



## **INTERNATIONAL CO-OPERATIVE ALLIANCE**

### **REGIONAL OFFICE FOR ASIA AND THE PACIFIC**

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#### **Sir David Tweedie**

Chairman

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Dear Sir David,

#### **COMMENTS OF ICA ROAP, NEW DELHI ON INTERNATIONAL ACCOUNTING STANDARDS BOARD'S (IASB'S) EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IFRS-3 BUSINESS COMBINATIONS.**

#### **About ICA ROAP**

The ICA ROAP is the Regional Office for Asia and the Pacific of International Cooperative Alliance {ICA}, the world body of all cooperatives with its Head Office in Geneva. Founded in London on 18<sup>th</sup> August 1895, ICA is a member-based organisation with national and international cooperative organisations in over 102 countries. It serves more than 241 member organisations, including five international organisations, representing well over 780 million individual members around the world.

Besides the Head Office in Geneva, Switzerland, there are five regional offices viz. (a) Regional Office for Asia and the Pacific; (b) Regional Office for East, Central and Southern Africa; (c) Regional Office for West Africa; (d) Regional Office for Central America and the Caribbean; and (e) Regional Office for Europe.

The ICA enjoys Category-1 Consultative Status with the United Nations Economic and Social Council (UN/ECOSOC) and has active working relations with UN and other international organisations.

The ICA Regional Office for Asia and the Pacific (ICA ROAP) located in New Delhi, India, serves 54 national level organisations from 22 countries and one international organisation - Asian Confederation of Credit Unions (ACCU), representing over 480 million individual members of cooperatives in Asia-Pacific region.

## Our Comments

The ICA ROAP does NOT agree with proposals for amendments to IFRS-3 Business Combinations as mentioned in the Exposure draft prepared by IASB. Cooperatives are member-based enterprises and, therefore, they stand apart from investor-oriented business enterprises in corporate sector in regard to their management, operations, profit orientation, etc. Earlier IAS-22 had clearly recognised the distinct nature of cooperatives and mutuals by specifying “**The Pooling of Interests Method**” for cooperatives and mutuals. IFRS-3 has replaced IAS-22. Such replacement without formulating any alternate accounting method based on economic nature of cooperatives is bound to create problems for them. It would, therefore, be prudent to continue IAS-22 till alternate accounting method/guidelines are formulated for cooperatives.

Our comments on questions/issues raised in Exposure Draft are as follows:

### Question-1

*The Exposure Draft proposes:*

- *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.*
- *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?*

### **Our Response:**

- i. In cooperatives, business combinations through amalgamation and mergers are driven by the consideration of enhancing services to the membership of entities interested in establishing business combination unlike corporate sector whose main consideration is to have larger share or monopoly in the market. Therefore, there is no “**acquirer**” or “**acquiree**” in business combinations or contractual groups established by cooperatives.
- ii. The guiding principle for establishing business combinations or contractual groups by cooperatives is “**cooperation among cooperatives**” through “**pooling of interests**” for providing better services. Thus, application of “Purchase Method” as contemplated by IFRS-3 negates the universally accepted principle and ethos of cooperatives.
- iii. The shares of cooperatives in most of the countries of Asia-Pacific region cannot be traded in stock exchanges. Therefore, concept of “**fair value**” as defined by “Purchase Method” is not appropriate for cooperatives.
- iv. In most of the countries of Asia-Pacific region, cooperatives have established business combinations in the form of federations at secondary and tertiary levels. In the cooperative federal structure constituent units are autonomous and they are institutionally linked with their federation through mutually agreed contractual obligations. In such a situation, application of “Purchase Method” or “Acquirer and Acquiree Relationships” may create confusions and contradictions.
- v. In most of the countries, guidelines for Accounting Standards are given in Cooperative Legislation which is based on country specific situation and positioning of cooperatives in national economies. Application of International Accounting Standards - IFRS-3 – will be in contradiction with national cooperative laws. This will create practical difficulties in the operations of cooperatives.
- vi. A number of countries have their own National Accounting Standards, both for corporate sector as well as cooperative sector. Unless National Accounting Standards are harmonised with International Accounting Standards (IAS), application and adoption of IAS may create confusion and operational difficulty for cooperatives.

### **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?*

***Our Response:***

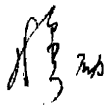
We do NOT agree with the stipulation of IFRS-3 regarding transitional and effective date requirements. It may not be legally tenable to decide the effective date of application before final publication of IFRS-3.

**Our Recommendations**

- IFRS-3 should NOT be made applicable to cooperatives. For cooperatives specific accounting standards should be formulated after thorough study and analysis of national accounting standards.
- Pending the formulation of specific International Accounting Standards for cooperatives, IAS-22 may continue to operate.

With cooperative greetings,

Yours sincerely,

**MU LI**

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International Cooperative Alliance

**SHIL KWAN LEE**

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