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Date : Amsterdam, 19 April 2012
Re : Comment on Discussion Paper Accounting for Business Combinations under
Common Control, October 2011

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond on your Discussion Paper on Accounting for Business Combinations under Common Control (BCUCC), dated October 2011.

The Discussion Paper outlines the key issues and considers different ways of analysing the issues with the objective of promoting discussion and debate and hopefully it also encourages the International Accounting Standards Board to bring the topic back onto its active agenda. Accordingly, the Discussion Paper does not offer any answers or conclusions.

In this comment letter the DASB has taken the approach not to comment on all questions as stated in the Discussion Paper, but only to respond by making some general important remarks. In addition, we will briefly explain how the subject is currently dealt with in The Netherlands.

Definition of Business Combinations under Common Control

In the Discussion Paper no clear definition is provided of business combinations under common control. Without a clear definition, the impact of the discussion in the Discussion Paper can be misinterpreted, as it may have a different meaning for different readers. For example, is it limited to transactions within the same group or does it also include transactions with private shareholders?

Scope of the project (question 2.1)

As noted by the EFRAG only the initial recognition and measurement in the consolidated financial statements of the transferee, which is defined as the entity that received the business combination, are included within the scope of the project. Further in paragraph 2.6 it is stated that disclosure requirements are excluded.

The DASB is of the opinion that because of these scope exclusions the subject has not yet been fully addressed.

Firstly, BCUCC also affect the (consolidated) financial statements of the transferor, which is the entity that distributes the business combination to another entity, and the separate financial statements of the transferee. Also the impact, if any, on the (consolidated) financial statements of the controlling entity should be dealt with. Although we understand that the stand alone financial statements are largely impacted by local law and regulations, we believe that the Discussion Paper should also cover the principles for the accounting treatment regarding the stand alone financial statements.

Secondly, common control transactions are not limited to business combinations only. The DASB believes that diversity in practice also exists for other than business combination transactions by two parties under common control, such as the transfer of assets. Although the IASB has issued some guidance on transactions under common control, such as for share based payments, no specific guidance exists for many other common control transactions that are not at arms' length. The DASB would welcome guidance on common control transactions.

Thirdly, the disclosure notes can give relevant information on the BCUCC, the economic substance of the transaction and the accounting approach taken in the financial statements. Therefore the DASB considers that disclosure requirements should be included in the scope of the project.

Current situation in The Netherlands

The current situation in The Netherlands can be described as follows. Because of the absence of specific accounting principles in the Netherlands, practice has developed a consensus approach. Under this consensus approach, generally the following two options are used:

1. Accounting for the BCUCC as if it were a transaction between unrelated parties (purchase accounting);
2. Accounting for the BCUCC by applying the pooling of interest method.

Preference is given to the first method if the transaction has economic substance. If the BCUCC has no or limited influence on the economic situation from the perspective of the group before and after the transaction then the pooling of interest method is used. In all cases, the need of information for the users of the financial statements should be considered.

Next steps

As the issues regarding business combinations under common control are not limited to the consolidated financial statements, it is not expected that guidance from the IASB alone would be sufficient. The DASB encourages EFRAG to continue to work with national standard setters and align the guidance through mutual discussion.

The DASB is of the opinion that the following areas/ topics require further work and research:

- Definition of business combination under common control
- Clarifying what the problems are with diversity in practice regarding business combination under common control

- Business combination under common control in the separate financial statements
- Accounting of common control transaction other than business combination under common control

Yours sincerely,

A handwritten signature in black ink, consisting of a vertical line on the left, a loop at the bottom left, and a long horizontal stroke that curves upwards at the right end.

Hans de Munnik
Chairman Dutch Accounting Standards Board