

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” .**

The Coordinating Committee of European Cooperative Associations (CCACE) is pleased to send its comments on the proposed amendment. CCACE, established in 1982 groups 7 European-level sectoral cooperative organisations and national inter-sectoral cooperative organisations from 9 EU countries, including 2 new member states (Poland and Czech Republic). The European Parliament, the European Commission and the European Economic and Social Committee have officially recognised the CCACE as the common inter-sectoral representation of cooperatives at EU level. The associations grouped together in the CCACE aim to better promote the principles and practices of cooperative enterprises and to promote their common interests, beyond sector-specific issues, before the European institutions and the general public.

**CCACE disagrees with the proposed amendment.** While understanding some of the concerns that have led to the IFRS3 standard on Business Combinations that discards the method of pooling of interests, and linked to non-mutual entities (conventional companies), we consider that that the Amendment to IFRS 3 is not appropriate to mutual entities (cooperatives and mutuals): indeed, it does not reflect their juridical nature, and is not in keeping with their economic reality. In this context, eliminating the pooling of interest method does not lead to any improvement as far as mutual entities are concerned. The proposed purchase or acquisition method applied to mutual entities raises many new questions.. We are thus under the obligation to oppose the proposed amendment.

CCACE therefore requests the IAS Board to maintain the IFRS 3 as was passed in March 2004, and to apply the accounting method of pooling of interest to mutual entities until proper guidelines are issued.

The IFRS 3 standard was passed in March 2004, only four months ago, when due thought was given to the exclusion of mutual entities and joint ventures from the standard. Technical difficulties to include mutual entities in IFRS 3 appear already in the basis for conclusions of the Proposed Amendments to IFRS 3 (see BC7). While joint ventures continue to be excluded from the IFRS 3 until proper guidelines have been established, mutual entities would, on the contrary be included under the proposed Amendment. Similar to the case of joint ventures, an interim proposal with already identified protracted practical difficulties do not appear to be the adequate solution as far as mutual entities are concerned.

The IASB should explore all possibilities to reflect the economic reality of mutual entities in order to find effective solutions, for which we offer our full cooperation.

Finally, please allow us to insist also on the specificity of the mutual entities compared to conventional enterprises, and in particular when treating their framework for co-operating through various ways (through a legal merger, a contractual arrangement, a cooperative of cooperatives and so on). While in the conventional enterprise shareholders look for “value creation”, namely the maximum shareholder value, in the cooperative and mutual world the objective is to optimise the services provided to members-owners of mutual entities.

By principle (see ILO Recommendation 193/2002 on the Promotion of Cooperatives), no combination between mutual entities can be conducted as a sale of the member shares. Indeed, the purpose of a cooperative is to meet its members’ common economic, social and cultural needs and aspirations. In contrast to the purchase of the majority of common stock in a conventional corporation, the situation by which an acquirer obtains control by purchasing more than half of the voting rights cannot occur in mutual entities, because the principle of "one-person-one-vote" prohibits one person to take control of the majority of the voting rights. 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 mutual entities (cooperatives and mutuals).

**Yours sincerely,**

**Rainer Schlüter  
Delegate General**

**Annex**  
**Comments of CCACE 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?*

**Responses to question 1**

The main issue in the case of cooperatives is not the difficulty to identify who should be the acquirer and the acquiree, but the fact that due to their juridical nature, such legal figures are not applicable.

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.

Members' shares in cooperatives 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, at least not before the entity is turned into a conventional enterprise. Only then can it be acquired legally. There is thus no exchange of consideration in mergers except for the financial compensation among the members' shares.

In the case of contractual groups, there is a contractual agreement between two parties to share control of certain assets and/or activities, based on democratic and voluntary decision-making. The result of a Business Combination of mutual entities linked together through a

contractual group is not the control of an entity onto another, but rather two entities which control, under conditions of equal power, certain assets and activities in common. Such joining in is motivated by a socio-economic function that the group performs. This can in no way be assimilated to a purchase, nor can it justify the utilisation of the purchase method.

Likewise, it is not possible to control a cooperative entity by purchasing the majority of its members' share capital (such shares are not transferable) and there are limits to members' voting power (principle of "one person one vote"), even if one member has more shares than another member.

Possible advantages stemming from additional information for would-be members of cooperatives participating in co-operative mergers or contractual co-operation, obtained through measuring the acquired enterprise on the basis of fair value, would not compensate the high costs to obtain such fair value. It is therefore requested to maintain the utilisation of the book value, unless a more appropriate new method is found.

Furthermore, the proposed amendment would contradict existing national legislation in EU countries. It would also contradict the recently-published European Commission Communication on Cooperative Societies in Europe.

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?*

### **Responses to question 2**

The date proposed in the Exposure Draft would entail a retroactive application of the standard, something that is not legally acceptable.

Hasty regulatory changes just four months after the approval in March of the IFRS 3, that might be possibly approved by the IASB at the end of 2004, provides neither time for adaptation (costly and time consuming) nor a stable regulatory environment that may deliver the benefits of trust and reliability.

The arrangement proposed is temporary even though it may require changes to existing laws, contracts and statutes in EU countries. This is neither appropriate nor efficient. It also pre-empts the outcome of an adequate and stable solution for the long term.

We therefore 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.

It should also be underlined that the vast majority of mutual entities in the EU are not-listed companies and that many of them are also SMEs.

We also believe that it would be more appropriate for the IASB to work out proper guidelines on the basis of clear and ascertained concepts. In turn, the Interim arrangement proposed in the ED utilises key terms whose definitions are presently being redefined.

Until the appropriate solutions are found, we thus 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).