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Paris, October 31th 2005

Re: IASB’s Exposure draft of Proposed Amendment to IFRS 3 Business Combinations,  
IAS 27 Consolidated and Separate Financial Statements, IAS 37 Provisions,  
contingent Liabilities and Contingents Assets

Dear Sir,

We are pleased to provide the IASB with our comments regarding the IASB’s exposure drafts on amendments to the above mentioned standards.

Our answers to the questions raised in the Exposure Drafts are presented in the attached appendices. As you will see, we disagree with important aspects of the Exposure Drafts, mainly:

- The inclusion of “mutual entities” in the scope of the proposed Exposure draft IFRS 3
- The measurement of an acquired business at its fair value rather than its cost,
- The economic entity approach to consolidated financial statements versus the approach currently in IFRS 3
- The withdrawal of the probability as a recognition criterion in IAS 37.

We are also concerned that these Exposure Drafts will be impacted in the near future by other major projects of the IASB which are in process such as the Measurement project, the proposed implementation guidance on applying fair value, the performance reporting project and the consolidation project with a potential new definition of control. We deeply encourage the IASB to advance or complete the other projects closely related (fair value, measurement, consolidation, performance reporting...) before turning the proposals into applicable standards.

We remain at your disposal for any further clarification.

Best Regards,

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ED OF PROPOSED AMENDMENTS TO
IFRS 3 Business Combinations

Question 1—Objective, definition and scope

Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

CNLM Comments

The IASB believes that the attributes of mutual were not sufficient to justify an accounting treatment different from that provided for other entities. This position seems to come from a non-accuracy perception of what a mutual is indeed. The description of the “mutual entity” throughout the proposed IFRS 3 Exposure Draft appears to be incomplete and sometimes improper. It does not fit the Crédit Mutuel which is however a Mutual. The definition of a “mutual entity” given in the Exposure Draft is rather incomplete. A “mutual entity” is defined only as an entity other than an investor-owned entity that provides dividends, lower costs, or other economic benefits directly and proportionately to its owners, members or participants, which. The comparative analysis between mutuals and other entities drawn in BC 182 need also be completed and rectified to take into account the true unique attributes:

- Distinct characteristics of mutuals do not « arise primarily because the members of a mutual entity are both customers and owners » as it is mentioned in A 25 P 61 (this can apply to other entities too)
- The main distinction is that they are collectively « controlled » according to the « one person, one vote » principle, not according to the amount of shares.
- They provide their members not only with financial advantages (returns or lower prices) but with non-financial advantages too. They are not, as it seems to be suggested in this Exposure draft only profit-oriented entities. Their objective is to meet common economic, social and cultural needs and aspirations, not the distribution of dividends or lower prices.
- There is no active market for member shares; they are delivered and redeemed at their book value by the institution that issued the shares. Contrarily to what is mentioned in BC 182 b) members do not have a right to the net assets in the event of its liquidation or conversion.

Consequently:

1. Neither a profit oriented entity nor a not for profit entity, mutuals have an hybrid identity that does not find its place yet in the IAS standards. The classification of the mutuals into the profit-oriented entities category is perilous since it could lead to an accounting treatment that does not reflect their nature, function, modes of operation with potential legal, fiscal and economic consequences.

2. The notion of fair value seems irrelevant for mutuals whose shares are not listed and are reimbursed at their book value. Who could be interested on information dealing with the fair value of a mutual since:
   - information dealing with fair value is useful to external investors (stockmarket investors or analysts), but is irrelevant for mutuals whose member are not looking for the maximum possible profit
   - fair value and the value of member shares are not linked.
   - this information will neither be useful for comparability purposes due to the diversity of methods to measure fair value.
   - measurement of fair value relies on speculative approach based on future hypotheses, this information is not functional to cooperative needs and do not provide a more reliable information than the book value.

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3. In many mergers among mutuans an acquirer cannot be identified

A business combination is defined as a transaction or other event in which an acquirer obtains control of one or more businesses. So the acquirer, the entity that obtains control of the acquiree, can always be identified.

In many mergers among mutuans it is difficult and even nearly impossible to identify an acquirer since no control is exerted by one entity over another (true mergers). Choosing an acquirer then will become an arbitrary choice which could lead to diverging results depending on which entity has been chosen to be the acquirer. Some types of coming together would rather be similar to joint ventures which are at this stage clearly excluded from the ambit of the standard (e.g., two mutuals can decide to get closer to develop common activities, in order to benefit from joint synergies or potential economies of scale, without any take over from a mutual over the other one).

Business combinations among mutuans cannot be properly accounted for under the present proposal which does not take into account the real unique attributes of mutuals. We support the alternative view expressed by a disident member of IASB in AV16 and encourage the IASB to continue to exclude mutuals from the scope of this Exposure Draft. The “pooling of interest” method should be used to avoid arbitrary effects on the financial statements.

Question 2—Definition of a business

Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?

CNCM comments

The definition of a business is too broad. As most assets or groups of assets are capable of being conducted or managed as a business, the distinction between a business and an asset may be subjective. This is a weak point since accounting treatments for acquisitions of a business (accounted for at fair value) and acquisitions of assets are not the same. We are concerned that transactions of similar economic substance could receive different accounting treatment and we believe that the difference between both accounting could be material.

So we suggest to remove “capable of” from the proposed definition and to add examples of groups of activities and assets that are and are not businesses in order to assist in the interpretations of the Standard.

We agree with the Board when it concludes under paragraph BC 41 that acquisitions of assets and businesses should be accounted for in the same way. In our view acquisitions of businesses should remain accounted for at cost as it is the case under the present IFRS 3.
Questions 3-7—Measuring the fair value of the acquiree

Question 3—in a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognise 100 per cent of the acquisition-date fair value of the acquiree, including 100 per cent of the values of identifiable assets acquired, liabilities assumed and goodwill, which would include the goodwill attributable to the non-controlling interest? If not, what alternative do you propose and why?

CNCM comments

We disagree with the use of the full goodwill method. We are convinced that the proposed approach will not provide more relevant and more useful information for the users of consolidated financial statements. The proposed accounting treatment gives irrelevant and useless information on the subsequent acquisition of non-controlling interests of a subsidiary by the parent when the subsidiary has been largely developed since the control acquisition. Applying such accounting would lead to a material decrease in parent’s equity at the date an additional interest in a successful business is acquired while, at the same time, that transaction gives the parent company the right to access to future economic benefits that were previously attributed to minority interests.

We support the view of the dissenting Board members (AV2 to AV7) that:
- this method is inconsistent because it treats goodwill as an asset that can be identified separately and measured at fair value
- this method leads to less reliable information than the cost basis method due to the extremely subjective measure of the total value of the acquired business, based upon the acquirer’s judgment of the potential returns that it will generate to the particular acquirer.
- not only is the total value of the acquired business difficult to measure but so is the allocation of the goodwill between the parent and the non-controlling interests: there is a difficult process of stripping out the synergies attributable only to the parent company and it would involve measuring the control premium which is not discussed in the Exposure Draft.
- The parent only approach gives rise to a more reliable measurement because it is based on the purchase consideration, which can usually be reliable measured, and it reflects faithfully the acquisition transaction.

We therefore recommend maintaining the “cost” basis for valuing the acquiree and the parent company approach to goodwill valuation.

Question 4—Do paragraphs A8-A26 in conjunction with Appendix E provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

CNCM Comments

We believe that application guidance in the Exposure Draft do not provide sufficient guidance as:
• No example takes into account the potential existence of a control premium which would justify that the price of the controlling interest may be higher than the price for the non controlling interest.
• It does not address examples for non listed companies. We also note an inconsistency between the Exposure Draft which always requires to determine the fair value of non listed shares and IAS 39 which allows measurement of available for sale of investments in non listed equity instruments at cost when fair value cannot be reliably determined (IAS 39.46 (e)).
• There is no example for contingent consideration which is used mainly in cases where acquired and seller disagree on the fair value such as the acquisition of a start up company.
• The most useful example to allocate goodwill between parent and non controlling interest (example 3) only deals with synergies only available to the acquirer and not with a potential control premium.

Question 5—Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer’s interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

CNCM Comments

We believe that the acquisition-date fair value of the consideration is not always the best evidence of the fair value of the interest acquired. This might be the case when, the combination is effected through a transfer of the acquirer’s equity instruments, the market value of which having decreased for reasons unrelated to the business combination between the agreement date and the acquisition date. This decrease in the market value of the acquirer’s shares may lead to the recognition of the acquiree at an amount that might obviously differ from the fair value of the acquiree. Under the cost approach this difficulty is avoided.

We disagree that the fair value of the consideration transferred used to determine the fair value of the acquiree should include the fair value of any non controlling interest previously held by the acquirer as such interest is not part of the exchange transaction.

Question 6—Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

CNCM Comments

The fair value of contingent consideration will be very difficult to measure reliably at the acquisition date. Requiring, at acquisition date, a value to be determined may result in unreliable and inappropriate measurement of the acquiree.

We consider current treatment under the cost approach in IFRS 3 more appropriate due to the lack of reliability of the initial measurement of the contingent consideration in most cases.
Question 7—Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

CNCM Comments

We believe that this Exposure Draft is inconsistent with other IFRSs including IAS 39 which requires most financial instruments to be initially measured at fair value plus any directly attributable transaction costs. That measurement is required for all financial assets and liabilities even for instruments such as Available for sale financial assets that are subsequently re-measured at fair value through equity.

The inclusion of direct costs in the measurement of the consideration transferred would better reflect the real cost of the acquisition that is expected to provide future economic benefits to the acquirer.

We therefore prefer the existing cost approach in IFRS 3 which is consistent with other standards for the accounting for transaction costs.

Questions 8 and 9—Measuring and recognising the assets acquired and the liabilities assumed

Question 8—Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

CNCM comments

We disagree that receivables (including loans) should be measured at fair value. Loans account for a great part of our assets, as it is commonly the case for bank institution. Their measurement at fair value is likely to lead to material extra costs whilst providing more subjective and less reliable information (there is no active market to trade loans granted in France) to users of financial statements. We therefore propose to keep the cost measurement for receivables including loans.

We disagree about removing probability from recognition criterion to consider it in the measurement of these rights and obligations account. We believe probability should be kept as a recognition criterion.

Question 9—Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

CNCM comments

We agree with the proposed exceptions. We would add receivables including loans as discussed in question 8.
Questions 10-12—Additional guidance for applying the acquisition method to particular types of business combinations

Question 10—Is it appropriate for the acquirer to recognise in profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

CNCM comments

We do not agree that the change in the fair value of the acquirer’s non controlling equity investment in the acquiree be recognised through profit or loss at the date of acquisition as if it had been disposed and immediately repurchased. Such reevaluation would contradict IAS 38 which forbids the reevaluation of internally developed goodwill.
We consider that the decision as to whether the change in fair value of the non-controlling interest (i.e. change corresponding to the revaluation gain on identifiable assets and liabilities) should be accounted for in profit or loss, should be delayed to the completion of the performance reporting project.

Question 11—Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer’s interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?

CNCM comments

The conceptual debate as to whether such approach should be adopted when accounting for a business combination, must be postponed until advanced principles have been developed on measurement issues.
We concur with the Board that this limitation on gain recognition is inconsistent with the general principle underlying the Exposure Draft (that the acquirer should recognise the fair value of the business acquired) and could lead to certain transactions being misrepresented.

Question 12—Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?

CNCM comments

We believe that overpayment can be reliably measured only when both fair value of an acquiree and the fair value of the consideration transferred can be measured reliably.
Question 13—Measurement period

Question 13—Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?

CNCM comments

We agree that the restatement of comparative figures for prior periods to take into account the effects of measurement period adjustments provides more relevant information to users of consolidated financial statements.

Question 14—Assessing what is part of the exchange for the acquiree

Question 14—Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?

CNCM comments

We agree that the guidance provided is sufficient for making the assessment of whether any portion of the transition price is not part of the exchange.

Question 15—Disclosures

Question 15—Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?

CNCM comments

Disclosures objectives and minimum disclosures requirements lead to provide relevant and sufficient information to users that can be obtain without extra costs by producers. We encourage the IASB not to go further in the convergence with the FASB by requiring comparative pro forma information or disclosure of goodwill by reportable segment.
Questions 16-18—The IASB’s and the FASB’s convergence decisions

Question 16—Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognised separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:
(a) the intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability; and
(b) cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

CNCM comments
We disagree with the decision to remove the reliable measurement recognition criterion for intangible assets acquired in a business combination. Reliability of measurement is a criterion for recognition in the Framework. This criterion ensures that financial statements reflect the economic reality and that they provide relevant information to users. We agree with the view expressed by the dissident member that once the reliability criterion will be removed, there will be no limit to the unreliability of measurements which may be reported for separate intangible assets acquired in a business combination.

Question 17—Do you agree that any changes in an acquirer’s deferred tax benefits that become recognisable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

CNCM comments
We agree that any changes in an acquirer’s deferred tax benefits that become recognizable because of the business combination should be accounted for separately from the business combination.

Question 18—Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should this be achieved?

CNCM comments
We are not disturbed by differences between IASB and FASB.

Question 19—Style of the Exposure Draft
Question 19—Do you find the bold type-plain type style of the Exposure Draft helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?
CNCM comments

We find the bold type – plain type distinction helpful.