

EFRAG

35 Square de Meeûs

B-1000 Brussels

Belgium

Oslo, May 2, 2012

Dear Sir/Madam

Discussion paper – Accounting for Business Combinations Under Common Control

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to comment on the discussion paper Accounting for Business Combinations Under Common Control (BCUCC).

Considering the diverse practice and lack of guidance in accounting for BCUCC we support EFRAGs initiative to address accounting for BCUCC. However, we believe that the more fundamental questions regarding the definition of common control, how to determine the acquirer (if relevant) and a more principle based scoping of the project should have been addressed before discussing the actual accounting principles set out in chapter 5. We have therefore not given any comments to question 5.1 to 5.8.

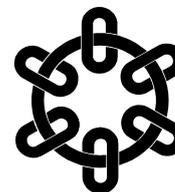
We do not think the DP has put enough emphasis in creating a definition of a common control transaction. In our opinion Chapter 2 does not provide a clear definition of common control and which business combinations that are meant to be covered by the DP. A more principle based approach, rather than a description in a simple diagram, would in our opinion be preferable.

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal

Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



Questions

1.1 Do you think that the concerns have been accurately described in relation to the issues arising from accounting for BCUCC transactions? If not, please could you suggest other significant concerns that have not been addressed?

We think that most of the concerns have been accurately described although there is a great diversity of concerns in practice.

1.2 In your experience, what approaches are typically applied by preparers in practice for BCUCC transactions and what justification is provided to support their application of these approaches?

In our experience the approaches typically applied by preparers are those described in the DP although with some slight variations:

- Predecessor basis of accounting but based on accounting consolidated figures of last parent within the jurisdiction, not last parent of the Group.
- Predecessor basis of accounting but based on separate figures of the acquired entity, not previously consolidated figures.
- The difference between the consideration paid and the predecessor accounting value of the net assets acquired can be accounted for in different ways. In Norway the difference is recognized in equity.

Justification provided by the predecessor accounting approach is based on the specific exclusion of BCUCC from the IFRS 3 and application of IAS 8 p12 and the US approach of “pooling of interests”

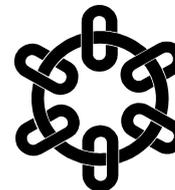
2.1 Are there any issues not included in the scope of the DP that, in your view, need to be addressed in developing an approach to accounting for BCUCC in the consolidated financial statements of the transferee?

We support the decision to exclude from the DP the accounting for BCUCC in the separate and individual statement of the transferee and subsequent measurement. However, we believe that some issues related to subsequent measurement from a BCUCC should be addressed, for example how to account for contingent consideration in subsequent periods.

In our opinion Chapter 2 does not provide a clear definition of common control and which business combinations that are meant to be covered by the DP. A more principle based approach, rather than a description in a simple diagram, would in our opinion be preferable. As an example we believe that the creation of a Newco by the parent of a Group by combining two existing entities (controlled by that ultimate parent) is outside the scope as defined in the diagram in chapter 2. In this case the acquirer is not a pre-existing entity and that fact could lead to a very different accounting treatment if applying IFRS 3 requirements. The diagram does also exclude structures with non-controlling interests, however in chapter 4 non-controlling interests are a significant part of the discussion of the information needs of users. The boundaries of the scope for this project are therefore unclear.

2.2 Do you believe that there are any specific issues to be addressed in the initial recognition and measurement of BCUCC in the separate and individual financial statements? If so, please explain what those issues are and how they should be addressed.

In our opinion most of the issues related to the consolidated financial statements are similar for the individual and separate financial statements. However, accounting for shares in subsidiaries that are part of the business transferred is challenging when predecessor basis of accounting is applied.



2.3 Are there any specific issues you think need to be addressed when considering what information about a BCUCC should be disclosed in the notes to the financial statements of the transferee?

We believe that irrespective of the approach adopted the reasons for the business combination should be explained. This explanation would help to understand the substance of the operation and better support the approach adopted.

We also believe that information about the common control parties of the acquirer and the acquiree is essential to better understand the transaction and the basis of accounting.

Specific disclosure requirements depend on the choice of the model of accounting, and we believe that any further discussion on this topic should be deferred.

3.1 Do you agree that an important step is to understand the information needs of users in the financial reporting of a BCUCC transaction? If not, how else would you set out an approach that satisfies the objective of financial reporting?

Yes, we agree. Financial statements are primarily prepared to provide information to users that could help them to make decisions, as stated in the IFRS framework and across the standards.

3.2 It is noted above that the analysis in this DP is taken from the perspective of the transferee (entity perspective) as opposed to the perspective of the owners (proprietary perspective). Do you agree that, to be consistent with existing IFRS, the entity perspective should be dominant when considering BCUCC? If not, why not?

Yes, we agree that the entity perspective of the transferee should be dominant when considering BCUCC. We believe that from the perspective of the owners this DP would not make sense because no real transactions have occurred (no change of ownership at all).

We also agree that under IFRS the reporting entity is the entity regulated by the standards. Consequently the entity perspective should prevail when considering BCUCC.

3.3 Do you agree with applying the 'logic' of the IAS 8 hierarchy in developing an approach to accounting for BCUCC transactions? If not, what alternative would you propose and how would you reconcile that approach with existing IFRS?

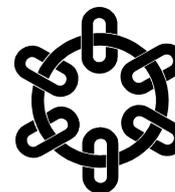
We think that the approach to develop accounting principles for BCUCC depend on whether the ultimate goal is to issue a new IFRS or a new interpretation. If a new IFRS is the main goal, we believe that this IFRS should be purely based on the requirements in the IASB framework. We believe that a new IFRS should start with the fundamentals, such as the definition of common control, how to assess the acquirer, a principle based approach to the scope etc. However, if the intention is to develop a new interpretation we support the approach of using the "logic" in IAS 8.

3.4 Do you agree that if and when an analogy to IFRS 3 is considered to apply, it is appropriate to assume that fair value at initial recognition provides information that is more decision-useful than values based on previously recognised amounts or any other measurement attribute? If not, please explain why?

Yes, we agree.

3.5 Do you agree that if the analogy to IFRS 3 does not apply, defining an appropriate measurement attribute should be guided by an analysis of the information needs of users? If not, why not?

Yes, we agree. We support an approach that addresses the information required for external users of the financial statements as the main purpose of the financial statements, as stated in the conceptual framework of IFRS.



4.1 Do you agree with the main features of a BCUCC identified above? If not, what other features would you highlight?

We generally agree with the main features described in chapter 4. However, we think that some BCUCC in substance cannot clearly be differentiated from a BC under IFRS 3.

Involvement of cash from third parties in the transaction could be a basis for considering that the contribution is made at a market value (excluding any control premium). This may be the case if an independent third party agrees to pay in cash part of the contribution (NCI represented by the acquisition of shares of the combined entity in the stock exchange market) or is considering that the collectability risk of its loan is guaranteed by the fair value and expected cash flows of the net assets of the combined entity.

4.2 It is noted above that BCUCC can be substantially different in nature from business combinations between unrelated parties. Do you agree that a BCUCC can be different to a business combination under IFRS 3? If so, describe examples you have encountered in practice that verifies this. If not, please explain why?

Yes, we agree that a BCUCC can be substantially different from a BC under IFRS 3. As examples we could mention:

- Combining entities within a pre-existing group to maximize tax savings.
- Combination of specific activities to get grants or finance resources from third parties or governmental bodies.
- Reorganization within a group to separate different activities or regional businesses.
- Combinations within a group oriented to separate risks.

4.3 Do you agree with the analysis that has been performed in relation to the information needs of users? If not, why not?

We generally agree with the analysis performed.

4.4 Do you think that with BCUCC it may be difficult in some circumstances to identify an acquirer (View A) or do you believe that an acquirer can always be identified (View B)?

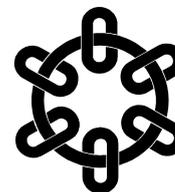
We fully agree that in a BCUCC it may be difficult in some circumstances to identify an acquirer. The ultimate parent will always have the opportunity to structure the BCUCC to achieve the desired outcome. We therefore believe that in a BCUCC some other approaches different from control should be considered to determine the acquirer.

4.5 If you believe that an acquirer can always be identified in a BCUCC, do you think that an analogy to IFRS 3 is not valid because the ultimate parent entity can direct the identification of an acquirer so that the accounting outcome is not a faithful representation of the underlying BCUCC transaction?

We do not agree that an acquirer can always be identified based on the criteria in IFRS 3.

4.6 Do you agree with the analysis above that under IFRS 10 'control' should be assessed from the perspective of the reporting entity and not from that of the ultimate parent entity? If not, why not?

We think that the control concept in IFRS 10 is not helpful to identify the acquirer in a BCUCC



4.7 Do you agree that the definition of a 'business' in IFRS 3 raises no particular issues for BCUCC? If not, why not?

Yes, we agree.

4.8 Do you think the absence of a market-based transaction can have consequences when applying the recognition principle in IFRS 3 because of a lack of measurement reliability? If so, do you agree with the analysis? If not, why not?

Yes, we think that a main concern of BCUCC is the absence of a market-based transaction. The application of recognition and measurement principles in IFRS 3 for identifiable assets and liabilities that do not depend on the internal performance of the Group would not be different for a BCUCC and for a BC under IFRS 3. However, we believe that some assets that do depend on the performance of the Group may be difficult to measure reliably, for example goodwill and internally generated intangible assets.

4.9 Do you think it is appropriate to apply the measurement principle in IFRS 3 to BCUCC when the analogy to IFRS 3 is valid? If not, why not?

As mentioned above, we agree that the measurement principles in IFRS 3 are appropriate to apply when the analogy to IFRS 3 is valid.