

OF 681 - 2005

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

Letter of Comment No: 220 File Reference: 1204-001

Dear Sir,

Regarding the resolution "IFRS32 – Business Combinations", proposed in the frame of the International Financial Reporting Standards, I would like to list below a few comments which express the position of the Brazilian Cooperative System on the matter.

The Brazilian Cooperative Society Organization (OCB) was founded on December 2nd, 1969, and represents the National Cooperative System. It presently congregates 7,136 cooperative societies which bring together 6.15 million associates and generate more than 195 thousand direct jobs in thirteen different fields. The OCB System represents the whole Cooperative Movement in the country, focusing on market development and institutional defense of the cooperative sector. Another priority of the System is the Self-Management Process in the cooperatives.

It is important to highlight that the comprehension of 'mutual entity' in the referred document seems to comprise both mutual and cooperative concepts. The OCB questions this definition since the concept is imprecisely considered in the text and brings out distinct types of organizations that cannot have the same accounting procedures. The cooperatives work through specific parameters and standards. Thus, its is understood by the international Cooperative Alliance (ICA) as "a free association of people joined with the aim of satisfying their common economic, social and cultural needs". Therefore, a cooperative constitutes an association of people, not capital. Its corporate nature is simply instrumental.

- 1. The OCB understands that the IAS draft on the IFRS32 brings imprecise concepts that make possible a cooperative and a mutual company to be understood equally under the same accounting parameters. Their differences should be stated as follows: a) the distribution of benefits in a cooperative should not be restricted to a particular limit as it is in any ordinary mercantilist company, since they are an inherent right of the associate; furthermore, it constitutes a compensatory mechanism, nor gain or profit; b) in a cooperative, the profits' sharing' is provided only over a portion of the net margin, and aims at developing the cooperative, through investments in social inclusion, education, health etc. In the IAS Board perspective, the profits seem to be over-granted to capital owners; c) the distribution of profits is not part of the cooperative's objective according to its own definition. In this case, the capital owners are also its 'users', not 'clients'. Besides, cooperatives are understood by the International Labor Organization (ILO) as an innovative organizational model that plays a key role aiming at the development and poverty alleviation;
- 2. Regarding the distribution of profits, one have to bear in mind that he fourth cooperative principle ('economic participation of its members') states out that: 'its members contribute equally to the capital of the cooperative and are responsible for managing it

Cooperativismo, caminho para a Democracia e a Paz

CEP: 70070-936 - Brasília/DF Telefone: (0xx61) 325-5500 Fax: (0xx61) 325-8383

email: ocb@ocb.org.br



democratically'; part of the capital is 'common property of the cooperative' for which its members are granted a compensation mechanism when capital is over-invested;

- 3. 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. According to the new definition that emerges in the Exposure Draft, the "purchase method" has become the "acquisition method" in order to cover intangible assets. The IAS Board considers customer relationships as intangible assets, and declares that "mutual entities" are composed of members who are both customers and owners. Indeed, the main difference between "mutual entities" and conventional businesses, according to the IAS Board, is that the owners are also customers (a commercial relationship with a different meaning from "users"). Also according to the IAS Board, the owners of a "mutual entity" will supposedly either seek the payment of dividends (as a fixed-term investor in any conventional business) or a reduction of the cost of what they buy (as any customer) or both;
- 4. Since it regards an association of people and capital, the cooperative association is personal and individuals are free to join and leave the cooperative. This guideline represents the firs principle of cooperatives. In this perspective, the shares of cooperative associates cannot be sold as in commercial transactions. Furthermore, people cannot be sold as any ordinary share. Only in case of non-members the commercial relations could be understood as intangible actives.

Considering all the aforementioned, OCB does not consider appropriate to keep 'cooperatives and mutual companies' in the IFRS32 text; emphasizes that cooperatives and mutual entities does not fit into the concept of "mutual entities" as expressed in the draft for consultation, and recalls the need to define a distinct accounting category for the cooperatives. At last, OCB believes that a broader process of consultation among stakeholders, cooperative actors, experts, civil society and accounting specialists must be carried out so as the world cooperative system may come to a solid, single and definite conclusion on the matter.

Please accept the assurance of my highest considerations.

Cordially,

Márcio Lopes de Freitas, President **Brazilian Cooperative Organization**

> Copy to: Mr. Norberto Kretzer Director, DENACOOP Ministry of Agriculture

Mr. Daniel Betancour CUDECOOP / Uruguay

Cooperativismo, caminho para a Democracia e a Paz

CEP: 70070-936 - Brasília/DF

Telefone: (0xx61) 325-5500 Fax: (0xx61) 325-8383 email: ocb@ocb.org.br