



Letter of Comment No: 192  
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Brussels, 28/10/2005

## Comments to Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations

AISAM, Association Internationale des Sociétés d'Assurance Mutuelle has been promoting mutuality and its principles worldwide since 1964. Its membership, mainly drawn from Europe, represents mutual insurers only, with about 160 direct member insurance mutuals of all sizes and 440 indirect members via 8 member national associations. AISAM's members employ over 180,000 people and have around 60 million clients/policyholders. The total mutual insurance sector represents about 20% of the European market.

### Overall comments

AISAM is very much concerned by § 53 of IFRS 3 Business Combination which considers the combinations of Mutual Companies from an accounting perspective.

We understand that § 53 concerns business combinations involving only mutual entities in which the only consideration exchanged is the member interests of the acquiree for the member interests of the acquirer.

Consequently, in other cases of a combination, for example a combination of 'equals', in which the exchange of member interests of the acquiree for the member interests of the acquirer are not at the origin of the combination, as is the case in 'regroupings' of mutual societies (see SGAM in France), the standard does not seem to be justified and the straightforward use of the acquisition method would not give a true and fair view.

Consequently, we propose that the last sentence of paragraph BC 192 should be modified as follows:

**"As a result, the Board affirmed that the provision in IFRS 3 that requires an acquirer to be identified applies to all business combinations in which the only consideration exchanged is the member interests of the acquiree for the member interests of the acquirer , including those between mutual entities."**

Furthermore, a clear definition of a Mutual Group has not been given. The definition of 'combinaison' as laid down in the French legislation could be a fair solution.

## Specific comments

### Point 1:

*“53 In a business combination involving only mutual entities in which the only consideration exchanged is the member interests of the acquiree for the member interests of the acquirer (or the member interests of the newly combined entity), the amount equal to the fair value of the acquiree shall be recognised as a direct addition to capital or equity, not retained earnings.”*

AISAM welcomes § 53 of IFRS 3 Business Combination which recognises the merger of mutual entities from an accounting perspective especially in the case of a take-over.

We understand that business combinations with other considerations are therefore not covered by this paragraph<sup>1</sup> as explained in BC 180 ‘ unless the economic conditions or other circumstances of the combination were found to be so different as to warrant a different accounting treatment or further guidance’.

### Point 2:

In appendix A: Measuring the fair value of the acquiree using valuation techniques

Income approach

*A24 When two mutual entities combine, the fair value of the acquiree may be more reliably measurable than the fair value of member interests transferred by the acquirer. In a business combination involving only mutual entities in which the only consideration is an exchange of the acquirer's member interests for the acquiree's member interests, the fair value of the acquiree and the fair value of the member interests exchanged as consideration are presumed to be equal.*

We would like to repeat our comments made under point 1.

### Point 3

Basis for conclusions on Exposure Draft

Combinations between mutual entities

*BC182 (b) interests of members of a mutual entity generally are not transferable like other ownership interests. However, they usually include a right to share in the net assets of the mutual entity in the event of its liquidation or conversion.*

We understand and confirm the ‘usually’ as an important nuance.

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<sup>1</sup> For example a business combination ordered by the local supervisor when a mutual is faced with financial difficulties

## Point 4

### Basis for conclusions on Exposure Draft

#### Combinations between mutual entities Method of accounting

*BC188 The Board concluded that eliminating the pooling of interests method and requiring a single method of accounting for all business combinations is consistent with this goal. The Board also concluded that regulatory concerns are not a sufficient reason to grant combinations of mutual entities special treatment vis-à-vis allowing them to apply the pooling of interests method.*

AISAM would concur with this assertion only in the case of the business combination as defined in paragraph 53.

*BC190 The Board agrees with respondents that for business combinations in which one of the combining entities does not obtain control of the other combining entity (assuming such transactions exist), the fresh start method is likely to be more representationally faithful than the acquisition method.*

AISAM would like to point out that indeed such combinations exist (see SGAM in France) were there is no effective takeover of one company by another.

Consultations of the mutual sector in case the fresh start method or any other alternative would be worked out would certainly be recommended.

## Point 5

### Basis for conclusions on Exposure Draft

#### Combinations between mutual entities Identifying the acquirer

*BC192 Additionally, the Board concluded that the IFRS 3 indicators for identifying the acquirer in a business combination are applicable to combinations of investor-owned entities and mutual entities and that no additional indicators are needed to identify the acquirer in combinations between mutual entities. As a result, the Board affirmed that the provision in IFRS 3 that requires an acquirer to be identified applies to all business combinations, including those between mutual entities.*

In order to increase correct understanding of this consideration, AISAM would like explicit reference to paragraph 53. We therefore suggest the following text:

As a result, the Board affirmed that the provision in IFRS 3 that requires an acquirer to be identified applies to all business combinations in which the only consideration exchanged is the member interests of the acquiree for the member interests of the acquirer, including those between mutual entities.

For further comments:

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