



October 20, 2005

Sir
David Tweedie
Chairman - IAS Board
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Coopeberchmans is the cooperative of Berchmans School employees, our mission is to contribute in a permanent way to the improvement of the social, economic and cultural condition of our members, through the practice of cooperation, mutual help and credit, purchasing, housing and transportation services and the complementary ones for social security. We already have 145 members and in this occasion we'd like to comment regarding the 2005 IASB's exposure draft on amendments to "IFRS 3 – Business Combinations" on the intention of including "mutual entities", a term that appears to include mutuals and cooperatives.

We are 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. We suggest that the different stakeholders be consulted over any future method, so as to assess at an early stage all the implications for cooperatives and mutuals.

Detailed remarks:

1) Business entity concept and appropriate accounting treatment: We object to 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. The description of "mutual entity" that emerges along the text does not fit with what cooperatives and mutuals are and how they have been internationally defined.

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' organisations 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"**.

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.

Justification of Different Treatment

- 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 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.

3) The use of fair value in accounting "business combinations" between "mutual entities": The book value has so far been the most widespread type of accounting value among cooperatives because book value it is based on historical figures, while fair value is based on future hypotheses and is useful to external investors, which is irrelevant for cooperatives.

4) Proposal to the IASB:

- 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.

Best Wishes,

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Manager
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