



100% NEW ZEALAND OWNED & OPERATED

Letter of Comment No: 156
File Reference: 1204-001

Foodstuffs (South Island) Ltd
Private Bag 4705
Christchurch
New Zealand

Telephone: 00 64 3 353 8602
Facsimile: 00 64 3 353 8342
e-mail: chris.knowles@foodstuffs-si.co.nz

28 October 2005

Mr Alan Teixeira
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M6X4
United Kingdom

Dear Sir

Comments of Foodstuffs (South Island) Ltd on the IASB's Exposure Draft on Amendments to "IFRS 3 – Business Combinations"

Background Comment

Foodstuffs (South Island) Ltd is a cooperative wholesale grocery organisation, operating in the South Island of New Zealand. It is the 10th largest New Zealand Company when ranked by sales and controls over 60% of the grocery retail food sector of the South Island of New Zealand.

Foodstuffs (South Island) Ltd has two independent sister cooperative companies – Foodstuffs (Auckland) Ltd and Foodstuffs (Wellington) Cooperative Society. Collectively they form the second largest trading group in New Zealand with turnover approaching NZD 7.000 billion and in combination with their member retailers, employing over 17,000 people. Collectively the three Foodstuffs Cooperatives control over 56% of the New Zealand retail grocery market.

Foodstuffs (South Island) Ltd is pleased to have the opportunity to provide comment to the IASB on its Exposure draft on amendments to IFRS3 – Business Combinations.

We are saddened that yet another International Accounting Standard is proposed, the contents of which indicate there is an apparent lack of understanding of the Cooperative Model and wonder if the balance of the IASB's membership is correct and if there is a need for a person with specific skills and exposure to this large business ideology to be included in your number.

We are aware that the International Cooperative Alliance has a working party set up to specifically examine IAS as they are produced. Early communication with such a group may save alienating the worldwide cooperative movement by producing what they perceive are unworkable standards.

Specific Comment

Definition "Mutual Entity"

We consider the definition in the draft, lumps together two separate concepts, that of mutual and cooperative enterprise. There is a considerable difference between these business models as cooperatives issue member shares, whereas mutuals do not. Cooperative member shares are normally issued under their sovereign nation's specific equity and debt raising legislation and are often, issued at nominal value under a one person one vote arrangement. In New Zealand there is specific legislation (Cooperative Companies Act 1996) governing these arrangements.

The one person, one vote arrangement brings with it the concept of consensus voting, rather than control by one body over another.

Standard Objective

The stated objective of the proposed standard is to require that all "business combinations" be accounted for by applying the acquisition method. A "business combination" is stated as a transaction or other event in which an acquirer obtains control of one or more business.

As stated above, the notion of control is foreign to cooperative concepts which are based on one person / one vote consensus or collective governance. We submit it is highly unlikely that a business combination of cooperatives would ever be achieved on a control or acquisition basis.

As a case in point, Foodstuffs (South Island) Ltd was formed by a Court sanctioned merger of two cooperatives, Foodstuffs (Christchurch) Ltd and Foodstuffs (Otago / Southland) Ltd.

Assets were pooled at historical cost and two cooperatives of similar (although not exactly the same) membership came together to exploit the future synergies of growth for mutual benefit rather than a release of the locked in variance between historical cost and current theoretical market value.

Our approach was, and is, at complete odds with the underlying thrust of the proposed standard. The idea of control and fair value of underlying assets, whilst it may be of relevance to investor based companies, is of no consequence or matter to Cooperative companies.

We concede there may well be takeovers by a cooperative of other businesses and these should be accounted for as prescribed in the standards.

We strongly submit that the combining of cooperatives is normally done on a merging or pooling of assets at historical prices and this should be allowed to continue by excluding these type of transactions from the definition of those caught by the proposed IAS3 – Business Combinations.

We further ask that the IASB establish real dialogue with the international cooperative movement to avoid the angst that has already occurred over the introduction of IAS 32 and what will undoubtedly come if IAS3 is adopted in the proposed form.

Yours faithfully

C N Knowles
Company Secretary