Sir David Tweedie Chairman - IAS Board 30 Cannon Street UK- London EC4M6XH

Letter of Comment No: 250 File Reference: 1204-001

Dear Mr Tweedie:

I'm writting you from Candelaria, Valle in Colombia, I'm the General Manager of a Credit Union in this city, we have 6.300 members nowadays.

Regarding the 2005 IASB's exposure draft on amendments to "IFRS 3 – Business Combinations", we would like to comment on the intention of including "mutual entities".

- 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 <u>utilization of the "pooling of interest" method;</u> technical arguments can be found in last year's communications. 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.

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.

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. 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 (eg an important part of EU countries, Latin America, India, Africa etc.) where part of the surpluses are allocated to reserves that are indivisible even in case of liquidation or conversion.

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.

This is our request, thank you very much for your kind attention.

Sincerelly,

Edison Vidal Manager COOTRAIM