EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Stockholm 2nd May 2012

Discussion Paper:
Accounting for Business Combinations under Common Control

FAR, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the discussion paper *Accounting for Business Combinations under Common Control (BCUCC).*

FAR welcomes the EFRAG´s project as BCUCC transactions are scoped out of IFRS 3 and there is lack of guidance in other standards. Overall, FAR agrees with the analysis described in the discussion paper.

However, FAR is not convinced that the principle based approach outlined in view 3 works in practice. It seems very difficult in practice to apply the criteria developed in this chapter. Business combinations under common control represent a diverse group of transactions that are carried out for many different reasons. For that reason, FAR believes that there should be a policy choice for the entity whether to apply IFRS 3 by analogy or by applying predecessor basis.

Please see the attached appendix for FAR's detailed response and comments to the questions raised in the discussion paper.

FAR

Göran Arnell

Göran Arnell
Chairman FAR's Accounting Policy Group

APPENDIX 1 – QUESTIONS TO RESPONDENTS

Question 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?

Yes, FAR agrees.

Question 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 FAR´s experience, predecessor basis of accounting is the most commonly used method. This is most in line with some accounting standards according to Swedish GAAP in this area (merger accounting). The acquisition method has been applied in rare cases, but FAR has never experienced "fresh start" accounting.

FAR wants to stress that the predecessor basis of accounting is not a distinct concept, but could be interpreted in different ways. For instance, in a group that includes many sub-groups, there could be a number of potential book values to be used, depending on what subgroup is regarded as most representative.

Question 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?

The scope is in all material respects appropriate according to FAR. However, irrespective of what view will be applied, FAR would like to emphasize that disclosures are important for the users to enhance the understanding of the transaction. FAR suggests consequently that disclosure requirement is included in the scope.

In addition FAR suggests that guidelines should be included regarding comparative information in the Financial Reports in connection with a BCUCC.

Question 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?

Yes, FAR suggests that the issue of how accounting for purchase of the net assets of a business should be treated in the separate and individual financial statements should be addressed.

Question 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?

According to FAR, both IFRS 3 and IAS 24 should be analyzed, and relevant applicable parts should be included in the disclosure requirement for common control transactions. In addition, other type of disclosures must be developed to capture the specific features of a BCUCC, in order to enable the users to understand the transaction.

Question 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, FAR agrees.

Question 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, FAR agrees.

Question 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?

The discussion paper proposes that the development of accounting approaches for BCUCC should be based on the principles of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to ensure that any accounting approach:

a) is consistent with the Conceptual Framework, particularly with the objective of financial reporting; and

b) achieves consistency with other parts of the existing IFRS literature, which deal with measurement.

According to FAR, a) above is important. However, as the areas we are dealing with are different from many other areas covered by IFRS standards, one should not limit the accounting outcome to solutions consistent with other parts of IFRS as described in b) above.

Question 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, FAR agrees, assuming that it is valid to apply IFRS 3 in the given situation.

Question 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, FAR agrees.

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

FAR agrees with the three main features of a BCUCC identified in the discussion paper, these three features are:

a) purpose of the transaction
b) the absence of the market conditions
c) nature of the consideration

Question 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?

FAR agrees and one aspect to take into consideration is that rather frequently there is no correlation between the transaction price and the value of the business/net assets received. This situation could influence the entity´s forecast to a large extent. For instance a low transaction price implies lower financing cost, all other things being equal.

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

FAR agrees that, depending on the view that prevails, it will consequently imply different conclusions regarding what information users need. As stated in the discussion paper one view is that BCUCC can be treated as a homogenous class of transactions and is sufficiently similar to a business combination under IFRS 3 in terms of the information need of users. The other view is the opposite, i.e. that BCUCC represents a diverse group of transactions. Accordingly under this view, BCUCC cannot be treated as a homogeneous class of transactions and thus differs from business combination under IFRS 3. FAR supports the second view above.

Question 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)?

FAR believes that it is not always the case that an acquirer could be identified. Common control transactions could have different character and FAR cannot rule out situations where an acquirer could not be identified. For instance in a restructuring within a group it could in some cases be difficult to identify an acquirer.

Question 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?

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Question 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?

FAR agrees with the analysis, the concept of control should be assessed from the perspective of the reporting entity. This is due to the fact that IFRS 10 contemplates the notion of a reporting entity comprising an intermediate parent and its subsidiaries. However FAR does not believe that this question has any relevance regarding which of the views described in chapter 5 that will be applicable in a BCUCC.

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

FAR believes that the same definition regarding a business would exist in a BCUCC as in IFRS 3. FAR cannot see any difference in this respect.

Question 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?

FAR does not believe that the absence of a market-based transaction would have any effect when applying the recognition principle in IFRS 3 regarding the individual items in the entity acquired. Compared to a market based transaction the acquirer could apply the same recognition principle and also the same measurement principles as for instance in a PPA. However a difference could occur if no acquirer could be identified in a BCUCC.

Question 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?

FAR believes that it is appropriate to apply the measurement principle in IFRS 3 under the condition that the analogy to IFRS 3 is valid.

Question 5.1
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.

FAR believes that there should be a policy choice for the entity whether to apply IFRS 3 by analogy or by applying predecessor basis. Assuming that the company chooses to apply IFRS 3 in a given situation, the above suggestion would be possible to consider. However, it may be very difficult to assess/establish the market value that the transaction price should be referenced against.

Question 5.2
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?

FAR believes that goodwill and/or identifiable intangible assets should be recognised in the balance sheet of the acquirer, as these could often be reliably measured, assuming that the company has chosen to apply IFRS 3 for the applicable transaction.

Question 5.3
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?

If the consideration transferred is in substance partly a contribution, this must be reflected in the accounts, i.e. a contribution should be recorded.

Question 5.4
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?

FAR believes that there should be a policy choice for the entity whether to apply IFRS 3 by analogy or by applying predecessor basis.

Question 5.5
Do you believe that all the arguments and views presented are valid when it is not appropriate to apply an analogy to IFRS 3?

FAR believes that there should be a policy choice for the entity whether to apply IFRS 3 by analogy or by applying predecessor basis.

Question 5.6
Do you agree that the approaches outlined in Appendix 3 are unlikely to result in decision-useful information? If not, why not?

Yes, FAR agrees, however the approaches in Appendix 3 were very briefly described and, as a result, it is difficult to evaluate the approaches in detail.

Question 5.7
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?

Yes, FAR agrees that these factors are important to consider.

Question 5.8
Do you believe that all the arguments presented in relation to view three are valid or are there others that you would consider?

FAR is not convinced that the principle based approach outlined in view 3 works in practice. It seems very difficult in practice to apply the criteria developed in this chapter. Business combinations under common control represent a diverse group of transactions that are carried out for many different reasons. For that reason, FAR believes that there should be a policy choice for the entity whether to apply IFRS 3 by analogy or by applying predecessor basis.