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Dear Mr. Abela,

Discussion Paper – Accounting for Business Combinations under Common Control

The Accounting Standards Committee ("DASC") set up by "FSR – danske revisorer" is pleased to respond to EFRAG's Discussion Paper: Accounting for Business Combinations under Common Control ("the DP"). The Committee discussed the DP during its meeting on 7 May 2012.

We welcome the project on Business Combinations under Common Control ("BCUCC") and we are supportive of such a project since BCUCC transactions are scoped out of IFRS 3, resulting in diversity in practice because no IASB guidance exists.

However, we find that the most significant issue to be resolved is the treatment in the separate financial statements. This is due to the fact that in most cases, subgroups would be exempted from preparing consolidated financial statements. We also notice that the accounting treatment of the transaction in the separate financial statements may have a significant impact on dividend distribution possibilities.

In our view, a more logical starting point for a project on BCUCC would have been a discussion around the broader topic of accounting principles to be applied to related party transactions in general. This would determine the principle-based guidance for related party transactions in general that could then be further developed to address specific common control transactions including business combinations under common control. This is because we find that the guidance for business combinations under common control should be governed by such more broadly applicable principles. Ideally, the only difference should arise from the nature of the transactions themselves, i.e. if fair value as the basis for measuring the transaction is the principle, goodwill could only be associated with business combinations but not with a group of assets not forming a business.

Please find below our comments to the specific questions:

Question 1.1 – Concerns about BCUCC transactions

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 agree.

Question 1.2 – The approaches in practice
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 jurisdiction, these types of transactions are often driven by considerations around dividend distribution and/or tax. Due to the widely applicable exemption from preparing consolidated financial statements at sub-group level, we only see a limited number of consolidated financial statements in which business combinations under common control are accounted for. However the issue is relevant when applying the equity method in separate financial statements. Based on similar transactions such as legal mergers between entities under common control and contribution of assets forming a business from entities under common control, the most common practice is in our experience predecessor accounting. "Fresh start" accounting is generally not used in practice.

Question 2.1 – The scope of the project
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?

As set out in the introduction, we find that a logical starting point for the discussion would have been accounting principles for related party transactions in general. Further, we find that guidance for the treatment of such transactions in the separate financial statements should have had first priority.

Question 2.2 – Separate and individual financial statements of the transferee
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?

We support the EFRAG project looking at issues arising from the application of IFRS to separate financial statements. However, we note that the separate financial statements form the basis for dividend distribution. Hence, it would from a European perspective be worthwhile considering the interaction with the company directives regarding determination of distributable dividends.

Question 2.3 – Disclosures
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?

No detailed comments.

Question 3.1 – Addressing the information needs of primary users
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?

We agree.

Question 3.2 – The transferee is a reporting entity
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?

We agree.

Question 3.3 – Applying the logic of the IAS 8 hierarchy to help develop an approach on how to account for BCUCC
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?

In our view, the logical starting point for the analysis would have been establishing general principles for the treatment of related party transactions in general. When currently no such principles exist under IFRS, we would not see it logical to start with the IAS 8 hierarchy.

Questions 3.4 and 3.5 – Initial recognition and measurement
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?
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?

We agree.

Questions 4.1 and 4.2 – The unique features of a BCUCC transaction
Do you agree with the main features of a BCUCC identified above? If not, what other features would you highlight?
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?

We agree.

Question 4.3 – Understanding the information needs of users about BCUCC transactions
Do you agree with the analysis that has been performed in relation to the information needs of users? If not, why not?

We agree.

Questions 4.4 and 4.5 – Identification of an acquirer
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)?
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 agree with view A.

Question 4.6 – Obtaining control over one or more businesses
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 agree.

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

We agree.

Questions 4.8 and 4.9 – Applying the 'mechanics' of IFRS 3 – the recognition and measurement principle
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?
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?

We do not agree. In our opinion it is in almost all circumstances possible to apply a fair value measurement of the acquired business regardless of whether it is a BCUCC or not.

We do agree that in a few situations, the analogy to IFRS 3 is valid, for example a BCUCC whose purpose is to establish the basis for a sale of the business to an external party.

Questions 5.1, 5.2 and 5.3 – View one: IFRS 3 can always be applied by analogy

Do you believe that the transaction price should be referenced against the fair value of the business acquired and bifurcated (when the transaction price exceeds the fair value of the business acquired) if the transaction price does not reflect a proxy for fair value? This ensures the BCUCC transaction reflects two transactions: a) a contribution from (distribution to) the ultimate parent entity, and b) a business combination.

Do you believe that goodwill and/or identifiable intangible assets should not be recognised in the balance sheet of the acquirer on the basis that they cannot be reliably measured?

Do you believe that where the consideration transferred is lower than the fair value of the
net assets acquired, the difference should reflect a contribution from the ultimate parent entity or recognised as income?

We are currently not in a position to answer these questions because in our view, a more logical starting point for the discussion paper would have been a discussion of the broader principles for related party transactions in general.

Questions 5.4 and 5.5 – View two: It is not appropriate to apply IFRS 3 by analogy

Do you think that the BCUCC should be viewed as a ‗transfer‘ of a business rather than an acquisition of a business when the analogy to IFRS 3 can never be applied?

Do you believe that all the arguments and views presented are valid when it is not appropriate to apply an analogy to IFRS 3?

We are currently not in a position to answer these questions because in our view, a more logical starting point for the discussion paper would have been a discussion of the broader principles for related party transactions in general.

Questions 5.6, 5.7 and 5.8 – View three: The analogy to IFRS 3 may apply

Do you agree that the approaches outlined in Appendix 3 are unlikely to result in decision-useful information? If not, why not?

Do you believe that the diversity in the information needs of users when compared to a business combination and the cost constraint in financial reporting provide justification to consider whether or not the recognition and measurement principle in IFRS 3 are appropriate when accounting for BCUCC?

Do you believe that all the arguments presented in relation to view three are valid or are there others that you would consider?

We believe that view 3 may be useful, but only in the situations where a sale or spin off takes place in connection with the BCUCC.

We would be happy to elaborate further on our comments should you wish so.

Kind regards

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Chairman of the Danish
Accounting Standards Committee

Ole Steen Jørgensen
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FSR – danske revisorer