Dear sir,

CUDECOOP is the Uruguayan Confederation of Cooperatives, is the main organization of representation and promotion of cooperatives in Uruguay, involving cooperatives of all the kinds as credit and saving cooperatives, labors cooperatives, agro cooperatives, insurances cooperatives as well as medical cooperatives. In Uruguay about 30% of its population belongs to a cooperative of one of this type.

General Comments

CUDECOOP has the pleasure of giving its comments to the IASB concerning the project exposed in 2005 of the IASB about the amendments to the IFRS3 - "Combination of enterprises". We take into account that the project exposed is a continuation of last year project about combination of enterprises after its first stage and between others it continues with the attempt of including the "mutual entities", a term that seems to be including both mutual and cooperatives.

Following the analysis of all the answers to the consult of 2004 of the IASB about the inclusion of the "mutual entities" inside the IFRS3, CUDECOOP reminds the IASB that 78.6% of those that answered the consult denied the inclusion of those entities, between others all the economical enterprise actors, and that the reason for this rejection was not only a matter of time or the retroactive application but that it was related with the nature of the entity and the way this entities operate. So based in...
the due process, the inclusion proposed in the 2005 of cooperatives and mutual en the IFRS3 should not proceed.

Even more, CUDECOOP is convinced that the combinations of enterprises between mutual and cooperatives can not be considered properly under the present proposal and that an entity can not acquire a cooperative as explained under the amendments proposed.

In this sense, CUDECOOP asks the IASB to stop with the intention of including the mutuals and cooperatives inside the achievement of the rule and postpone this decision until an appropriate method is founded in the third stage of the project of enterprises combination. We suggest that some stakeholders are consulted about any future method, to evaluate in an earlier stage that all the consequences for cooperatives and mutuals are taken into account.

Detailed comments

Firstly, CUDECOOP wants to call the attention of the IASB to the understanding of the term "mutual entity" that seems to cover both concepts of mutuals and cooperatives. We object to the IASB the definition proposed because this concept is not certain in his limits and mixes structures of different enterprises that can not be registered in the same way.

Throughout the text, we find some examples, as "the mutual companies of insurances", the "mutual cooperatives entities" (A.C. 184, P. 54), the "credit unions" (A.C. 182), a "wholesale cooperative", etc. Besides of the fact that the denomination "mutual cooperative entity" is completely unknown in the world, the problem in defining a concept with partial examples is that: the partial examples can only illustrate but can not define. The partial examples can not be used to infer a more general category even if they refer to them. The fact of only giving partial examples lives out the limits of what is included as "mutual entities" as not certain. In any part of the document of the IAS Board is said that the "mutual entities" are exclusively composed by cooperatives and mutuals, and even more they do not include all the cooperatives and mutuals, and it does consider that they can include other kind of enterprises or not.

Even more, there is a principal difference between this two types of entities (the cooperative and the mutual) because the cooperatives issue actions to their members but the mutuals do not do this. For the mutual the conceptual difference with the "mutual entity" of the IAS Board is really clear: the mutuals DO NOT have nominal actions or transferable in absolute. The number of members in a mutual is generally
(but not systematically) obtained with the payment of a fixed share of entrance that not implies any right to the member and is never negotiable.

Besides this two differences, the description of “mutual entity” that is considered all over the text does not correspond with what it is a cooperative and a mutual and the way they have been defined internationally.

The cooperatives have their own standards. The Declaration of Cooperative Identity, agreed in the International Cooperative Alliance and its members in Manchester in 1995, and incorporated completely in the recommendation of ILO about the Promotion of Cooperatives, approved in the Recommendation 193 of ILO of 2002 of the International Working Conference of ILO by all the governments, employment organizations and labour unions, defines the cooperative as “an self - governing association of persons united by their own willing to give answers to their common economical, social, cultural needs and aspirations throw an enterprise of common propriety and democratically controlled”.

So, a cooperative is in the first place an association of persons, not of capital, its enterprise nature is a fundamental characteristic that does not appear in the case of a “mutual entity” in the sense the IAS Board considers it.

Concerning the government and control, the cooperative is of common propriety and democratically management. This concepts joins the second principle (“democratic administration by its members”) that states that “the cooperatives are organizations democratically administrated by their members” with “the same rights of vote - a member a vote” disregarding the financial compromise of each member. If the cooperative was principally focused in the dividend distribution or other benefits as it is supposed the “mutual entities” are, it would not be accurate with the standardized principle world wide extended and the practice of “a member - a vote”, a way of working fundamental (also shared by the mutuals) and not mentioned in the concept of “mutual entity” by the IAS Board.

We consider the distribution of the dividends, is the most important aspect in this discussion, the forth principle (“economical participation of the members”) stipulates that the “members contribute in a equity way to the capital of the cooperative and administrate it in a democratically way”, a part of this capital is of “the common propriety of the cooperative” and the members receive if any a limited compensation, in case they get one, considering their contribution to the capital. The dividends go to one or all these destinations: the development of the cooperative creating reserves, a part of them can not be divided, benefit the members according with their operations with the cooperative and other activities decided by the members.
As we can see, the assignation of dividends to benefit the members according with the transactions with the cooperative that is considered it the definition of mutual entity differs in a fundamental way with the definition of “mutual entity” of the Draft Exposed because:

- Under the concept of “mutual entity” the benefits seem to be a right of the owners and not be subjected to any limitation as in any conventional enterprise, while in the cooperative the assignation of the benefits to the members is only a possibility defined by the own cooperative in its General Meeting and is always limited.
- The assignation of dividends in a cooperative is not a gain neither a profit as described under the concept of “mutual entity” but not only an adjustment in order to compensate the members.
- If any dividend is distributed is only a part of them, the most significant part is generally destined to reserves, the development of the cooperative or other useful activities for the community (as social inclusion, education, health, etc.).
- The distribution of dividends is not part of the objectives of the cooperative, as expressed in the definition of cooperative (“satisfy the economical, social and cultural common needs and aspirations”). The principal motivation of the members is to satisfy their specific needs as have a job, build their own house, access to credit, get fair prices to the production of the farmers by selling their production together.

As far as a cooperative is an association of persons and not of capital, the membership of a cooperative is nominal and each person has the alternative of unite or leave the cooperative. In this sense: the “actions” (social parts) of the members can not be sailed as relations with clients.

To sell a cooperative should stop existing as an association of persons by the decision of the General Meeting. Only after this decision and conversion to a conventional company the business can be sold. What is being sold is not a cooperative but a traditional company. That is why the cooperatives can not be included in the IFRS3.

A cooperative must be controlled in a democratically way in the concept of a person - a vote in the General Meeting. If not, simply, it is not a cooperative. It can go inside a network of relations, with a partner but it must always be independent as its worldwide definition establishes.
Proposal to the IASB

- CUDECOOP requires the definitive exclusion of cooperatives and mutuals from the IFRS3 (in this sense there is a broad agreement in the cooperative movement as could be seen in the last year consult) and, instead, the utilization of the "pooling of interests" method, the technical arguments can be found in last years communication and in the 2nd. Section of this document. More over, after this requirement of exclusion of last year involving 78.8% of all those that answered the consult, the due process should be respected.

- CUDECOOP strongly emphasize that the cooperatives and mutuals in their operation and configuration en the world in general do not respond to the concept of "mutual entities" as describe in the draft exposed as a consult neither to the wider concept of "non profit organizations" that include only the conventional enterprises and the “mutual entities” so they require that the specific characteristics internationally agreed of the cooperatives and mutuals are clearly recognized.

- CUDECOOP stands out the fact that the lack of technical knowledge and the need of establish a category of accountancy definitively for the cooperatives, appropriate to its nature, function and mission and way of operating are distinctive, as described in the Recommendation 193 of ILO.

- CUDECOOP proposes the creation of a group of work specialized in this subject with the participation of experts in accountancy of cooperatives and mutual of the whole world and remains at disposal in this sense.

Yours faithfully,

Esc. Danilo Gutiérrez
President