Association of European Cooperative and Mutual Insurers
Association des Assureurs Coopératifs et Mutualistes Européens
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An association of ICMIF and affiliated to the ICA

ACME

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On behalf of ACME (European Insurance Mutuals and Cooperatives Association), below you will find some comments on the Exposure Draft Amendments to IFRS 3 Business Combinations – "Combinations by Contract Alone or Involving Mutual Entities".

We understand that 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. This method proposes to designate an acquirer and an acquiree at the time of the bringing together. The acquiree's identifiable assets and liabilities will be contained in the acquirer's balance sheet at fair value with as compensation an own funds increase for the acquirer since the latter is not giving anything in exchange.

By definition, mutual entities do not have any member shares or stock to exchange and hence no par value, nor any value to calculate. The only way for a company (mutual or other) to take the control over a mutual is for the latter to transfer directly its portfolio with the corresponding assets and liabilities. Although the transfer is made without any return in securities, ACME considers that the principle according to which the transaction is made in fair value can be accepted if fair value is defined as the value of the liabilities and assets valued on the same day the transaction is made. This type of transaction is similar to a merger.

Another way for two mutual entities to be brought together is by building up financial solidarity ties through common management, significant pooling of means, a common reinsurance policy…. This type of getting together leads to publishing combined accounts reflecting the consolidated accounts of the newly formed group. Is it then a "business combination" as defined by the IAS, knowing that the group created in this manner can very easily be broken off and that there is no way that the members of one of the mutual entities can exert any control over the assets and liabilities of the other? This type of bringing together is not backed up with a restructuring, but reflects the wish for the two mutuals to share a common future or common synergies.

ACME thinks that this case of getting together, very frequent among mutuals, should not be qualified as "business combination" even though it looks like what the IAS documents define as "Dual listed corporations".

Unlike the latter, the real value of a mutual is zero insofar as future profits are granted to the mutual and hence not for distribution. It is the reason why, the bringing together without direct transfer of assets and liabilities should be brought to account by incorporating the net assets of each mutual entity individually, without any revaluation.

At paragraph BC6 it is said that «there are no circumstances in which the pooling of interests method provides information superior to that provided by the purchase method ». This statement does not seem right in this situation seeing that in the case of a combination of mutual entities, the members of each company conserve their powers of decision and of control over the assets and liabilities. The lack of bridge between the two entities (since they cannot distribute dividends) implies that the potential economic advantages resulting from the combination will not be reflected at group level but directly at the level of each mutual entity composing it. Thus, the purchase method would still give a wrong information to the members of the so-called new company.