

Bogotá D.C. 29 de Julio de 2004

Sir DAVID TWEEDIE
Chairman
IASB
United Kingdom

Dear Sir David:

On behalf of Cooperatives Organizations on Colombia, We want to show the reasons why the **Amendments to IFRS 3 Business Combinations**, about *“Combinations by Contract Alone or Involving Mutual Entities affects negatively to the Cooperatives and Mutual Organizations.*

The Exposure Draft proposes that the IFRS 3 should now cover combinations by contract alone or involving mutual entities (cooperatives and mutuals), while applying a **particular** method of purchase to such combinations.

After serious study, we strongly disagree with the Exposure Draft of amendments to IFRS 3, because they are **not** the right solution applicable to mutual entities, and will therefore not be capable of reflecting their legal natural or the economic reality of such entities. We therefore request the IAS Board not to modify the IFRS 3 as passed in March 2004, and to continue enabling the application of the “accounting method of pooling of interest” to mutual entities until the right solutions are found.

For the analysis of the Exposure Draft is important to recognize the differences between the cooperatives and mutual organizations from other ones. Their legal juridical nature and their economic reality need adequate accounting methodology.

Attach you will find some technical reason to support our comments, we hope this will be useful for the discussion of the amendments to IFR 3.

Best regards,

CARLOS GUSTAVO PALACINO ANTIA
Board President Colombian Cooperative Confederation
Executive President SaludCoop EPS

Copy To: Dr. Jorge Pinzón. Superintendente Bancario
Dr. Enrique Valderrama, Superintendente de Economía Solidaria

Annex
Comments of [nombre de su organizacion] 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?

R/

The application of the purchase method would entail, sooner or later, a true transfer of shares and legal notification to a notary, dissolve the property of a cooperative and invert the decision-making powers by concentrating them at the top head unit. Members' shares in cooperatives and mutuals, when these do exist, are non-transferable and nominal, with all members enjoying equal voting rights.

It is not possible, in general, to legally acquire a cooperative or mutual or to directly transfer the members' shares (in the case of cooperatives), at least not before the entity is de-mutualised and turned into a conventional enterprise. Only then can it be acquired legally, a case that falls out of the scope of "business combination" of mutual entities, and therefore out of the scope of the proposed Amendment. There is thus no exchange of consideration in mergers except for the financial compensation among the members' shares

Most Business Combinations of mutual entities, because of their very nature, may identify with the method of Pooling of Interest. The latter accounting method appears in conformity with their specific nature and should remain in force for them until an alternative method that takes into account their specific legal nature and economic reality is found.

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?

R/

The date proposed in the Exposure Draft means the retroactive application of the standard, something that is not legally acceptable. This principle works in every Country around the world.

We request the non-application of the IFRS 3 to mutual entities until proper guidelines and adequate accounting solutions and time frame are set. The amendment proposed should not be included within the stable platform. Meanwhile, as long as there are other norms still in effect or in force, there shall be no legal vacuum.

Until the appropriate solutions are found, we recommend to continue with the pooling of interests and the net book value methods for mergers and contractual combinations among mutual entities (cooperatives and mutuals).