



**日本生活協同組合連合会**

**JAPANESE CONSUMERS' CO-OPERATIVE UNION**

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30 July, 2004

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

Dear Sir David,

**Re: Exposure Draft of Proposed Amendments to IFRS 3**

Japanese Consumers' Co-operative Union (JCCU) is pleased to submit our comments on the International Accounting Standards Board's (IASB's) Exposure Draft of Proposed Amendments to IFRS 3, Business Combinations: *Combinations by Contract Alone or Involving Mutual Entities*. JCCU is the National Federation of Consumer Co-operative Societies in Japan. JCCU represents 572 consumer co-op societies with 21.9 million individual consumer members. As a central organization of Japanese Consumers Co-operatives we are in a position to provide good guidelines or principles for accounting to our member co-operatives.

We disagree with the proposed amendments and standards arising from the exposure draft. We request the IASB board to maintain IFRS 3 and keep the application unchanged to mutual entities until proper guidelines are issued concerning an alternative accounting method for business combinations that comfortably accommodate co-operative structure as well.

In connection with Draft Interpretation D8 for IAS 32, International Financial Reporting Interpretation Committee (IFRIC) has admitted that application of IAS32 to co-operatives is difficult. They have just started their work to accommodate co-operatives, particularly from viewpoint of members' shares. IFRIC 3 would handle

also member's share issue from a different viewpoint. We would ask you to draw your kind attention to co-operative movements.

Our comments to the questions raised in the Exposure Draft are as follows:

## 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?*

We disagree to remove from IFRS 3 the scope exclusions for business combinations involving two or more mutual entities. We do not believe that the interim method proposed in the Exposure Draft is appropriate for co-operative entities.

Under any circumstances, members' shares of co-operatives are NOT transferable. Not like listed entities, in case of co-operatives, purchasing majority of the shares cannot control entities. And there is a certain limit to amount each member can contribute. In any case, each member holds one voting power, regardless the amount they contribute. This is a solid principle.

In order to best accommodate co-operatives in International Accounting Standards framework, we would ask IASB to well understand real nature of co-operatives. Participants to co-operatives are primarily looking for goods or services from co-operatives. The basic relationship of co-operatives vs. members is completely different from, for instance, listed entities vs. investors. The purpose of a co-operative is to meet its members' common economic, social and cultural needs and aspirations (ICA identity statement and ILO recommendation 193). We would expect IASB's similar support from viewpoint of International Accounting Standards.

Our business world is ever changing. In accordance with such circumstances and any change of members (consumers) lifestyle and needs, we have to change ourselves as well. The change should include variety of options including business combinations. If such combinations happen, no co-operative entities would take control over others. In case of co-operative entities, we do whole things in a democratic and co-operative way. We will surely have a difficulty to identify acquirer and acquiree in such case.

We request the IASB Board to maintain the accounting method of pooling of interest to mutual entities until appropriate guidelines or accounting method has been established.

## Question 2

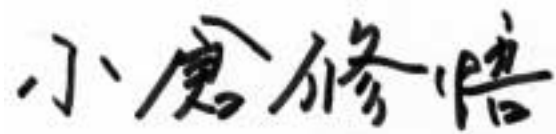
*The Exposure Draft proposes that no amendments be made to the transitional and effective date requirements in IFRS 3. This would have the effects set out in paragraph 6(a) – 6(c) above on the accounting for business combinations in which the acquirer and acquiree are both mutual entities or in which 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?*

We have a strong doubt whether or not retro activating is lawful. The Exposure Draft has an interim nature in any case.

By submitting these comments, we are hoping that many people involved in International Accounting Standards to get familiar with co-operatives that have a unique nature. If you have questions concerning the matters raised in this letter, we will be happy to discuss with your people further. You can contact us via e-mail:<[kokusai@jccu.coop](mailto:kokusai@jccu.coop)>.

Yours sincerely,

A handwritten signature in black ink, reading '小倉修悟' (Shugo Ogura) in a cursive style.

Shugo Ogura  
President of JCCU