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**Sent:** 30 July 2004 09:54

**To:** Commentletters

**Subject:** Amendements to IFRS 3

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SIR DAVID TWEEDIE, CHAIRMAN

International Accounting Standards Board

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Sofia, 30.07.2004

Comments on International Accounting Standards Board's Exposure Draft –  
Amendments to IFRS 3 Business Combinations – “Combinations by Contract  
Alone or Involving Mutual Entities” (referred to as “the proposed  
amendments”)

Dear Sir David,

We, the National Union of Workers and Producers' Cooperatives in Bulgaria are pleased to seize the opportunity and present our positive attitude towards the exclusively important activity performed by the International Accounting Standards Board you preside. The International Accounting Standards Board won an indisputable acknowledgment for its creative work in the filed of accounting standards and for its contribution to the development of the world economic area.

However, we, the National Union of Workers and Producers' Cooperatives in Bulgaria strongly disagree with the proposed amendments to IFRS 3 “Business Combinations – Combinations by Contract Alone or Involving

Mutual Entities” and wish to express our negative view concerning such amendments.

Our disapproving opinion is based on our more than one hundred years long experience, since the time when the workers and producers’ cooperatives were first established in Bulgaria and on their successful functioning in times of various political systems of the country’s social structure. Through this long period, the Bulgarian cooperatives have been always distinguished from the conventional enterprises, due to their specific cooperative values and principles.

The cooperatives are socio-economic organizations characteristic for their socio-economic functions. Governing to them is the principle “one person – one vote” and the shares of their members shall not be sold on stock exchanges. The main objective making the foundation in the creation of a cooperative society, or a mutual entity is to optimize the services offered to their proprietor members, while in a conventional enterprise the shareholders are striving to create the maximum possible share value.

In principle, a business combination between cooperatives and mutual entities involves no sale of the shares belonging to the members. There, the legislator will not admit the purchase of votes through the purchase of shares. The principle “one person – one vote” allows to nobody to take control over a majority of members. We should take into consideration the fact that the shares issued to members of a merger entity (a business combination between cooperatives and mutual entities) shall not reflect any purchase price or value of such business combination. The implementation of any purchase method depending on measuring the value of such business combination will entail serious practical problems to the cooperatives and the mutual entities. The main negative effects will be as follows:

- business combinations between cooperatives and mutual entities will be not realized, and they proved in practice their economic efficiency;
- the social economy will experience constraint, due to the inevitable transformation of cooperatives and mutual entities into entities that are not mutual.

The above considerations make us think that the proposed amendments to IFRS 3 “Business Combinations – Combinations by Contract Alone or Involving Mutual Entities” are inappropriate to cooperatives and mutual entities, because such amendments lack the possibility to preserve the juridical nature and socio-economic essence of the latter.

We firmly believe that the International Accounting Standards Board will pay attention to our critical comments and will do their best to take into account the economic reality of cooperatives and mutual entities. In this way, the necessary prerequisites for the development of the so called business combinations involving cooperatives and mutual entities will be created, and they make the groundwork for the social economy in the European countries.

Yours sincerely,

Stilian Balasopulov

President

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