



COOPERATIVES EUROPE
COMMON PLATFORM OF A REINFORCED COOPERATION
BETWEEN THE ICA-EUROPE
AND THE CCACE

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Letter of Comment No: 124
File Reference: 1204-001

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

Brussels, 25th October 2005.

**COMMENTS OF "COOPERATIVES EUROPE" ON THE IASB'S EXPOSURE DRAFT ON AMENDMENTS TO
"IFRS 3 – BUSINESS COMBINATIONS"**

"Cooperatives Europe" is the common platform uniting the whole European cooperative sector.

Representing over 300,000 cooperatives, which provide 4,8 million direct jobs, the cooperative sector is deeply rooted in the social and economic fabric of the European Union. "Cooperatives Europe" coordinates the actions of ICA Europe - the International Co-operative Alliance Europe region and the CCACE - the Coordination Committee of the European Co-operative business sectors.

General Remarks:

Cooperatives Europe is pleased to provide the IASB with its comments regarding the IASB's exposure draft on amendments to "IFRS 3 – Business Combinations". We take note that this exposure draft comes as a follow up to last year's business combinations project phase I, and among others, intends to include mutuals and cooperatives in the scope of the standard.

Cooperatives Europe however is not convinced that mergers among cooperatives could be properly accounted for under the present proposal. Consequently Cooperatives Europe encourages the IASB not to go ahead with its intention of including mutuals and cooperatives in the scope of this standard and recommends deferring this decision until a more adequate method could be found in the third phase of the business combinations project. We suggest that the different stakeholders be consulted over any future method, be it the fresh start method or any other alternative, so as to be able to assess at an early stage what its implications could be among others for cooperatives.

Detailed remarks:

As a preliminary remark, we would like to point out the fact that to our understanding the term "mutual" appears to cover both the mutual and the cooperative concepts. We would like to highlight that there is, among others, one specific difference between the two concepts, being that cooperatives issue member shares whereas mutuals do not. Moreover, cooperatives are subject to specific provisions of national law.

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 purchase method should be applied and that consequently, in each case an acquirer should be identified.

With regard to cooperatives, the IASB states that "the unique attributes of mutual entities were not sufficient to justify an accounting treatment different from that provided for other entities", and that therefore the scope exclusions concerning these entities should be lifted.

This argument is further developed in BC 180-183. In the light of these paragraphs, we would like to remind the IASB of some fundamental characteristics which distinguish cooperative societies from capital companies:

- a cooperative society is "controlled" collectively by its members since the latter (or their delegates) elect their executive directors at the general assembly according to the "one man, one vote" principle;
- with regard to BC 180 a, cooperatives provide their members not only with financial but also with non-financial advantages (e.g. actions relevant for local community);

In the case of mergers and acquisitions between entities that are cooperatives, assets are usually pooled at historic cost. In the case of cooperatives, the member has a claim on assets to the extent of his share(s) which is valued at the same book for which it was issued. The notion of Fair Value, while it is of importance for the mergers of stock-listed companies, is not of relevance for cooperative mergers. This specificity is usually anchored in national legislation. If adopted as proposed, the provisions of IFRS 3 thus risk being in conflict with existing law¹. Consequently, the notion of fair value, which makes sense for investors, seems ill-adapted to such types of companies.

While it can be agreed that some mergers between cooperatives could fit the criteria set out for the purchase method, i.e. the identification of an acquirer and of control over an acquiree, we are convinced that for many mergers this will not be the case. There may well be many situations which are true mergers or at least where an acquirer cannot be identified and no definitive control is exerted by one entity over another.

These types of combinations, which are likely to be prevalent for cooperatives, and in which there is no effective takeover of one company by the other, should continue to be excluded from the application of IFRS 3 until a more suitable method can be developed. In the mean time, the pooling of interest method should be reinstated for these mergers.

Summary of positions:

- Fair Valuation appears to be ill-adapted to cooperatives in the case of business combinations. Conflicts with national legislation could be expected;
- The purchase method does not reflect the reality of mergers between cooperatives. In many cases a purchaser could not be identified;
- The scope exclusion should be maintained until solution could be found to better reflect the realities of cooperative mergers. Ideally the pooling of interest method should be reinstated for this particular types of mergers or a new alternative should be developed;
- The cooperative sector is looking forward to contributing to the dialogue regarding the development of any new method.

COOPERATIVES EUROPE ♦ SQUARE AMBIORIX 32, BTE 2 ♦ 1000 BRUXELLES.
TÉL. (32/2) 280 16 09 ♦ FAX (32/2) 235 28 69 ♦ OFFICE@COOPSEUROPE.COOP

¹ This issue has also been raised by the Cooperatives Europe Delegate at the IASB's SME Round Table on 14th October 2005