CUDE COOP
Confederación Uruguaya de Entidades Cooperativas

Nro. 059/2004
Montevideo, 30th July 2004

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

Dear Sir David,

Comments on International Accounting Standards Board's (the IASB's) Exposure Draft - Amendments to IFRS 3 Business Combinations – *"Combinations by Contract Alone or Involving Mutual Entities"* (referred to as the proposed amendments).

The CUDECOOP is the Uruguayan Confederation of Cooperatives of Uruguay, it is the only organization of third grade in Uruguay, joining very different cooperatives as credit unions, working cooperatives, housing cooperatives and farming cooperatives, among others.

We are pleased to comment on the proposed Amendments to IFRS 3.

The ED on Amendments to IFRS 3 plans to scoop in combinations by contract alone or involving mutual entities (cooperatives and mutuals). The Exposure Draft also intends to use a *different* method of purchase in such cases.

After analysing the proposal, we disagree with the Exposure Draft of amendments to IFRS3. Amendments to IFRS 3 are not appropriate to mutual entities, and do not reflect their juridical nature or their economic reality. We therefore suggest to the IAS Board to keep the IFRS 3 as approved last March 2004, and to continue applying the accounting method of "pooling of interest" to mutual entities until adequate guidelines are issued.

Yours truly,

Esc. Danilo Gutiérrez
President

c.c.: Secretaría Técnica Reunión Especializada de Cooperativas del MERCOSUR
Alianza Cooperativa Internacional Américas

Annex
Comments of CUDECOOP on 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?

Contractual groups do not lead to hierarchical control and concentration of capital. Their logic is of co-operation (co-operare) for specific socio-economic functions, and to ensure the long-term sustainability of the latter. When new cooperatives enter the group, they democratically decide to join in, in the same way as their founding members previously decided democratically to constitute the cooperative. Such joining in is motivated by a socio-economic function that the group performs. This can in no way be assimilated to a purchase, nor can it justify the utilisation of the purchase 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?

The arrangement proposed is Interim (temporary) even though it may require changing laws in many countries in the world and statutory changes for cooperatives. Moreover, it would require changes to existing contracts among mutual entities all over the world. This is neither appropriate nor efficient. It also pre-empts the outcome of an adequate and stable solution for the long term.