



Garzón, October 20, 2005

Sir
David Tweedie
Chairman - IAS Board
30 Cannon Street
UK- London EC4M6XH

“IFRS 3 – BUSINESS COMBINATIONS”

Dear Mr Tweedie

I'm Marco Antonio Fonseca Silva, manager of a colombian credit union in Garzon, Huila called **Cooperativa de Ahorro y Crédito San Miguel – COOFISAM**. Our mission, according with our Cooperative Agreement, is to contribute to the social, economic, environmental and cultural improvement of our members and the community by means of the fomenting of saving, solidarity and mutual help, exerting in a efficient way the financial activity exclusively with our members, 12.023 at the present time.

Regarding the 2005 IASB's exposure draft on amendments to “IFRS 3 – Business Combinations”, we would like to comment on the intention of including “mutual entities”.

First of all, we remind the IASB that 78,6% of all respondents to the 2004 IASB consultation on the inclusion of the “mutual entities” within the IFRS3, rejected this inclusion. Consequently, based on the due process, the 2005 proposed inclusion of cooperatives and mutuals into the IFRS3 should not proceed.

We are also convinced that business combinations among mutuals and cooperatives cannot be properly accounted for under the present proposal, nor that an entity can acquire a cooperative as explained under the proposed amendments.

About your considerations:

1) Business entity concept and appropriate accounting treatment: We object the IASB proposed definition of mutual entity, as the concept is unclear in its boundaries between mutuals and cooperatives, mixing different business structures that cannot be accounted for in the same manner.

Cooperatives already have world standards of their own. According to the Statement on the Cooperative Identity, agreed upon by the International Cooperative Alliance and its entire world membership in Manchester in 1995, and incorporated in full in International Labour Organisation Recommendation 193 on the Promotion of Cooperatives, approved at

the 2002 session of the International Labour Conference of the ILO in Geneva by all governments, employers' organizations and trade unions¹, defines the cooperative as **“an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”**.

Thus, a cooperative is, first of all, as *“an association of persons”*, not of capital, its entrepreneurial nature being explicitly instrumental (*“through a enterprise”*), a fundamental characteristic which does not appear so far in the IASB concept of “mutual entity”. In terms of corporate governance and control, the cooperative is *“jointly owned and democratically controlled”*. (*one member one vote*), irrespective of the amount of financial involvement of the different members.

In terms of redistribution of surpluses, the aspect of highest relevance in the present discussion, the fourth cooperative principle (members' economic participation) stipulates that *“members contribute equitably to, and democratically control, the capital of their cooperative”*, part of such capital being the *“common property”* of the cooperative, and that *“members usually receive limited compensation, if any, on capital subscribed as a condition of membership”* (underlining added).

We underline that:

- The allocation of dividends in a cooperative is not a “gain” nor a “profit” as described under the “mutual entity” concept, but only an adjustment aimed to compensate the members for what they paid in excess or received less in their transactions with the cooperative.
- Under the “mutual entity” concept, the benefits appear to be an inherent right of the owners and not to be submitted to any particular limit, as is the case in any conventional business, whereas in a cooperative the allocation of dividends to members is only a possibility defined by the cooperative itself through its general assembly, and in any case is always limited.
- If dividends are distributed, it is only on part of the surpluses, the most substantial part of which is usually destined to reserves, the development of the cooperative, or other activities beneficial to the community at large (in terms of social inclusion, education, health, fight against poverty, etc.).
- Distributing dividends is not part of the objectives of a cooperative, which in turn are stated in the definition of cooperative.
- Concerning the IASB's consideration that *“interests of members of a mutual entity, we usually include a right to share in the net assets of the mutual entity in the event of its liquidation or conversion”*, it is obvious that this cannot be the case in the many countries of the world (eg an important part of EU countries, Latin America, India, Africa etc.) where part of the surpluses are allocated to reserves that are indivisible even in case of liquidation or conversion.
- The IASB affirms that *“the unique attributes of mutual entities were not sufficient to justify an accounting treatment different from that provided for other entities”*, developed also in BC 180-183. There are fundamental characteristics which

¹ Except for the abstention of one government and one employers' organization. In total, 128 governments (including, among others, the USA, Canada, all 25 present EU member states, and Japan), 94 national employers' organizations and 107 national trade union organisations voted in favour.

distinguish mutual and cooperative societies from capital companies and thus objects to this statement.

- A mutual or a cooperative society is “controlled” collectively by its members insofar as the latter (or their delegates) elect its executive directors at the general assembly according to the “one person, one vote” principle, not according to the amount of shares or any other voting system.
- With regard to BC 180 a, mutuals and cooperatives provide their members not only with financial but above all with non-financial advantages.

2) Acquisition and resulting control under a relationship of mother-subsidiary applied to cooperatives: The new definition of business combinations given in IFRS 3 relies on the premise that an entity takes over or holds the control of another one. This entails that for every merger, the acquisition method should be applied and that, consequently, an acquirer should in each case be identified.

To sell its business, a cooperative must be first terminated as an association of persons by the democratic sovereign decision of its general assembly. Only after its conversion into a capital company, the business can be sold. At this stage, what is being sold is not the cooperative (which exists no more) but a conventional capital company. This is why cooperatives cannot be included in the scope of IFRS3.

About becoming a subsidiary, it is not possible for a cooperative, as it must be democratically controlled in a sovereign manner through the one-person-one-vote in its general assembly. Otherwise, it is simply not a cooperative. It may however, be merged in a merger of equals or its business sold after its termination and conversion. It may also enter into network relationships as a peer, partner, etc. but must always remain autonomous as its recognized worldwide definition clearly establishes.

3) The use of fair value in accounting “business combinations” between “mutual entities”: The value of the membership in a mutual or cooperative comprises financial as well as non-financial advantages. Consequently, the notion of fair value, which makes sense for investors, seems ill-adapted to cooperatives and mutuals. Cooperative accounting should among other issues take into account the various components of the value of membership.

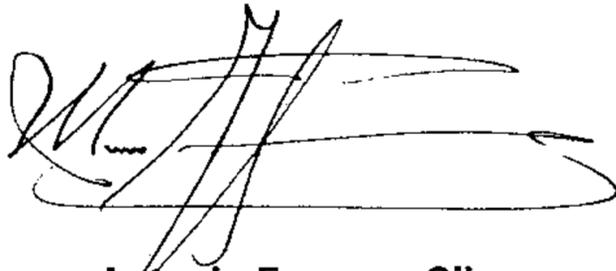
Our conclusions:

- We request the definitive exclusion of cooperatives and mutuals from IFRS3 (on which there is a wide consensus within the cooperative movement already as we saw in the consultation last year) and, instead, the utilization of the “pooling of interest” method; technical arguments can be found in last year’s communications and in section 2 of this document. Furthermore, after the request for exclusion last year by 78,8% of all respondents, the due process has not been really complied with.
- We strongly emphasize that cooperatives and mutuals do not correspond to the concept of “mutual entities” as described along the exposure draft, nor with the wider concept of “profit oriented entities” which exclusively includes conventional enterprises and “mutual entities”, and therefore requests that the internationally-agreed distinctive characteristics of cooperatives and mutuals be clearly recognized.
- We underline the fact that the technical knowledge is still lacking and the need of rethinking a distinctive accounting category for cooperatives, as described in ILO

- Recommendation 193. This category could be common with mutuals provided that the differences between the two models are explicitly clarified, and provided that this common category is clearly different from the present "mutual entity" concept.
- We propose the establishment of a specific working group on this topic with the participation of experts on accounting specialised in cooperatives and mutuals from around the world.

We look forward to receiving your comments.

Many thanks and best regards



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