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CEARC  
iSORP discussion paper no. 4

# Reporting on membership: Joining, participating in and leaving the co-op

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March 12, 2009

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## **1. THE iSORP PROJECT**

This discussion paper is the fourth in a series aimed at developing content for an international Statement of Recommended Practice (iSORP) for co-operative accounting and reporting. This paper focuses on the nature of membership and associated rights and obligations.

You can find other iSORP discussion papers and CEARC working papers at the CEARC website: [www.coopaccounting.coop](http://www.coopaccounting.coop). A draft conceptual framework for co-operative accounting can be downloaded from the website. The conceptual framework provides another component of a co-operative accounting framework and should be considered alongside the iSORP papers.

### **Comments welcome**

We welcome all and any comments regarding any of our iSORP discussion papers and we do feed these in to our review process. A series of questions are included at the end of the paper. Comments will be reported to the CEARC advisory committee and CEARC board and fed into the review and revision of the potential iSORP.

There is no set deadline for comments on this paper although our first review of comments will be completed prior to the production of a first version of the complete iSORP. This is likely to be by the end of 2009.

## 2. INTRODUCTION

Membership participation is at the heart of the co-operative identity. The first three principles listed in the International Co-operative Alliance (ICA) statement on the co-operative identity directly address co-operative membership. The characteristics of co-operative membership, with the member as owner, controller and user, set co-operatives apart from other organisations.

Co-operatives, seeking to explain what co-operative membership represents, employ a variety of language. The member is described in promotional material as, for example, the: “owner”, “shareholder”, “member-owner”, “customer-owner” or “member-shareholder”. The notion of ownership, as opposed to membership, is utilised as a way of encouraging potential members to join. There is, perhaps, an assumption that we have a shared, clear understanding of what “owner” or “shareholder” means and that such terms can be readily applied to co-operative membership, without further clarification.

The reality of co-operative membership is somewhat different from that of the external investor shareholder. Members join, use and participate in and, eventually, leave a co-operative. This is not the same as an external investor’s relationship to the buying and selling of shares. Co-operative member shares do not solely represent member equity but are also linked to membership rights, for example: the right to access services or goods; the right to sell goods or services to the co-operative; the right to purchase goods or services from the co-operative; the right to member patronage returns; or the right to work in the co-operative. There may also be obligations such as requirements to transact with the co-operative; to purchase from or sell to the co-operative and/or provide guarantees to the co-operative.

Voting rights are typically attached to the member rather than the individual member share. Sometimes this operates on a one member one vote basis, sometimes through a delegate system and sometimes votes are in proportion to the level of usage of or transacting with the co-operative.

Joining and leaving the co-operative may be subject to certain requirements and limitations regarding, for instance, the provision of and withdrawal of member equity. Members may not have a right to transfer their member shares or sell their access rights to other members. Members may not have a right to the residual net assets of the co-operative on a winding up.

As the above suggests, member rights and obligations differ from those of an external investor shareholder and furthermore they can vary considerably from one co-operative to another. It is then of some importance that co-operatives provide clear, up to date and comprehensive information to members and potential members regarding the processes of joining, participating and leaving the co-operative and the rights and obligations linked to membership.

This discussion paper takes the view that:

1. Information regarding the process of joining, participating in and leaving the co-operative is useful to members, potential members and other stakeholders.
2. Information on member economic and democratic participation and control is useful to members, potential members and other stakeholders.

What follows is a first draft of proposed iSORP content regarding the disclosure of information relating to the membership process and member rights and obligations.

### **3. PROPOSALS FOR REPORTING ON JOINING, PARTICIPATING AND LEAVING**

1. The financial report should disclose co-operative membership, rights and obligations including information on the processes of joining, participating in and leaving the co-operative. The information provided should seek to improve understanding of the nature of co-operative member ownership, control and participation.
2. Much of this information can be reported in the notes to the financial statements.

#### **Joining the co-operative**

3. The co-operative should disclose the requirements for acceptance into membership including where relevant:
  - a) number, types and price of shares required to be purchased
  - b) any additional member funds required to be deposited with the co-operative
  - c) any conditions regarding use of and transacting with the co-operative
  - d) any member guarantees required in respect of levels of transacting with the co-operative
  - e) any member guarantees required in respect of co-operative financing
  - f) any qualifying time required between applying for and receiving membership.
4. The rights of different classes of shares should be clearly disclosed.

#### **Member economic participation**

5. Obligations on the part of the member and/or the co-operative in regard to transactions between member and co-operative should be disclosed.
6. The amount of patronage returns, if any, and the basis for determining patronage returns should be disclosed, together with the manner and form (e.g. cash, shares) in which returns are distributed to members.
7. The requirements for member and/or board approval of patronage returns should be disclosed.
8. Where some or all patronage returns to members are retained by the co-operative, the following information should be disclosed:
  - a) The amount of patronage returns retained
  - b) any limit on the period of retention of patronage returns by the co-operative
  - c) average retention period, along with the average retention period reported for the previous four years.

#### **Member democratic participation**

9. Information on the voting rights of members should be disclosed including:
  - a) number of votes per member
  - b) parameters set on voting (e.g. types of meetings open to members, types of decisions voted on by members, % of board members elected by members)
  - c) where a delegate/tiered system is adopted a description of the voting and decisions made at each level
  - d) where members have multiple votes a description of the basis for multiple votes.

10. Where non-member investor shareholding exists, information on the voting rights of such shareholders should be disclosed including:
  - a) Number of votes permitted per non-member share/shareholder
  - b) Parameters set on voting (e.g. types of meetings open to non-member shareholders, types of decisions voted on by non-member shareholders, % of board members elected by non-member shareholders).
11. Where eligibility for nomination and election to the board is linked to transacting with the co-operative, the nature of this requirement, including any monetary threshold, should be disclosed in the notes.
12. A table showing changes in number of members during the year should be included in the notes (see figure 1 for an example). This should include disclosure of:
  - a) the number of active and dormant members and their respective equity
  - b) types or classes of member share

### **Leaving the co-operative**

13. The co-operative should disclose the conditions regarding exiting the co-operative including:
  - a) period of notice required
  - b) redemption price of member shares
  - c) maximum period allowed for redemption of exiting member's equity funds. Where more than one category of fund exists, this to be broken down and listed.
  - d) any limits set on an exiting member's proportional claim to the net assets of the co-operative.
  - e) a breakdown of member funds due to ex-members (see figure 2 for an example).
14. Member liability. While members' liability is often limited to the par (nominal) value of their shares, or to amounts guaranteed by the member, in some cases a member may have a liability in respect of, for example, losses arising from transactions with the co-operative. This liability could, in certain circumstances, continue after leaving the co-operative. Where this could arise, the co-operative should disclose the potential continuing liability of the member.

### **Dormant or inactive membership**

15. Where some memberships are dormant/inactive the co-operative should disclose:
  - a) the definition of a dormant membership applied by the co-operative
  - b) the period of inactivity required before a dormant membership is considered to have become a closed membership and the equity becomes eligible for compulsory redemption
  - c) the actions taken regarding dormant member equity funds.
16. An analysis of dormant member funds should be included in the notes along with changes. Figure 3 provides an example of this. Comment is invited.

**Figure 1**

**Changes in membership analysed by membership type, number of members and amount of member equity**

|   | <b>Ind<br/>No.</b> | <b>Ind.<br/>\$</b> | <b>Org<br/>No.</b> | <b>Org<br/>\$</b> | <b>Total<br/>No.</b> | <b>Total<br/>\$</b> |
|---|--------------------|--------------------|--------------------|-------------------|----------------------|---------------------|
| Members at start of period                  | 000                | 000                | 000                | 000               | 000                  | 000                 |
| Members joining                             | 000                | 000                | 000                | 000               | 000                  | 000                 |
| Members leaving                             | 000                | 000                | 000                | 000               | 000                  | 000                 |
| <b>Members at end of period</b>             | <b>000</b>         | <b>000</b>         | <b>000</b>         | <b>000</b>        | <b>000</b>           | <b>000</b>          |
| Total members at end of period analysed by: |                    |                    |                    |                   |                      |                     |
| Active members                              | 000                | 000                | 000                | 000               | 000                  | 000                 |
| Dormant members                             | 000                | 000                | 000                | 000               | 000                  | 000                 |
| <b>Totals</b>                               | <b>000</b>         | <b>000</b>         | <b>000</b>         | <b>000</b>        | <b>000</b>           | <b>000</b>          |

**Key:**

Ind = Individual members  
 Org = Organisation members  
 No. = Number  
 \$ = Member equity

**Figure 2**

**Example of note on member funds due to be paid to ex-members**

|  |            |
|--|------------|
| <b>Member funds due to be paid to ex-members</b>       |            |
| Due to be paid next year                               | 000        |
| Due to be paid in 2 years                              | 000        |
| Due to be paid in 3 years                              | 000        |
| Due to be paid in 4 years                              | 000        |
| Due to be paid in 5 years                              | 000        |
| Due to be paid in more than 5 years                    | 000        |
| <b>Total member funds due to be paid to ex-members</b> | <b>000</b> |

**Figure 3**

**Changes in dormant membership analysed by member shares  
and other member funds**

|  | <b>Member<br/>Shares</b> | <b>Other<br/>member<br/>funds</b> | <b>Total</b>      |
|--|--------------------------|-----------------------------------|-------------------|
| Dormant funds at start of period                     | 000                      | 000                               | 000               |
| New dormant memberships                              | 000                      | 000                               | 000               |
| Less reactivated memberships                         | 000                      | 000                               | 000               |
| Sub total  | <u>000</u>               | <u>000</u>                        | <u>000</u>        |
| Dormant member funds paid to<br>ex members           | 000                      | 000                               | 000               |
| Dormant member funds<br>donated to the co-operative  | 000                      | 000                               | 000               |
| Dormant member funds<br>distributed to the community | 000                      | 000                               | 000               |
| <b>Dormant funds at period end</b>                   | <b><u>000</u></b>        | <b><u>000</u></b>                 | <b><u>000</u></b> |

#### 4. QUESTIONS FOR FEEDBACK

CEARC is keen to receive feedback concerning any aspect of this discussion paper and including the ideas and views presented. In particular we would be interested in your views on all or any of the following:

1. *Are there any additional items to include in regard to the membership process and associated rights and obligations?*
2. *Are there any items currently listed that you feel are inappropriate for inclusion?*
3. *Are there any revisions you would recommend regarding the existing wording, structure and/or order of items?*
4. *Do you think that any of the above items would be better reported in the non-financial part of the annual report rather than in the notes to the financial statements?*

Please send comments in writing by e-mail or mail to:

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**Please include your name and your organisation's name and address and indicate the paper you are commenting on.**

**There is no deadline for comments although a first review will be completed and reported on by the end of 2009.**

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