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LE SECRÉTAIRE GÉNÉRAL

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**Comments on the
Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations**

Please find below the comments from the French Groupement des Mutuelles d'Assurance (GEMA) on the Exposure Draft of Proposed Amendments to IFRS 3 *Business Combinations*:

In its letter dated 15 July 2004, ACME (Association of Cooperative and Mutual Insurers) had already drawn the attention of the IASB on how difficult it would be to apply the IFRS to mutual societies.

The new definition of business combinations given in IFRS3 relies on the fact that an entity takes over or holds the control of another one: this definition in itself does not call for observations on the part of GEMA, but consequently it should not include the other types of combinations in which no company takes over the other.

In the light of §BC182, GEMA would like to seize the opportunity to record below some fundamental characteristics which distinguish mutual societies from capital companies:

- mutual insurers do not issue shares and do not have any social capital;
- a mutual 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 principle "one man, one vote";
- membership in a mutual society is often (but not systematically) granted upon payment of a fixed entry fee which does not carry any right to the member and is never negotiable.

There are cases in which two mutual societies merge and where the balance sheet of one company is absorbed by the balance sheet of the other: the new IFRS 3 can apply to these cases.

However, the business combination in the mutual sector is not always the result of a takeover of one company by another. For example, two mutual societies A and B can decide to get closer to develop common activities. The executive directors can designate a common president. In this case, although bound by the obligation or the will to publish joint accounts for the two mutual societies, there is no taking of control of one another. The decision to cede an asset from A will be up to A's executive staff nominated by the members of A. Same goes for B. Should the members of A and B all benefit from joint synergies or potential economies of scale, there is no takeover from A over B or from B over A. This type of coming together would rather be similar to joint ventures which are at this stage clearly excluded from the ambit of the standard.

Consequently, it would seem at least necessary to distinguish between combinations of mutual entities which take the form of a takeover and those which do not involve any takeover. Only in the former case could an application of the standard be justified. The combinations of mutual entities without takeover but justifying the publication of single accounts should be entered purely and simply by aggregating in IFRS format the accounts of the entities taken separately, and by integrating their joint subsidiaries.

In addition, we noticed that IAS 27 on consolidation recognized only groups formed by a mother entity and entities controlled by it. So, under current IFRS, we have difficulties to establish accounts of a group formed by two mutual entities which have enough financial or commercial links to have an interest in publishing combined accounts. In no case, one mutual controls the other upon IFRS definition.

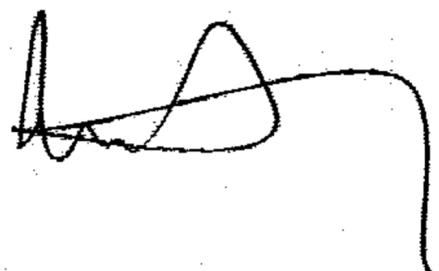
On a technical level, for the treatment of the combinations, the standard refers to three distinct notions:

- a) the price paid by the acquirer;
- b) the fair value of the target's identifiable assets and liabilities;
- c) the target's fair value.

As noted under §BC182c, no cash swap nor other instruments are used in a combination of mutual entities.

GEMA would also like to draw the attention of the Board to the fact that the only effective value of a mutual is for its members and lasts only as long as that they stay members. Consequently, the notion of fair value, which makes sense for investors, seems ill-adapted to companies such as mutual societies. Payments to become membership of the mutual do not depend of the value of the mutual whereas payments to become shareholder of an entity depend of the value of the entity.

For these reasons, GEMA would like to see the scope of the IFRS 3 reviewed and the acquisition method should not be applied to combinations of mutual entities without takeover.



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