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Sir David TWEEDIE
Chairman

International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
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On behalf of the Conseil National de la Comptabilité (CNC) I am writing to comment on the Exposure Draft Amendments to IFRS 3 Business Combinations – "Combinations by Contract Alone or Involving Mutual Entities".

The exposure draft proposes to include combinations by contract alone or involving mutual entities within the scope of IFRS 3 and to apply a specific purchase method for such transactions. While we generally support the Board's concern to issue accounting principles that deal with the accounting for those types of business combinations, we have strong reservations with the solutions proposed in the Exposure Draft. We understand that the Board objective is to avoid the continued application of either the pooling of interest method or the purchase method as defined by IAS 22 for such combinations. However, we are not convinced that the guidance proposed in the Exposure Draft are appropriate for Dual listed corporations. Furthermore, the IASB does not appear to have consider all the specificities regarding the mutual sector for which legal provisions in certain jurisdictions (1 member/1 voting right) do not allow such take over

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 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 obtaining of an ownership interest. Therefore, no goodwill would arise in the accounting for such transactions.

Is this appropriate 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?

We understand that the Board's concern is to abolish the application of the pooling method for business combinations and is to consider that in most of the cases the acquisition method is the sole method that permits to provide the best information for such transactions. However, business combinations involving mutual or cooperative entities frequently consist in forming a new entity in which member interests of the combining entities are brought together with no entity obtaining control over the others. Rather, the exchange of member interest usually entails an equal reapportioning of the combining organisation's board representation. The objective of the combining entities is clearly to uniting of interests with no ability for the pre-existing entities to take over the combined entity. In those cases, and based on the criteria defined by the current version of IFRS 3, no acquirer is to be identified and the purchase method would lead to account for such transactions using a method that is clearly not appropriate.

We, then, urge the Board to consider an alternative accounting method for business combinations where the purchase method is not a appropriate. However, we believe that the IASB should not focus only on on the fresh start method but rather complete its work on an alternative method to ascertain whether the fresh start method is a better method to account for business combinations for which no acquirer can be identified.

We agree that, in the rare cases when an acquirer can be identified based on the evidence available at the date of the business combination, the acquisition method should be applied. However, we are not convinced that the method of determining the cost of the business combination is suitable.
While we agree with the proposal of the Board to measure the cost of business combination for mutual entities as the aggregate of the net fair value of the identifiable net assets and the fair value of any assets given, liabilities assumed or equity instruments issued, for the control of the acquiree, we do not subscribe to the proposal to recognise as an expense the costs directly attributable to a combination. We point out that § 31 B of the exposure draft is inconsistent with the IFRS 3 § 24 and 29. One way to address this issue would be to consider that, as transactions costs are incurred as a necessary part of completing the combination, they should be accounted for as part of the transaction to which they relate. The initial accounting for the combination will lead to recognise the net fair value of the identifiable assets acquired as a change in acquirer's equity. Then, one possible solution could be to account for transactions costs that relate to that change as a deduction from equity.

We do not agree with the board's interim solution for the accounting of business combination involving entities that are brought together by contract only (eg. Dual listed corporations). Another method, in which the enterprise value of the target entity is the value of the consideration, could be considered. That method is based on the underlying assumption that the value of the acquired entity approximates the market value of the quoted equity instruments. Under that method, and to be consistent with paragraph 24 and 29 of IFRS 3, determining the cost of combination would include the costs directly attributable (e.g professional fees paid to accountants, lawyers,…).

In addition, we wish to draw IASB attention to the following issue. The acquiree may have recently acquired entities and, as the result of those combinations, may have recognised goodwill in its own consolidated financial statements. When determining the cost of business combination, application of the provisions as defined by the Exposure Draft would lead to account for such combination at a value that does not include those goodwills and consequently at an amount that does not reflect the financial position of the acquiree. We, then, strongly recommend the Board to elaborate on it to give additional guidance.

Question 2

The exposure draft proposes that no amendments be made to the transitional and affective 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 obtaining of an ownership interest.
Is it appropriate? If not, what transitional and effective date arrangements would you recommend for such business combinations, and why?

We do not agree with the Board's proposal to retain the same effective date as of the current IFRS 3, i.e. 31 March 2004. We cannot subscribe to an issuing process of a new standard or an amendment to a standard that requires an application date that is prior to the date of issuance of the Exposure Draft

Yours Sincerely,

A. BRACCHI