

04-07-28
Sir David Tweedie, Chairman
International Accounting Standards
Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David,

**Comments on International Accounting Standards Board's (the IASB's)
Exposure Draft - Amendments to IFRS 3 Business Combinations –
"Combinations by Contract Alone or Involving Mutual Entities".**

Föreningen Kooperativ Utveckling (FKU) (the association of co-operative development agencies in Sweden) recommends the non-application of the proposed amendment. FKU gather 25 regional member organisations with over 800 social economy organisations as members.

We are of the opinion that the Amendment to IFRS 3 is not appropriate to cooperatives, and reflects neither their juridical nature nor their economic reality. For cooperatives the elimination of the pooling of interest method is threatening the original cooperative concept. The proposed purchase or acquisition method applied to cooperatives raises many new questions. In the business reality, combinations of cooperatives accounted for by applying the purchase method mentioned in IFRS 3 and in its amendment proposal do not reflect the economic reality. We are thus under the obligation to oppose the proposed amendment.

By principle, the combination between cooperatives can never be conducted as a sale of the member shares. This is because the purpose of a cooperative is to "*meet [its members] common economic, social and cultural needs and aspirations*" (ILO Recommendation 193). Member shares are not transferable to non-members. Moreover, member shares are issued and redeemed on a nominal basis, and therefore do not have a market value which an acquirer would be willing to pay. Shares issued to members of the combined entity do not reflect any kind of purchase price or cost of the combination. Any kind of purchase method depending on measuring the cost of the combination leads to serious practical problems if applied on cooperatives.

In the case of contractual groups of cooperatives, there is no transaction taking place, but a contractual agreement between two parties to share control of certain assets and/or activities, based on democratic and voluntary decision-making. Contractual groups do not lead to hierarchical control and concentration of capital. Their logic is of co-operation for the fulfilment of the needs of the members. When new cooperatives, normally with members

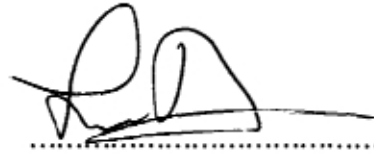
with similar needs, enter the group, they democratically decide to join in, in the same way as their founding members did. Such joining in is motivated by socio-economic reasons as better welfare services, lower prices or a better life for the primary members. This can in no way be assimilated to a purchase, nor can it justify the utilisation of the purchase method.

The IASB should look try to find out long-term solutions that respects the legal nature of cooperatives, and reflects their social purpose and economic reality.

Föreningen Kooperativ Utveckling i Sverige, Stockholm



Jan Olsson
Vice-President



Sven Bartilsson
Director International relations