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RÉPUBLIQUE FRANÇAISE



AUTORITE DES NORMES COMPTABLES

3, Boulevard Diderot

75572 PARIS CEDEX 12

Phone 33 1 53 44 52 01

Fax 33 1 53 44 52 33

Internet <http://www.anc.gouv.fr/>

Mel jerome.haas@anc.gouv.fr

Chairman

JH

n°60

Paris, the 13th April 2012

Madame Françoise FLORES

Chairman

**EFRAG –European Financial Reporting Advisory
Group**

**35 Square de Meeûs
B – 1000 BRUSSELS**

Re : Discussion paper on accounting for Business Combinations under Common Control - Comment letter

Dear Mrs Flores,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned discussion paper.

Accounting for business combinations under common control (BCUCC) represents an important issue already highlighted by the European Roundtable for the Consistent Application of IFRS in 2006. We acknowledge that such transactions, which are diverse, may give rise to significant amounts exchanged, are challenging from a standard-setting point of view. Therefore, we consider useful to undertake research and analysis in this area.

However, the discussion paper failed to achieve its primary objective, supposedly bringing about practical solutions or enhancing the debate about possible solutions. We consider indeed that the proposals are not well justified as none of them is linked to the features of the transactions analysed previously in the discussion paper. In substance, instead of analysing the issues faced by practitioners, the conclusions merely correspond to a list of alternative views, which is useless per se. We also disagree with the importance given to IFRS 3, specifically because the standard has explicitly excluded BCUCC from its scope.

Actually, we are convinced that there should be different accounting treatments due to the fact that these transactions may be radically different in nature (group restructuring, transfer of a business for an IPO purpose, etc). However, we think that a desirable set of requirements should provide for similar accounting to be applied to similar operations assuming that a proper analysis of the different kinds of transactions concerned is made, an analysis which is missing in this discussion paper.

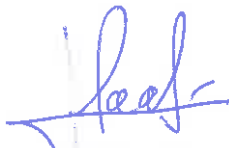
You will recall that we did not support the discussion paper at the time of its issuance. We considered that the draft version issued in July 2011 was far from being sufficiently articulated, clear and balanced, and did not reflect the discussions and alternative views expressed by participants in the working group. In this respect, we share the views expressed by Efrag's Advisory Panel, which asked in July 2011 for more time to improve the quality of the paper and disapproved the reasoning by analogy as well as the primacy given to the acquisition method. We must note that these recommendations have not been taken into account.

Finally, we know that the Business combination under common control (BCUCC) pro-active work has been initiated with the objective to start addressing some of the major issues raised by the application of IFRS standards to annual accounts as defined by the Accounting Directives. This has severely hampered the project as the IFRS framework is not a relevant framework when it comes to annual accounts.

We note that annual accounts have finally been scoped out from the project and that another pro-active project on separate financial statements has been launched. We remain unconvinced by this new project whose definition is not clear.

If you have any questions concerning our comments, we would be pleased to discuss further.

Yours sincerely,



Jérôme Haas

APPENDIX

Detailed comments

We think that the discussion paper failed to achieve its primary objective, supposedly bringing about practical solutions or even less ambitiously enhancing the debate about possible solutions.

In our view, this situation is due to some critical decisions made by Efrag when developing its project on this issue, namely:

- **The primacy of the reasoning by analogy with IFRS standards.** The fact that BCUCC are not addressed by current IFRS standards should have implied developing an alternative thinking instead of trying to push back these kinds of transactions into the boundaries of standards that have explicitly excluded them from their scope. Moreover, alternative thinking is what is expected from pro-active work. At least, alternative solutions developed in other sets of accounting standards, such as in US GAAP, should have been analysed in this respect.
- **The primacy of a pure conceptual analysis.** Examples from the real world have not been used as inputs. On the contrary, ideological beliefs lead to controversial proposals such as presenting the fresh start method as a possible solution ignoring the fact that such methodology is never applied in practice, which means that there have not been strong requirements from stakeholders to apply it until now. In this respect, we completely disagree with such proposal as described in "View two" as one of the possible approaches.
- **The assumption that IFRS 3 is a relevant standard** that provides useful information and should not be challenged. In the context of a BCUCC, such an assumption is a bias in particular when considering that this kind of transactions have been explicitly excluded from the scope of IFRS 3. The reasons for excluding BCUCC from the scope of IAS 22 when this standard was initially defined should have been recalled and analysed. More generally, it is premature to consider that IFRS 3 is a relevant standard before the post implementation review of this standard is undertaken. The result of such an assumption has been for Efrag's project to overemphasise IFRS 3 principles.

As consequence of these structural choices made by Efrag, the proposals of the discussion paper are not sufficiently based on exhaustive and balanced arguments which contrasts with what one could expect from such a lengthy document.

To start with, the scope of the analysis is too narrow since it entails:

- neither a proper discussion of the reporting entity concept (it is acknowledged for example that in many BCUCC transactions, a non pre-existing entity is often at stake),
- nor a discussion of the notion of "predecessor values" (different meanings may exist in practice and, for example, "push down accounting" could have been a matter of discussion, which is not the case. In this respect, "View two" should have been expanded regarding the "predecessor values" method),
- nor an analysis of the "related party" feature (to what extent a transaction between related parties should or should not be accounted for differently from similar transactions between unrelated parties),
- nor the implications of the discretionary recognition of internally generated intangible assets.

Second, developments dedicated to the understanding of the specific features of a BCUCC, are not sufficiently linked to the proposals on recognition and measurement. Therefore, these specific features seem to have no real impact on the proposals.

Third, regarding the outcomes of Efrag's discussion paper, it appears that **“predecessor basis of accounting” is marginalised** which is contradictory with the usual accounting practices, and with the fact that identifying the “real” acquirer is difficult in the context of a BCUCC.

Users allegedly interested in predecessor values are limited to the controlling equity investors that are users of the financial statements of the transferee and to actual and potential creditors (but these are said to be more interested in the individual financial statements that are outside the scope of the discussion paper).

On the contrary, **arguments in favour of IFRS 3 principles are much more developed even in cases where a core principle of IFRS 3, namely the existence of an arm's length transaction between knowledgeable and willing parties, is absent.**

In this respect, **“View one”** as described in the discussion paper requires the application of a modified IFRS 3 that is to say acquisition accounting without the recognition of goodwill and/or of (newly identified) intangible assets, the basis of such modification of the standard being that the transaction is not a market transaction. Incidentally, we note that the implication of not recognising goodwill has not been analysed.

“View three” is at first sight not clearly stated. A sentence such as *“the analogy to IFRS 3 may apply however it may be difficult to conclude that applying an accounting outcome based on IFRS 3 would be relevant and faithfully represent a BCUCC”* is deemed to characterise this view. However, it is unlikely to be helpful for a preparer, although it seems to point out an important issue. We understand that Efrag's thinking regarding this view is that whenever the transferee does not experiment a change in its ability to meet the claims of the capital providers against the combining entities, a predecessor basis of accounting may be the accounting outcome. This statement implies implicitly that whenever there is a change in the ability to meet the claims, fair value measurement should be the accounting outcome. In practice and in the absence of a real analysis of this point, **view three would imply a fair value measurement for virtually all the BCUCC transactions.** We disagree with such an outcome based on a lack of development.

Finally, the discussion paper contains many repetitions, overlaps in the reasoning and several contradictions or unclear statements and we regret that these defects were not corrected before publishing.