

Mde Françoise Flores, Chair
EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Email: commentletters@efrag.org

30 April 2012

Dear Mde. Flores,

Discussion Paper: *Accounting for Business Combinations under Common Control*

Deloitte Touche Tohmatsu Limited is pleased to respond to the European Financial Reporting Advisory Group's (EFRAG's) and the Organismo Italiano di Contabilità's (OIC's) Discussion Paper *Accounting for Business Combinations under Common Control* ('the discussion paper').

We welcome the project on business combinations under common control undertaken by EFRAG together with the national standard-setters of Italy (OIC), the Netherlands (DASB) and Spain (ICAC). We acknowledge that the primary purpose of the discussion paper is to stimulate a dialogue in respect of accounting for business combinations between entities under common control under IFRSs and we support EFRAG in highlighting the current lack of guidance under IFRS in this area and the resulting divergence of accounting in practice. This divergence may or may not be appropriate considering the varying characteristics of such transactions between entities under common control.

Going forward, however, we believe that EFRAG's initiative could achieve more as part of a formal working relationship with the IFRS Foundation (IFRSF). In commenting on the IFRSF Trustees' Strategy Review *IFRSs as a Global Standard: Setting a Strategy for the Foundation's Second Decade* in 2011, we encouraged the establishment of such relationships with national and regional standard-setters through memoranda of understanding. In his speech in Mexico City on 7 March 2012, Hans Hoogervorst spoke of an 'integrated supply chain' involving more formalised relationships with such bodies. We continue to believe that this model could achieve significant results and that EFRAG could and should play a leading role in its success.

In our comment letter on the IASB's *Agenda Consultation 2011*, we stated that any project on business combinations under common control should begin with a general exploration of the accounting concepts to be applied to transactions under common control, to allow robust and principle-based guidance to then be developed for particular species of common control transaction. We continue to believe that an in-

depth analysis of the principles to be applied to common control transactions is a necessary precursor to the development of guidance on specific areas, such as those considered in the discussion paper.

The discussion paper is narrower in scope – both in terms of the type of transaction and the accounting implications of that transaction which are discussed – than the project on business combinations under common control added to the IASB’s agenda in 2007 and currently on hold. Building upon an exploration of the accounting concepts relevant to transactions under common control, as referred to above, should allow consideration of the wide variety of business combinations under common control (both within and between groups of companies) that occur in practice and also of other important financial reporting implications of such transactions – including subsequent measurement of transferred balances and reporting in the individual financial statements of the transferee and the individual and consolidated financial statements of the transferor.

Finally, we note that national standard-setters both from within Europe and elsewhere have addressed various elements of this topic. For example, both *FRS 6 Acquisitions and Mergers* issued by the United Kingdom’s Accounting Standards Board and *Accounting Guideline 5 Merger Accounting for Common Control Combinations* issued by the Hong Kong Institute of Certified Public Accountants provide guidance on the application of merger accounting to group reconstructions. We believe that consideration of such extant guidance is an important step in researching a topic and one that could more comprehensively and efficiently be performed as part of a global infrastructure of the kind envisaged by the IFRSF.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884 or Joel Osness in New York at +1 212 492 3910.

Yours faithfully,



Veronica Poole
Global Managing Director
IFRS Technical



Joel Osness
Global Managing Director
IFRS Clients and Markets