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our references  
**C – 004 / 2012**

your references

date  
25.04.2012

Brussels, April 25<sup>th</sup> 2012

**Subject : Invitation to comment – Discussion Paper: *Accounting for Business Combinations under Common Control***

Dear Sir, Dear Madam,

The Belgian Accounting Standards Board (BASB) is pleased to respond to the EFRAG Discussion Paper on *Accounting for Business Combinations under Common Control (or BCCUCC)* issued by EFRAG in October 2011 (hereinafter the “DP”).

The BASB encourages the proactive work of EFRAG in Europe and believes that these activities will effectively enhance international financial reporting. In December 2007, an agenda proposal was issued by the IASB with respect to BCCUCC, but at the time of writing, no clear guidance is provided by the IASB.

IFRS 3 prescribes the acquisition method for combinations that are within its scope and does not describe any other methods; it does not address the methods of accounting that may be appropriate when a business combination involves entities under common control. It is therefore not prescriptive as to what method must be followed in such transactions.

Accordingly, until such time as the IASB finalizes its conclusions under its project on common control transactions, the BASB believes that entities in accounting for business combinations involving entities or businesses under common control should apply the pooling of interests method (*view 2 of the DP*) or the acquisition method (*view 1 of the DP*).

Whichever policy is adopted should be applied consistently. However, in our view, where the acquisition method of accounting is selected, the transaction must have substance from the perspective of the reporting entity. This is because the acquisition method results in a reassessment of the value of the net assets of one or more of the entities involved and/or the recognition of goodwill.

If there is no substance to the transaction, the pooling of interests method is the only method that may be applied to that transaction. When evaluating whether the transaction

has substance, the following factors should all be taken into account: the purpose of the transaction; the involvement of outside parties in the transaction, such as non-controlling interests or other third parties; whether or not the transaction is conducted at fair value; the existing activities of the entities involved in the transaction; whether or not it is bringing entities together into a 'reporting entity' that did not exist before; and where a new Company is established, whether it is undertaken in connection with an IPO or spin-off or other change in control and significant change in ownership.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at [jan.verhoeve@cnc-cbn.be](mailto:jan.verhoeve@cnc-cbn.be).

Yours faithfully,

Jan Verhoeve  
Chairman BASB  
Belgian Accounting Standards Board