General Agency of Insurance.

The credit cooperatives (cooperative Banks) have a specific and sectorial legislation, the Law 13/1989 of credit cooperatives, the Royal Decree 1343/1992, and also autonomous legislation to apply in those aspects not regulated in cooperatives' law always without legal conflict.

Circular 4/2017, of November 27, that contains the accounting standards for financial entities enacted by the Bank of Spain, has regulated the accounting of credit entities. In 2004 the approaches of the IFRIC 2 to consider members' shares as equity motivated the modification of the law of credit cooperatives in order to allow the existence of members' shares which redemption is not demanded until the liquidation of the co-operative, or in order to establish an unconditional right for the co-operative to refuse the limited refund to the quantity settled down in the minimum capital stock.

Cooperatives other than credit cooperatives are studied in the next section.

III. International accounting harmonization and changes in co-operative laws, and adaptation of the Spanish General Accounting Plan (PGC) applicable to co-operatives.

Accounting harmonization process began, when the European Union agreed to adopt the IFRSs in 2002. In September 2003 European Commission approved which standards are adopted, including IAS 32. Except for the co-operatives that had to apply directly adopted IFRSs (consolidated financial statements of groups of companies controlled by co-operatives that had issued listed securities), the accounting standards in Spain will not reflect the provisions of IAS 32 until 2007, and in case for co-operatives until 2010 by means a transition period with aim that cooperatives' laws were amended to introduce an optional new regimen in Spain of members' shares whose redemption can be refused unconditionally by the cooperative with the purpose that members' shares can retain accounting classification as equity.

Cooperatives' state law (Law 27/1999) was not modified until 2007 to introduce the commented optional new regimen in Spain of members' share whose redemption can be refused unconditionally by the cooperative. Basque Country and

Navarre did the same in 2006, and the remaining Autonomous Communities introduced these modifications in their respective Cooperative Laws between 2009 and 2012. Because all these reasons, it can be said that in Spain between 2004 and 2010 a first period cooperative accounting has been had.

In the following chart we summarize the most significant changes that explain what happened:

Table 1. Changes in Cooperatives' Laws and Spanish GAAP motivated by the International accounting harmonization.

<p>Globalization and international accounting harmonization</p> <p>(European Union adopts NICs)</p>	<p>* Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002, defined the adoption process by the European Union of the IAS/IFRS. Only the groups of companies that had issued marketable securities will adopt the IAS/IFRS directly.</p> <p>This regulation was developed by Regulation 1725/2003 of the European Parliament and the Council that adopted a series of IFRS from among those existing at that date.</p>
<p>The IASB (International Accounting Standards Board): criteria to distinguish liabilities and equity</p>	<p>IAS 32 establishes a liability classification when the holder of a financial instrument if includes a contractual obligation to deliver cash or another financial asset. For instance, puttable instruments.</p> <p>In 2004 the IASB issued the interpretation IFRIC 2 in order to clarify the application of the principles in IAS 32 to cooperatives. Members' shares are equity if the cooperative has an unconditional right to refuse redemption of members' shares.</p> <p>* The Spanish accounting rules for cooperatives at 2003 (Order ECO/3614/2003) was applicable since January 1, 2004. But the criteria to distinguish liabilities and equity of IAS 32 and IFRIC 2 were not introduced for cooperatives until the end of 2010, when new Spanish accounting standards for co-operatives were approved. (Order EHA/3360/2010).</p>
<p>Spanish substantive Laws for co-operatives</p> <p>(autonomous laws and state law)</p>	<p>* In 2006 Basque Country and Navarre cooperatives' laws were amended to introduce an optional new regimen of members' shares whose redemption can be refused unconditionally by the cooperative with the purpose that members' shares can retain accounting classification as equity, and in June of 2007 Spanish state law for co-operatives was reformed in a similar way, the remaining Autonomous Communities did the same between 2009 and 2012.</p> <p>Currently, in 2018, Basque Country cooperatives' Law is under a process of revision to make contracting more flexible, to limit the responsibility of the members, to be able to collect special participations and to make cooperative sector in a better position in the market.</p>

Spanish accounting reform (from the Spanish General Accounting Plan of 1990 –PGC 90– to the Spanish PGC 2007)	The adaptation of Spanish accounting legislation to International Financial Reporting Standards took place in 2007 with the Law 16/2007 , of July 4, on the reform and adaptation of mercantile legislation in accounting matters for its international harmonization based on in the regulations of the European Union, and the new Spanish General Accounting Plan (PGC 2007) .
New standard for the accounting aspects of Spanish co-operatives	However, in December 21 th , 2010 that the new accounting standards for co-operatives were approved.

Source : authors.

1. The classification of members' shares under the IFRSs.

The classification of Members' Shares in Cooperative Entities and Similar Instruments, as equity or liability, the IFRIC Interpretation 2 (from now on IFRIC 2) develops the criteria contained in IAS 32. IFRIC 2 considers that the contractual right of members of a co-operative entity to request redemption of their shares does not, in itself, requires those financial instruments to be classified as financial liabilities. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or equity. It is a literal interpretation of the terms and conditions of the financial instruments would imply that form supersedes substance.

The principal requirements under IFRIC 2 for the classification of members' shares like equity are:

- The co-operative entity has an unconditional right to refuse redemption of the members' shares, or
- Local law, regulation or the entity's governing charter can impose various types of prohibitions on the redemption of members' shares, if redemption is unconditionally prohibited by local law, regulation or the entity's governing charter, members' shares are equity. However, if prohibition is conditional (liquidity, solvency constraints) members' shares are not equity.

If the members' shares meet either requirement, they are classified like equity even though the holder has got an individual right to redeem. In order to meet this consensus the IFRIC 2 has adopted a portfolio approach in the members' shares.

The IFRIC 2 also states that an unconditional prohibition may be partial; members' shares in excess of the prohibition against redemption are liabilities. This

prohibition may change from time to time. Such a change in the redemption prohibition leads to a transfer between financial liabilities and equity (paragraph 9). It does not recognise a gain or loss on this reclassification (paragraph A10).

A lot of organizations of co-operative entities consider there is not enough basis to tackle accountancy for co-operative entities. For this reason if a co-operative entity has not an unconditional right to refuse redemption of the members' shares; the members' shares are classified as liability, and if members' shares are repayable on demand, the members' shares are classified as current liability, as example n^o 8 of IAS 32 shows.

Polo-Garrido (2004) make following consideration. From the **double tie** the co-operative member has, as user of co-operative services and as contribution to funds of co-operative (members' shares). If we classify members' shares like current liabilities (such as the mentioned Example n^o 8 IAS 32), we are implicitly questioning the underlying assumption of "going concern" within the IASB Framework. Because this would mean the end of the members' transactions with the co-operative; therefore it would mean the co-operative's end. If we really question the "going concern" members' shares are equity because in this case, the information that is to be reflected must be produced on the basis of the co-operative settlement. Upon such a basis, and therefore in a real co-operative settlement, it is clear that the members' shares represents a residual interest in the assets of the co-operative, once the liabilities have been deduced. We arrive to a contradiction.

But the contradiction is more obvious when we consider IAS 1.24, which states: *"In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date"*.

Therefore, IFRSs have got internal weaknesses regarding to co-operative entities. Although the co-operative entity has no right to refuse redemption of members' shares, the "going concern" operates as an economic meaning restriction.

If it is not possible to support "going concern", members' shares are equity as it is mentioned above.

This is significant for the nature of members' shares and other aspects are not sufficiently investigated and there is no adequate basis.

Furthermore the application of the IASB's framework to solve accounting questions about co-operative entities is problematic because the framework is fundamentally based on investor-oriented companies (Polo-Garrido, 2005).

Another problematic issue is the classification of interest, dividends, patronage allocation or return to members like expense or capital transaction.

IFRIC 2, paragraph 11, states that: *“As required by paragraph 35 of IAS 32, distributions to holders of equity instruments are recognised directly in equity, net of any income tax benefits. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterised as dividends, interest or otherwise”*.

Polo-Garrido (2005) argues that is superficial and does not meet the substance and is opposite to the framework, because of classification depending on if interest, patronage refund and dividends are obligatory or discretionary, resulting in members' shares are a compound financial instrument if they are liabilities but interest, patronage refund and dividends are discretionary.

2. Adaptation of Spanish substantive co-operative legislation and new Spanish accounting standards for co-operatives.

As commented, the cooperatives' state law and Autonomous cooperatives' Laws were amended to introduce a new optional regimen of members' shares with the aim of retain accounting classification as equity.

The basic modifications are specified in the following points:

1 - Two types of the members' shares are differentiated:

- a) the “traditional” ones -the reimbursable ones- that are considered as liabilities,
- b) contributions of members whose reimbursement can be refused unconditionally by General Assembly (but they are reimbursable by decision of the co-operative).

2 - The agreement of General Assembly is required to modify the statutes and include the transformation of contributions “type a)” into contributions “type b)”.

3 - By-law may provide that when the amount of refund in an economic year exceeds a percentage of the share capital stock that is established at by-law, then the new reimbursements will be subject to the agreement of Governing Council, and will be considered as contributions “type b)”.

The members who do not agree with the previous measure when it was adopted, can withdraw in a justified way.

4 - The holders of contributions “type b)” are guaranteed a retribution, as well as

the right to participate in social assets, preferably in case of dissolution.

That remuneration includes three aspects: remuneration, reimbursement and payment of interest on the contributions.

- REMUNERATION: a preferential remuneration in case the co-operative wants to pay other contributions, or distribute some return.
- REIMBURSEMENTS or refund of the contributions made by the partners to the share capital: deducting the losses, and then deducting a percentage if the withdrawal is unjustified.
- ACCRUAL OF INTEREST: within 5 years the refund will be effective. Meanwhile, annually reimbursements accrues the legal interest of money.

5 - By-law can also provide that preferably new members have to acquire the shares of people who apply for withdrawal for reimbursement “type b” contributions. This will be done in the same order of request to leave by old members.

3. New Spanish accounting standards for co-operatives.

There are two different periods in Accountancy of Spanish co-operatives.

- The first period, until 2010 included. In this period all the contributions of members to the share capital of the co-operative were classified as equity. And all type of redemptions of members' shares (voluntary, obligatory and the ones caused by other reasons) meant a reduction in the share capital and equity of the co-operative.
- The other period, since 2011. In this period, members' shares are classified as liability if the cooperative has not an unconditional right to refuse redemption of the members' shares, otherwise equity. It is necessary that the cooperative's governing charter provides for the manner in which Governing Council or General Assembly can refuse reimbursement upon the departure of the member.

Therefore, in this current period co-operatives can choose to modify its governing chapters in order to introduce the new regimen of members' shares (type b) and if the right to refuse the redemption is absolute, that is over all members' shares or partial, that is, when the redemption of members' shares would fall below a specified level.

If the General Assembly approves to pay interest on members' shares or to distribute patronage refunds, the remuneration of members' shares (type b) whose redemption has been refused has preference.

IV. Financial structure of co-operatives societies in Spain.

All company distinguishes among its sources of financing: outside financial resources and the own ones, but financial resources of co-operatives have special characteristics.

1. Characteristic financial resources of co-operatives.

The own financing are characterized not to have reimbursement, they are thoroughly generated by the entity via contributions made by the members, via retention of benefits (building up of reserves). They allow the company to have a stable financial situation.

The main characteristic own resources of the co-operative are contributed by members and self-financing, although in occasions third non members can carry out financial contributions that have the consideration of own resources.

The peculiarity of co-operatives resides in that share capital is reimbursable and is variable because of the members' entrance and exit. Traditionally share capital is considered an own financing (equity), but reserves are those which offer a bigger financial stability to the co-operative. Education and Cooperate Promotion Fund is out of the own resources because it has to be dedicated to the objectives for it was created for.

Depending on different laws, co-operative accountancy can difference into several types of results (co-operative results derived from co-operative operations with members, extra-co-operative results from co-operative operations with non-members, and extraordinary results from the rest operations of non co-operative activity) or otherwise it can register all together without separate them, combined accounting that only shows exercise results. This fact will affect the way of endowment its obligatory funds (self-financing). We will mention that certain laws (the state one too) allow combined accounting of different types of results, but if this is so then co-operative will lose the special tax protection condition. (Lower corporation tax rate)

The Spanish Accounting Standards for Co-operative Societies enforce to separate the co-operative surplus from results obtained with transactions with non members (extra cooperative results) in the profit and loss account.

1) Obligatory Reserve Fund and Voluntary Reserve Fund.

The specific reserve funds of the co-operatives can be obligatory and voluntary.

* The first one¹⁾ is fed in a mixed way:

- from the outside: Members' contributions (entrance fee of the members, and deductions on partner's original contribution to the capital when an unjustified withdrawal occurs.)
- and on the other hand, from the inside of co-operative: Results obtained by the cooperative²⁾ (supposing that co-operative accounting differences results, as minimum 20% of co-operative surpluses, and 50% of extra-co-operative results and extraordinary results, and part of positive available results that by-laws or General Assembly determine, and 100% of the results of co-operation among co-operatives and activities in participation with another entities).

It is obligatory, and is considered as "untouchable" (cannot be delivered) in the event of liquidation of the co-operative. The co-operative will use it up to compensate for the losses of the business in participation with other entities, and part of its endowment³⁾ in the last five years can compensate losses of the co-operative.

* However the second one is supported by retention of benefits (part of the co-operative surplus, part of the extra-co-operative results and extraordinary results⁴⁾, and part of the reserve generated in the revaluation of the assets). General Assembly of Members take the decision to feed this fund, and to compensate the losses as a whole⁵⁾ or as by-law determine on it must be applied to.

The first one resemble to the legal reserve, and the second one to the voluntary reserve of the mercantile societies, with the exception that for these last ones the mercantile law does not explicit neither the destination, nor how the voluntary reserve is supported.

These funds are those that increase the financial solvency of the co-operative and they reinforce its self-financing grade. The obligatory one is the hard nucleus

1) Spain, Law 27/1999, art. 55.

2) Spain, Law 27/1999, art. 58 subsections 1 and 2.

3) Spain, Law 27/1999, art. 59 subsection 2.b: an average of the positive results dedicated to the obligatory reserve fund during five years.

4) Spain, Law 27/1999, art. 58 subsection 3.

5) Spain, Law 27/1999, art. 59 subsection 2.a).

of the own financing of the co-operative, that don't even belong to the members but to the co-operative. They are common property of the co-operative and likewise (Bel and Fernández, 2002:110) when the cooperative society is liquidated they passed to disposition of another co-operative society, federation or confederation of co-operative, therefore co-operative principle of solidarity is applied. ⁶⁾

2) Reimbursement or Actualization Fund.

Revaluation laws are also applicable to co-operative societies. Highlighting inside the characteristic funds of the co-operative reimbursement fund⁷⁾ is the revaluation reserve. Whose objective, according to the general law of co-operatives, is first to clean up losses and later complement the value of the contributions carried out by members in order to palliate the purchasing power loss that this member would suffer in the event of withdrawal. It is dedicated to breed obligatory or voluntary funds.

Another mechanism to endow this fund is through the surplus, just as Andalusian Law determine. Although the other laws do not prescribe this way, it would not be contrary to them.

3) Fees.

Entrance Fees.

The problem of dilution of reserves can be solved in part making new members to pay in cash entrance fees (García-Gutiérrez Fernández, 1998: 208) Laws prescribe a maximum limit. This fee, like we have seen before, support obligatory fund.

Periodic Fees.

By-laws (Governing Chapters) or General Assembly can prescribe periodic fees, to be paid by members, usually in accordance with the estimated use of the co-operative activity.

Depending on the co-operative law this amounts are destined to reserve funds or are allocated as revenue in the profit and loss account.

⁶⁾ Spain, Law 27/1999, art. 75 subsection 2.d).

⁷⁾ Spain, Law 27/1999, art. 49.

2. Education and Cooperate Promotion Fund.⁸⁾

It is an exclusive fund of co-operatives. It is obligatory and it will grow with part of the co-operative results, (5% of the co-operative surpluses supposing that co-operative accountancy differences the results) and also with the economic sanctions imposed by the co-operative to its members. Therefore it is formed in a mixed way with resources generated by the co-operative and with external resources.

The purpose of this fund is to fulfil the fifth principle of the International Co-operative Alliance (ICA), education, formation and information. If the endowments of an exercise are not materialized in performances of workers' training, members' formation, cultural promotion, or diffusion of the co-operative movement in the community, then during the following exercise it will invest in saving bills or holding public debt whose yields will increase the fund.

It cannot be applied to different ends than the education. It is not a source of financing for the economic activity of the co-operative. So, for this reason it is not considered an own financing. It is no disposable, where by in the event of liquidation of the co-operative, it would go entirely to the federative entity to which the co-operative is associated.

The previous treatment to the old Accounting Standards for Co-operatives (Orden ECO/3614/2003) treated its endowment as distribution of the result and not like an expense. On the other hand, it was not considered equity, although neither the accounting standards, nor the ICAC pronounced clearly where to locate it into the liabilities according to the models of the General Plan of Accounting.

Under the old Accounting Standards for Co-operatives (Orden ECO/3614/2003) its endowment was treated as a specific expense and was presented in a special item in the profit and loss account, just before the net income, although the quantification is carried out taking into account the exercise results. (Institute of Accounting and Auditory of Accounts, ICAC, 2004). The non used fund was presented in the balance sheet as liability in a special section between equities and the remaining liabilities.

Under the current Accounting Standards for Co-operatives (Order EHA/3360/2010) is also a liability and its endowment is treated as an expense and presented under a specific item inside the operating expenses. The presentation in the balance sheet is under a specific item inside the liabilities.

8) Spain, Law 27/1999, art. 56.

3. The Share Capital of the co-operatives.⁹⁾

Share capital is composed of the obligatory and voluntary contributions of the members. It can be revaluated; in this case the increment of the account is originated due to the actualisation reserves or surpluses.

The contributions that breed it can come from:

- Members (co-operative members): they are the co-operative members that participate in the co-operative activity with their operations. Each partner's contribution in cooperatives of first tier (the one whose members are all natural persons) cannot exceed of the third part of the share capital, except if the co-operative is an entity without lucrative will or a co-operative society in which most members are cooperatives.¹⁰⁾
- Work members: furthermore the member workers in workers cooperatives, there could be work members in any co-operative societies whose members are natural persons. The co-operative operation is the personal work that the member does for the cooperative.¹¹⁾
- Collaborating members, collaborators¹²⁾ or associates: they don't develop any cooperative activity, but they contribute to their attainment. Those members that justifiably stop of carrying out the activity that justified their entrance in the co-operative as co-operative members are deemed as collaborating members. The cooperative won't be able to demand them new contributions to the capital.

The law limits the total amount from these contributions to the 45% of the total share capital, and limits its votes to 30%.

The contributions of the members can be obligatory and voluntary but the collaborators only carry out obligatory contributions.

Co-operative members are entitled to receive part of the surplus of the cooperative; it is the co-operative return¹³⁾ that is credited in proportion to the co-operative activities carried out by each partner.

Contributions to the share capital, so much the obligatory ones (that have a minimum payment of 25%¹⁴⁾), as the voluntary ones (that should be totally paid¹⁵⁾), both

9) In this paper Share capital and members' shares are equivalent.

10) Spain, Law 27/1999, art. 45, subsection 6.

11) Spain, Law 27/1999, art. 13, subsection 4.

12) Spain, Law 27/1999, art. 14.

13) Spain, Law 27/1999, art. 58, subsection 4.

14) Spain, Law 27/1999, art. 46, subsection 3.

can be remunerated (interest), whenever positive results exist¹⁶⁾, in the case of the State law and other autonomous laws. On the other hand, the laws of Aragon, Galicia, Andalusia and Catalonia don't establish the requirement of the previous existence of positive results to the allotment.

The responsibility of the members¹⁷⁾ is limited to its contribution, but when the member withdraw from the membership, he will respond personally, during the following five years, for the social debts contracted while he was a partner, whit the limit of the reimbursed amount of his contributions to the share capital.

Temporal Capital.

It has to do with the members who wanted to be members for a fixed period. There is an expiration date, and there will be a limit number of members involved. Is a liability, and it must be disclosed in the notes to the financial statements into the Annual Report.

Rotating Capital

Likewise, we can find only for the agricultural cooperatives an especial practice, which is rotating share capital. This practice is reflected in autonomous laws of Aragon and Navarre.

The share capital is applied with three ends:

- refund of contributions for partner withdrawal.
- for the imputation of losses to the partner, and
- to clean up losses and to reestablish the balance between total equity and the share capital.

If the withdrawal is justified the partner will recover his obligatory contribution less the losses that were attributable, and if it is not justified it is also less a deduction.¹⁸⁾

The capital diminishes for the imputation to the partner of the losses¹⁹⁾ not compensated with reservation funds, unless this partner carries out new specific contributions to compensate losses or decided to deduce this losses of the partner's financial investment in the co-operative, or if General Assembly agree to compen-

15) Spain, Law 27/1999, art. 47, subsection 2.

16) Spain, Law 27/1999, art. 48, subsection 2.

17) Spain, Law 27/1999, art. 15.

18) Spain, Law 27/1999, art. 51

19) Spain, Law 27/1999, art. 59.

sate this losses with the future co-operative returns of next seven years.

The minimum figure²⁰⁾ of share capital is settling down in the by-laws.

When the losses settle equity below the minimum figure of capital, and this balance lack goes on for one year, it will be obligatory to reduce capital, although it will affect only to the minimum obligatory contributions to each partner's class.

If because of the withdraw of the members, the capital sets under that figure, for one year, then the co-operative will be dissolved if the capital is not reinstated, or the by-laws modify the quantity of the minimum figure.

Although the Spanish State Law of co-operatives establishes a minimum capital for the constitution of the cooperative, that is the constitution capital which figures in the registration of co-operative. Like we have seen before, due to the losses and to the open-door principle (voluntary and open membership), the capital is variable.

4. Another financing that comes from members.²¹⁾

It is not part of the own financing neither of the capital. The loans that members or non-members carry out to the cooperative in order to acquire and voluntary finance capital assets.

As long as the remuneration obtained by the investment is competitive with any other of the market, it will be attractive to be a creditor of the cooperative. This will improve the image of the co-operative and it will avoid its dependence in other financing.

5. Activities in participation with another entity.²²⁾

According to the rules settled down in the Spanish Trade Code the co-operative societies can carry out this business in participation that will suppose another financing source for the cooperative.

20) Spain, Law 27/1999, art. 45, subsection 2 and 8.

21) Spain, Law 27/1999, art. 45, subsection 7.

22) Spain, Law 27/1999, art. 54, subsection 2 and 3.

6. Loan capital, debentures and debt obligations.

Another point to highlight is the fact that in the Spanish legislation only three kinds of entities can float loans, they are: corporations, membership limited by shares, and the co-operative societies.²³⁾

Members or third persons that are non-members can be bondholders without any limit.

7. New sources of financing.

They are subordinate funds with settlement deadline.

If they only can be refund at the liquidation of the cooperative, and don't have obligatory remuneration, they will be consider as equity.

1) Shared Titles²⁴⁾

They can have the consideration of negotiable securities. They can improve the financing. The co-operative is able to issue them.

The decision is taken by the general assembly who agree the paying-off term, and if they will have or no right to attendance to General Assembly with voice but without vote. They give right to a remuneration that depends on the evolution of the activity of the co-operative. Besides it can incorporate a fixed interest.

2) Special Participations.²⁵⁾

It is subordinate financing issued by the cooperative by agreement of the general assembly for a 5 year-old minimum term. **Therefore they are not redeemable on demand.** They are freely transferable and reimbursable in the same way that reduction of capital for the limited (private) societies is done. Surprisingly there is not limit to the retribution. It is the opposite that happens to the interest of the co-operative capital. They are entitled to vote as plural or fractional right voting for the different types of members as the by-laws will provide.²⁶⁾

When their expiration coincides with the liquidation of the cooperative and they

23) Spain, Law 27/1999, art. 54, subsection 1.

24) Spain, Law 27/1999, art. 54, subsection 2.

25) Spain, Law 27/1999, art. 53.

26) Spain, Law 27/1999, art. 26, subsection 3.

do not have a mandatory remuneration, they are classified as equity, and this is established in this way in the Accounting Standards for Cooperatives.

3) Mixed Co-operatives.²⁷⁾

They are a type of co-operative in which there are elements of the co-operative societies: co-operative members and collaborators, and there is also an element of the mercantile societies: **social shares** (“Partes sociales”) that give righting vote in the general assembly in proportion of the contributed capital. They participate in the annual, positive or negative results, in proportion of their paid capital. They are freely transferable.

It improves the financing of the co-operative, but subtracts autonomy to the co-operative members.

By-laws and corporation’s law are those that must regulate these contributions. The cooperative value of the ICA, autonomy of the co-operative in front of the shareholders is in trouble. So the directors have to assure the control is for the cooperative members (at least 51% of the votes will be for the co-operative capital²⁸⁾).

The co-operative members are entitled preferable to subscribe the social shares (pre-emptive right).

V. Conclusions: co-operative essence and the sources of financing in Spain.

From the Spanish context we extract these essential notes to the purpose of define the special sources of financing for co-operatives.

The cooperative conceived as democratic social entity with free right of adhesion and voluntary withdrawal of the members (first ICA open-door principle) suffers from certain problems in its financial structure:

1. Membership is acquired not by the mere participation in the capital of the society, otherwise it is for the participation in the activity of the cooperative society, as a worker, a supplier or a customer of the goods or services object of the activity of the co-operative.

27) Spain, Law 27/1999, art. 107.

28) Spain, Law 27/1999, art. 107, subsection 2.

Therefore, the retribution to the members (cooperative return) it is not made in proportion of the paid contributed capital (such as mercantile usages determine the dividends in the capitalist societies). Otherwise it is settled by reason of the proportion that the partner has contributed to the activity in that exercise.

2. The opposite that happens in the capitalist societies in which shares or social participations can be sold to another person requiring him certain personal characteristics if it is a membership societies (limited responsibility), or totally transferable in the case of corporations. The contributions to the cooperative are not easily transferable.

This characteristic makes that the co-operatives less dynamic for the investors.

The entrance of a new partner is by means of issuing share capital or buying the members' shares of another partner in the co-operative.

If a third person non-member wanted to acquire a partner's participations, she will acquire partner's condition in the term of three months from the transmission.²⁹⁾

Even if the transmission was not "inter alive" but "mortis causes", the successors have to be members, or previously have to be admitted as such, to receive the inherited social participations.

Membership will be cancelled because of justified or unjustified withdrawal reasons or through the transmission of its participations to another person, but this is only possible in the two suppositions that we have just commented (to another partner or to a person that will be partner). Anyway the withdrawn member will get non distributable reserves of the co-operative; he only could receive the revalorisation of their contributions, if any.

So, there can be a problem of possible falling of capitalization in cooperative society.

3. On the other hand, the participations or contributions to the capital are traditionally reimbursable. They are a credit from the partner to the co-operative. In this way the Spanish academic ambit had discussed on the classification like equity or liability from remote dates, although share capital has always been deemed as equity in the accounting standard, nowadays is a liability unless the co-operative has an unconditional right to refuse the redemption of members' shares. Even in this case, members' shares are usually redeemed.

29) Spain, Law 27/1999, art. 50.

Traditionally the co-operatives have problems to obtain financing, for example via bank loans, because these financial entities evaluate which is the guarantee in the event of insolvency of the cooperative. The main component of the equity of a society is the share capital; while in the co-operative societies this is variable, shrinking the financial stability.

Due to the variability of the share capital, some authors consider that the reserve funds are the only guarantee of the long-term financial stability of the co-operative (Celaya, 1992: 229).

Some authors like García-Gutiérrez, Celaya, Ballesteros think it is a long-term liability while others like Fajardo, Vicent, Pastor consider it as equity but with smaller quality than others.

Both first Order ECO/3614/2003 and the state law of co-operatives defined it as equity, while IASB has cleared up the treatment with the IFRIC 2.

The members' right to request the redemption, and the unconditional right of the co-operative to refuse the redemption are fundamental to the classification.

In Spain the application of the IAS 32 and IFRIC 2 implied a reclassification of members' shares from own equity to liabilities.

These criteria were finally introduced in 2010 by the current Accounting Standards for Cooperatives (Order EHA/3360/2010, of 21st December, which approves the norms on accounting aspects of cooperative societies).

This could weaken the co-operatives as societies without equity looking like insolvent. A much more difficult situation for the co-operatives. This was the reason to amend the cooperatives' laws in order to introduce a new regimen of members' shares whose redemption can be refused unconditionally by the cooperative. The possible impacts of the accounting reclassification of members' shares from equity and liability are addressed in the paper of Polo-Garrido (2014) and the determinant factors in the decision of the cooperative about to modify or not the Cooperative Governing Chapter (By-laws) in order to introduce the unconditional right of the cooperative to refuse the redemption of members' shares with the aim to retain accounting classification as equity are studied in the paper of Polo-Garrido and Mari-Vidal (2017).

But IFRS are very dynamic and at the time of writing this paper it is open for comments the Discussion Paper "Financial Instruments with characteristic of equity", this Discussion Paper have raised concerns to the cooperative sector, even when the Discussion Paper stated that the conclusions in IFRIC 2 would be carried forward. The facts that the Discussion Paper is silent on the way in that will be

carried forward and that perpetual instruments in cooperatives other than members' shares currently classified as equity would be classified as liabilities. In this moment the Spanish Cooperative Accounting Commission of AECA (Spanish Society for Accounting and Business Administration) is writing a comment letter to the Discussion Paper.

4. The problem of denaturalisation of co-operative mutualism, when introducing new forms of participating in co-operatives, as special participations and shared titles which are not based on the cooperative activity (members' patronage), quite the reverse is based in the paid capital.

This has been provoked, such as the teacher Ma José Senent defends, for the desire of to affirm the managerial values of the co-operative and to justify her last aim as the success managerial project.

When being about to make more flexible and to increase the contributions to the financial funds of the co-operative creating new forms of reception of resources: the special participations and the special participations.

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