



General Confederation of Agricultural Co-operatives in the European Union

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Brussels, 27 July 2004

Sir David TWEEDIE
Chairman International Accounting Standards
Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft of proposed Amendments to the scope of IFRS 3 Business Combinations

Dear Sir,

COGECA, the General Confederation of Agricultural Co-operatives in the European Union representing farmers co-operatives in an enlarged EU takes the opportunity to comment on the concerned amendments.

COGECA disagrees with the proposed amendments. While understanding some of the arguments that have led to the IFRS3 standard on Business Combinations that eliminates the method of pooling of interests linked to non-mutual entities, we are of the opinion that the Amendment to IFRS 3 is not appropriate to mutual entities. This does not reflect neither their juridical nature nor their economic reality. Replacing the pooling of interest method with a lesser appropriate provides no improvement as far as mutual entities are concerned. Combinations of mutual entities accounted for by applying the purchase method under IFRS 3 (and in its amendment proposal) do not adhere to the economic reality.

Therefore we urge the IAS Board to maintain the IFRS 3 as agreed in March 2004 and to apply the pooling of interest accounting method to mutual entities until a better solution is developed.

COGECA wishes to highlight the specificities of mutual entities as compared to conventional enterprises. This is of particular relevance within the framework of co-operation either through a legal merger, a contractual arrangement or a co-operative of co-operatives. In conventional enterprises shareholders look for the maximum shareholder value, whilst the main objective of co-operatives and mutuals is to optimise services provided to members.

Combination between mutual entities can never be considered as a sale of members' shares [the co-operative purpose is to *meet its members common economic, social and cultural needs and aspirations* (ILO Recommendation 193)].

As opposed to conventional corporations, where the purchase of the majority of common stock provides control, in mutual entities this process cannot occur. This is due to the "one-person-one-vote principle". Member shares are also not transferable to non-members and they are issued and redeemed on a nominal basis. Therefore they do not have a market value and they do not reflect any kind of purchase price or cost of the combination. Any methods to calculate purchases dependent on estimates of the cost of the combination leads to severe practical problems if applied to mutual entities.

Yours sincerely,

Eduardo BAAMONDE
President of COGECA

Annex: P(04)254S1

COMMENTS OF COGECA ON PROPOSED AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS

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?

Answer to question 1

Regarding the juridical nature of mutual entities one main problem is to introduce the legal figure of an acquirer because in cases of mergers between co-operatives, mutualities and/or contractual groups of co-operatives it is difficult to define who is the acquirer and the acquiree.

COGECA is of the opinion that practical application of the purchase method would, implicate a true transfer of shares and legal notification to a notary, a dissolution of the property of the co-operative and a reversion of the decision-making powers by its concentration.

In co-operatives and mutuals members' shares are nominal, non-transferable and all members enjoy equal voting rights. In some cases, both in mutuals and in co-operatives, there are no shares at all and property is collective. The frequent co-operation between mutual entities, should not be qualified as "business combination" in the sense of "Dual listed corporations" since, in reality, they are not listed and they do not have shares to exchange.

In reality it is impossible to legally acquire a co-operative or mutual or to directly transfer members' shares unless the entity is de-mutualised and transformed into a conventional enterprise. Only in such a situation it could then be legally acquired, a situation not included in the scope of "business combination" of mutual entities, and therefore out of the scope of the proposed amendment.

Consequently there is no exchange of consideration in mergers except for the financial compensation among the members' shares.

In the framework of contractual agreements between two (or more) parties based on democratic and voluntary decision-making there is a shared control of certain assets and/or activities. Therefore contractual groups do not lead to hierarchical control and concentration of capital. Their logic is one of co-operation for specific socio-economic functions and to ensure the long-term sustainability of the latter.

This can in no way be assimilated to a purchase, nor can it justify the utilisation of the purchase method.

Many business combinations of mutual entities due to their nature may identify with the method of pooling of interest. This appears in conformity with their specific nature and should remain in force, for them, until an alternative has been developed.

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?

Answer to question 2

COGECA disagrees with the proposal of not amending the transitional and effective date requirements in IFRS 3 as issued on March 31st 2004.

In this specific case this will effectively lead to a true retroactive application of a new accounting rule, which conflicts with national legislation in several EU member states.

To engage in regulatory changes just four months after the approval of the IFRS 3, that still have to be approved by the IASB, provides neither time for adaptation nor a secure regulatory environment delivering trust and reliability.

COGECA requests the non-application of the IFRS 3 to mutual entities until adequate guidelines, accounting solutions and chronology are defined.

We believe that it would be more appropriate for the IASB to work out proper guidelines on the basis of clear and ascertained concepts.

Until the appropriate solutions are found, we strongly recommend to continue using the pooling of interest and the net book value methods for mergers and contractual combinations among mutual entities (co-operatives and mutuals).