POLE FRG
REGLEMENTATION – CONSOLIDATION - FISCALITE
N. réf. PP/MA 97/04

Paris, le 30 July 2004

Ms Annette Kimmit
Senior Project Manager
International Accounting
Standards Board
30, Cannon Street
London EC4M 6XH
United Kingdom

Dear Ms Kimmit,

Caisse Nationale des Caisses d'Epargne is pleased to comment on the Exposure Draft – Amendments to IFRS 3 Business Combinations – Combinations by Contract Alone or Involving Mutual Entities -.Our responses to the questions raised in the Exposure Draft are set out in the appendix to this letter.

We strongly disagree with the proposed amendments, which do not resolve the difficulties associated with combinations involving mutuals or in which separate entities are brought together solely by contract and which create an additional form of purchase accounting.

We believe it would be more appropriate to leave the standard unchanged, and maintain the application of the accounting method of pooling of interest to mutual entities until proper guidelines are issued.

If you would like further clarification on the points raised in this letter, I will be happy to discuss these further with you.

Yours sincerely,

Pascale PARQUET
Directeur

Appendix

Comments on Amendment 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 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 the 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 recognized 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?

The Exposure Draft is an extension of the scope of the recently issued IFRS 3 Business combinations.

While developing IFRS 3, the Board concluded that the application of the purchase method to these kind of transactions (i.e., combinations involving mutuals or in which separate entities are brought together solely by contract) was too complex to find a suitable short term solution.

The way the Board has chosen to deal with this problem is to create an additional form of purchase accounting, with different rules (involving no goodwill and prohibiting the capitalization of costs directly attributable to the combination).

In addition, this new version of the purchase method would be misleading and would not serve the utility of financial information for the users.

We dot not believe the purchase method should be applicable in all cases, because it does not reflect the economic impacts of some transactions, particularly in cases where mutual entities are involved in a combination, it is not possible to identify the acquirer and the acquiree because the mergers are done under conditions of equal power.

We do not believe the Board's proposals constitute a suitable solution to the difficulties associated with these combinations.

We have been unable at this time to define an appropriate accounting methodology for the combinations of mutual entities.

Given the nature of the transactions identified, we do not believe that an appropriate accounting solution can be resolved without additional research. We encourage the IASB to complete its work and field test any proposals before proceeding with a standard.

For those reasons, we strongly believe such transactions should continue to be excluded from the scope of IFRS 3 and we request IASB to maintain the application of the method of pooling of interest of IAS 22, until an appropriate accounting method is defined.

Question 2

The Exposure Draft proposes that no amendments be made to the transitional an 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?

The Exposure Draft – Amendments to IFRS 3 – proposes the same transitional and effective date requirements as IFRS 3, which means a retroactive application of the standard, that is not legally acceptable in France.
We do not support the IASB's intention to introduce amendments to existing standards which have an effective date even before the date of publication of the relevant exposure draft.

We believe that either to propose an interim arrangement, it would be more appropriate for the IASB to work out proper guidelines on the basis of clear concepts.