



October 20, 2005

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COMMENTS ON THE IASB'S EXPOSURE DRAFT of 2005 ON AMENDMENTS TO "IFRS 3 - BUSINESS COMBINATIONS"

The workers cooperative of Colombia, COODESCO, with 6.966 associates, created on September 7, 1986, with the objective to promote employment, as well as social and cultural welfare, strengthening solidarity and mutual help. We have offices in the North (Barranquilla), Coffee region (Manizales), Center (Bogotá), West (Cali), East (Bucaramanga) and our General offices in Medellin.

We would like to express our comments regarding the 2005 IASB's exposure draft on amendments to "IFRS 3 - Business Combinations" on the intention of including "mutual entities", a term that seems 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. You also have to consider that 78.6% of all respondents to the 2004 IASB consultation rejected the inclusion of "mutual entities".

We remark:

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 unions, 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".

- 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.
- 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.
- 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 where part of the surpluses are allocated to reserves that are indivisible even in case of liquidation or conversion. Even in the countries where the legislation does not include such provision, we usually do not observe substantial liquidations or conversions of cooperatives, which, again, shows that cooperatives are not driven by lucrative profit but by another objective.

It is important to add that, on the basis of the above-mentioned characteristics, the emerging global policy framework around cooperatives is clearly based on that universally accepted Statement on Co-operative Identity, ILO Recommendation

¹ Except for the abstention of the government and one employers' organisation. In total, 128 governments (including, among others, the USA, Canada, all 24 present EU member states, and Japan), 94 national employers' organisations and 147 national trade union organisations voted in favour.

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193/2002 on the Promotion of Cooperatives formulates a whole policy framework at the world level. The ILO has also stated that "Co-operatives have proved to be a key organisational form in building new models to combat social exclusion and poverty.

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. 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.

As becoming a subsidiary 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 book value has so far been the most widespread type of accounting value among cooperatives because book value is based on historical figures, while fair value is based on future hypotheses and is useful to external investors, which is irrelevant for cooperatives.

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.

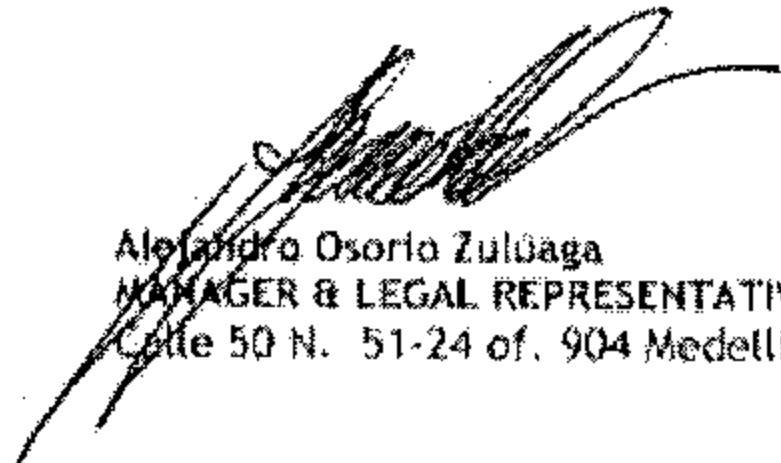
4) Proposal to the IASB:

- 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.


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