

IASB  
30 Cannon Street  
UK - London EC4M 6XH

27 July 2004

Dear Madam, Sir,

### **Exposure Draft of Proposed amendments to IFRS Business Combinations**

The French Groupement National de la Coopération (GNC) is pleased to comment on the International Standards Board's (IASB's) Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations : *Combinations by Contract Alone or Involving Mutual Entities*. It welcomes this opportunity to bring forward the views of the French cooperative movement, developing its activities in many economic sectors (banking, agriculture, retail trade, housing, crafts, transport, fisheries, etc.).

GNC disagrees with the proposed amendments and the issuance of any standard arising from this exposure draft. We believe it to be more appropriate to leave the standard unchanged, and maintain the application of IAS 22 to mutual entities until proper guidelines are issued concerning an alternative accounting method for business combinations respecting the legal nature of cooperatives and reflecting their economic reality.

Our responses to the questions raised in the Exposure Draft and additional comments on the specificity of cooperatives are set out below.

### ***Question 1***

*The Exposure Draft proposes:*

*(a) to remove from IFRS 3 the scope exclusions for business combinations involving two or more mutual entities and business combinations in which separate entities are brought together to form a reporting entity by contract alone without the obtaining of an ownership interests*

*(b) to require the acquirer to measure the cost of a business combination as:*

*i. the aggregate of the following amounts when the combination is one in which the acquirer and acquiree are both mutual entities:*

*the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities; and*

*the fair value, at the date of exchange, of any assets given, liabilities incurred or assumed, or equity instruments issued by the acquirer in exchange for control of the acquiree*

*Therefore, goodwill would be recognised in the accounting for such transactions only to the extent of any consideration given by the acquirer in exchange for the control of the acquiree.*

*ii. The net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities when the combination is one in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest. Therefore no goodwill would arise in the accounting for such transactions.*

*Is this an appropriate interim solution to the accounting for such transactions until the Board develops guidance on applying the purchase method to such transactions as part of a subsequent phase of its Business Combinations project? If not, what other approaches would you recommend as an interim solution to the accounting for such transactions, and why?*

We disagree with the removal from IFRS of the scope exclusions for business combinations involving two or more mutual entities and do not believe an interim solution to the accounting for the identified transactions is necessary.

The interim method proposed in the Exposure Draft would not be appropriate for cooperative entities.

It is not possible to control a cooperative entity by purchasing the majority of its members' share capital and there are limits to members' voting rights (one of the international principles ruling cooperatives is the "one member, one vote" principle), even if one member has more shares than another.

The purpose of a cooperative is to meet its members' common economic, social and cultural needs and aspirations (ILO Recommendation 193). When cooperatives enter a group, they democratically decide to join in, in the same way as their founding members previously decided democratically to constitute the cooperative.

Business combinations involving cooperative entities frequently consist in forming a new entity in which members interests of the combining entity are brought together with no entity obtaining control over the others. Rather, the exchange of member interest usually entails an equal reapportioning of the combining organisation's board representation.

In those cases no acquirer can be identified and the purchase method would lead to account for such transactions using a method that is clearly not appropriate.

Up to now, no appropriate accounting method for the combination of mutual entities has been defined.

GNC therefore requests the IASB to maintain the application of the method of pooling of interest of IAS 22, until an appropriate accounting method is defined. GNC offers its cooperation and support to work with IASB on this issue.

## **Question 2**

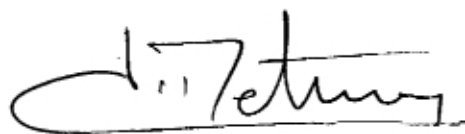
*The Exposure Draft proposes that no amendments be made to the transitional and effective date requirements in IFRS 3. This would have the effects set out in paragraph 6(a) – 6(c) above on the accounting for business combinations in which the acquirer and acquiree are both mutual entities or in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest.*

*Is this appropriate? If not, what transitional and effective date arrangements would you recommend for such business combinations and why?*

GNC expresses reservations concerning the approach of introducing new standards or amendments to existing standards, which have an effective date even before the date of publication of the relevant exposure draft. This is not legally acceptable in France, and does not help to the creation of a stable regulatory environment, that is an important element for the development of businesses.

I hope that these comments will contribute to a better understanding of the specificities of the cooperative entities. If you would like further clarifications concerning the points raised in this letter, I will be happy to discuss these further with you.

Yours sincerely,



Jean-Claude Detilleux  
President

*The French Groupement National de la Coopération (GNC) represents and defends the interest of French cooperatives, both nationally and internationally. Its members are the national federations of cooperatives, in all sectors of the economic activity where cooperatives are present (agriculture, banking, fisheries, retailing, workers' cooperatives, transport, etc.).*

*GNC represents more than 21 000 cooperative enterprises, with 700 000 employees.*