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Paris, le 27 July 2004

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V/Réf.
Tél. corresp. : 01.30.44.60.47
Objet : Re : Request for comment on exposure draft of proposed amendments to IFRS 3 "Business Combinations"

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

Dear Sir,

We refer to your request for comment on the exposure draft of proposed amendments to IFRS 3 "Business Combinations", and more particularly the proposal to extend the standard's scope to include business combinations in the mutual and co-operative sector.

We are pleased to provide our comments in the attached appendices. We would also like to draw your attention to the following points.

Given the highly specific way in which the co-operative and mutual sector operates, we are very much against it being included in the scope of IFRS 3, as this would mean treating combinations between mutual banks as acquisitions, which is almost never the case.

Broadly-speaking, we believe a much more in-depth review of this sector's legal, business, financial, fiscal and political environment is warranted before any conclusions are drawn about the appropriate accounting treatment, the implications of which do yet not appear to have been fully grasped. Crédit Agricole therefore believes it premature to include the mutual and co-operative sector within the scope of IFRS 3. Accordingly, we suggest that, pending development of a more adequate standard for the sector, the IASB maintains the pooling of interests method set out in current standard IAS 22.

We remain at your disposal for any further information, and if needed, we are available to take part in any working groups established to tackle this issue.

Yours faithfully,

Deputy Head of Group Finance

Jean BOUYSSET

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 interest ;

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 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 approach would you recommend as an interim solution to the accounting for such transactions, and why ?

Broadly-speaking, we believe the co-operative and mutual sector should remain outside the scope of IFRS 3.

Business combinations between co-operative or mutual entities are very varied in form and are not generally comparable with combinations between companies in the conventional business sector.

For example, when two co-operative banks combine, it is usual for them to do so as equals. The aim of such combinations is to improve the service they provide their customers by reducing operating costs. It is never a question of optimising financial structure with a view to increasing the value of a co-operative bank's shares. In other words, unlike the conventional sector, the purpose of a business combination is not to create shareholder value.

In this respect, it should be remembered that a fundamental principle in the mutual and co-operative banking system is "one man, one vote", regardless of the number of shares held by members. In addition, the shares are always equal to their nominal value regardless of the mutual bank's financial position.

Furthermore, we would stress the fact that a mutual entity cannot be sold, because of its co-operative status. If it wishes to combine with another entity, in order to improve the quality of customer service, it can only combine with another mutual entity on an equal footing. Under these circumstances, the requirement for an identified acquirer and acquiree, and for valuation of the assets and liabilities acquired at their fair value is totally meaningless. We believe the only method that properly reflects the business and legal substance of such a combination is that of net book value – after restatements for harmonising accounting policies between the two entities.

We believe it totally inappropriate to develop a temporary solution, which in any event does not meet the sector's specific nature, pending preparation of a definitive standard. A much more in-depth review is required in order to measure the full implications.

We therefore recommend that pending a definitive standard taking account of the specific nature of the mutual and co-operative sector, business combinations should be treated as unitings of interests as set out in current standard IAS 22.

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)-(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 ?

Crédit Agricole believes it inconceivable to impose a compulsory application date for proposed amendments to the standard before the exposure draft of such amendments has been published.

For combinations in the mutual and co-operative sector, it would be preferable to continue applying the provisions of current standard IAS 22 until the new standard has been published.

Broadly speaking, we believe that a standard or amendments to a standard adopted by the IASB should not become effective until 1 January of the year following its adoption, provided there is a period of at least twelve months between its adoption and its effective date. We believe this is the minimum period required to ensure that each entity concerned has properly understood the standard and measured its full impact and implications, which are not always only accounting-related.