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Dear Mr Teixeira

Business Combinations Project (Phase II) of the IASB, ED IFRS 3 and EF IAS 27

On behalf of the German Cooperative and Raiffeisen Confederation (DGRV) I am writing to comment on the above mentioned exposure drafts. The DGRV is the national apex organisation of the German cooperative sector. Cooperatives comprise the strongest form of economic organisation in Germany representing some 8,500 cooperatives with more than 20m. members in cooperative banks, agricultural, handcraft and trading enterprises.

General remarks

IASB has published its third draft within three years with divergent proposals for the accounting of business combinations between mutual or cooperative entities. Originally IASB has acknowledged to exclude these entities from the scope of IFRS 3 until additional guidance and appropriate methods are developed. We also supported the Board's decision to withdraw the 'modified purchase method' as an interim approach in 2004. However the IASB refused to follow requests to reinstall previous standards as long as new methods are found. We were surprised that the IASB changed its plan to continue research work after phase two of the business combinations project. Under the impression of FASB's decision to include mutuals and cooperatives in the scope of the joint exposure draft IASB adopted this decision. According to the Board's new opinion a need for specific accounting rules for mutuals and cooperatives no longer exists.

Overall we do not agree to the intention of IASB and FASB to include business combinations of mutual or cooperative entities into the scope of IFRS 3. With regard to this central issue we reply to this relevant question of IASB's questionnaire.

Question 1 - *Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?*

We disagree to the objective that all business combinations should be accounted for using one single method without any exception.

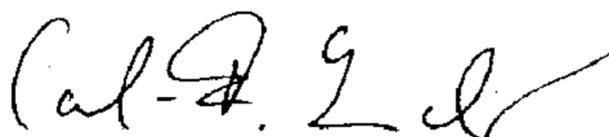
In their comment letters on the 2004 IFRS 3 draft representatives of cooperatives delivered numerous reasons that justify a different accounting treatment. In principle the Board agreed that substantial economic and legal attributes are unique to combinations of mutual or cooperative entities (see considerations in BC179-BC197 of the draft). Consequently we observe a general consensus that differences exist between the business reality of member-based business combinations compared to combinations of investor-owned entities.

The Board also admits that these differences might have difficult practical implications by applying the provisions of amended IFRS 3. But finally the Board rejects all these arguments with reference to the framework principles of reliability, neutrality, faithfulness (BC 188-BC190) and the comparability to other business entities (BC 197).

We ask the Board to review this basic conclusion. We doubt that the application of uniform accounting standards make economic transactions comparable which are in fact not comparable due to substantial legal and economic differences. Therefore we believe that mergers of member-owned mutual or cooperative entities should be comparable among themselves. Instead the main intention of IASB and FASB is to ensure comparability with mergers of investor-owned companies. We disagree with this understanding of the role of reporting standards. In our view fair presentation is ensured when standards properly reflect the substance and business reality of transactions. Making things comparable which are not comparable might violate fair presentation.

We encourage the Board to continue its research for appropriate accounting methods. A majority of experts requires to install suitable rules for mergers of almost equal entities which are likely to occur in the cooperative sector. Cooperatives should not be obliged to account for those transactions applying the acquisition method with full fair value measurement techniques. We are convinced that methods depending on carrying forward book values of the merged entity properly reflect the economic reality of these transactions.

Best regards,
German Cooperative and Raiffeisen Confederation



Prof. Dr. Leuschner



p.p. Jessen