COOP DE FRANCE

UNE FORCE EN MOUVEMENT

Direction Générale
Nréf. 128

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

Paris, le 26 juillet 2004

Ref: Exposure Draft of proposed Amendments to IFRS 3 Business Combinations – *"Combinations by Contract Alone or Involving Mutual Entities"*

Dear Sir David,

On behalf of the15.000 french agricultural cooperatives I am writing comments about the Exposure draft of proposed amendments to IFRS 3 Business Combinations: *Combinations by contract alone or involving Mutual entities.*
I am pleased to comment on the proposed Amendments as will do other european cooperatives representatives (GNC, COGECA,CCACE etc...) on a matter which is of the higher importance for us.

We understand that the objective is to suppress the method called "pooling of interest" and to generalise the "purchase method".

The french cooperatives worked more than a year with accountants and lawyers for the Conseil National de la Comptabilité in order to find a correct method to account business combinations for cooperatives groups.
The result is clearly based on the "Pooling of Interest" concept which appeared very adequate for our needs to give the right information to all concerned parties.
So we can only totally disagree with the proposed amendments.

We therefore request the IAS Board to maintain the IFRS 3 as it was passed in March 2004, and to apply the accounting method of pooling of interest to cooperatives and mutual entities until other proper guidelines are issued.

I wish that our response will be taken into account and should you need more information, do not hesitate to contact us.

Sincerely yours.

Philippe MANGIN
Président de Coop de France

49, avenue de la Grande Armée 75116 Paris - Tél. : 01 44 17 57 00 - Fax : 01 44 17 57 01
Code NAF : 911 A - Code SIRET : 784 179 665 000 38 - TVA intracommunautaire : FR 44 784 179 665 000 38
e-mail : info@coopdefrance.coop - www.coopdefrance.coop

COP DE FRANCE

Annexe à lettre IFRS 3

Exposure Draft - Amendments to IFRS 3 Business Combinations – *"Combinations by Contract Alone or Involving Mutual Entities"*

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?

In the modification of the IFRS 3 that replaces the IAS 22, it is proposed:

- to apply the Purchase method to all types of Business Combinations, including those of cooperatives and mutual entities

- to design a provisional adaptation of the Purchase method for the Business Combination of mutual entities, as well as other similar combinations.

This IFRS 3 proposal implies:

- to deny the existence of Business Combinations of a different nature from Acquisitions, that requires an accounting method in compliance with their characteristics because no transaction takes place.

- to consider that certain adjustments in the Purchase accounting method will be sufficient to reflect the faithful image of a Business Combination of cooperatives and mutual entities.

In business combinations of agricultural cooperatives the problem is not the difficulty to identify the purchaser, but the fact that such a purchaser does not exist and that there is no transaction taking place.
In this type of combinations, no acquisition takes place and therefore the accounting method corresponding to an acquisition cannot be applied.
For that reason a specific accounting method is needed, such as the one of "Pooling of Interests", where both entities by summing the individual financial statements reflect faithfully the combined control that has been commonly agreed on precisely defined assets and liabilities, and on precisely defined common activities.

This is why we proposed to maintain the non application of the IFRS 3 to agricultural cooperatives, cooperatives and mutual entities, and to apply the accounting method of "Pooling of Interests" actually defined in IAS 22, until the IFRS 3 includes a new appropriated method.

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?

As we are now several months later than the date of IFRS 3 application, it is impossible to make the proposed amendments applicable at the same date. Indeed it will bring too much difficulties for the concerned entities to prepare at least one or two new sets of accounts: those made for the 31/03/2004 and for the 30/06/2004.
Moreever the french principle of prospective application for new rules, is clearly in opposition with the proposal of the E D.
So we disagree with this proposal and suggest again that the IAS 22 is maintained for the use of the pooling of interest until a new method adapted for the cooperatives and mutuals is created.