July 29, 2004

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

Subject: Comments on Proposed Amendments to IFRS3 – Business Combinations – Effect on Co-operatives

Dear Sir David,

We appreciate the opportunity to comment on the proposed Amendments on behalf of the co-operatives in Canada.

The Canadian Co-operative Association (CCA) is a national association of co-operatives and credit unions. CCA's members are mostly second-tier co-operatives, operating at the regional or national levels, drawn from all geographic regions and involved in a wide range of activities, including finance, agriculture, insurance, retail/wholesale, housing and health. Overall our members represent over 9,000 co-operatives and credit unions with total assets of approximately 160 billion dollars.

The Conseil Canadian de la Coopération (C.C.C.) is a national organization which gathers eight provincial councils, representing more than 8 million francophone co-operators in more than 3,402 co-operatives. These co-operatives held assets as of December 31, 2003, of nearly 100 billion dollars.

We recommend the non-application of the proposed amendments to co-operatives and mutuals due to the potential devastating effect this would lead to for co-operative and mutuals in Canada.

We strongly agree to the position being put forward by the International Cooperative Alliance (ICA) through a working group representing 9 major co-operative and mutual organizations representing all countries in Europe.

The Exposure Draft suggest to bring under the IFRS 3, combinations by contract alone combinations involving mutual entities such as cooperatives. Under these conditions a specific purchase method would be applied. This would have a

Canadian Co-operative Association - Ste. 400-275 Bank Street, Ottawa, ON K2P 2L6 (P) 613-238-6711/(F) 613-567-0658
Conseil Canadien de la Coopération - 2e étage-450 Rue Rideau, Ottawa, ON K1N 5Z4 (P) 613-789-5492/(F) 613-789-0743

considerably different impact on co-operatives than it does on other forms of enterprise.

Although we understand the intention behind the proposed approach, it is our opinion that the Amendment to IFRS 3 is not appropriate to mutual entities because it does not reflect their distinctive legal and economic reality nor their social nature. While in the conventional corporation shareholders insist on maximizing shareholder value, co-operatives and mutuals are focussed on social, cultural and economic empowerment of its member-user-owners with goals that are dedicated to increase the number and quality of services provided to their member-owners. While the conventional enterprise is at the service of capital, the co-operatives and mutuals are first and foremost at the service of people. It is therefore impossible to treat the two in the same way in establishing standards.

The very principles at the core of the mutual entity do not allow combination between mutual entities by way of the sale of the member shares. Such regular occurrences as transferring, purchasing and trading shares for the purpose of acquiring control of a conventional enterprise cannot legally be allowed in a co-operative. Member shares are not transferable and voting rights are based on one member – one vote rather than on share holdings. Furthermore, member shares do not have a market value which someone would be willing to pay. In cases of co-operatives involved in combinations, shares issued to members of the combined entity do not reflect any kind of purchase price or cost of the combination therefore any calculation of purchase method dependent on measuring the cost of the combination leads to serious practical problems.

We, therefore, respectfully and strongly suggest to the Board, that the IFRS 3 be maintained as passed earlier this year. Until more appropriate guidelines can be worked out and issued, we recommend that the accounting method of pooling of interest continue to apply to mutual and co-operative entities and that mutual entities and co-operatives be excluded from the IFRS 3 standard.

Furthermore, we urge the IAS Board to carefully investigate other alternatives that take into account the unique economic nature of mutual entities to find effective solutions. Should there be a need for further dialogue to deepen common understanding of the issues, we would promote and support the idea of having a working group that could represent our interest. Be assured of our full co-operation in making this work for all concerned.

Co-operatively yours,

Jean-Yves Lord
Executive Director
Canadian Co-operative Association

Réjean Laflamme
Directeur géréral adjoint
Conseil Canadien de la Coopération

Comments of the *Canadian Co-operative Association* and
the *Conseil Canadien de la Coopération* on the
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?

Response:

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

It is not possible, in general, to legally acquire a co-operative or mutual or to directly transfer the members' shares (in the case of co-operatives), at least not before the entity has gone through a de-mutualisation process and turned into a conventional enterprise. Only then can it be acquired legally, a case that falls out of the scope of "business combination" of mutual entities, and therefore out of the scope of the proposed Amendment.

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?

Response:

Until appropriate solutions are found that respect the distinctiveness of co-operatives, we urge the IAS Board to continue with the pooling of interests and the net book value methods for mergers and contractual combinations among mutual entities (co-operatives and mutuals).

Additional regulatory changes at this time will be costly, time consuming, and highly ineffective and detrimental to Canadian co-operatives not to mention the erosion of the trust and reliability factors needed to create a truly stable and reliable regulatory environment.