Deloitte.

Deloitte Touche Tohmatsu Limited
Hill House
1 Little New Street
London
EC4A 3TR

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 0112
www.deloitte.com/about

Direct phone: 020 7007 0884
vepoole@deloitte.co.uk

31 August 2021

Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Dr Barckow

DP/2020/02 Business Combinations under Common Control

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the Board') discussion paper Business Combinations under Common Control ('the DP').

We appreciate the Board's efforts to develop guidance on this topic currently not addressed in IFRS Standards. We view this project as a stepping stone towards a more comprehensive review of transactions under common control and other similar transactions. To ensure that the project can be completed within a reasonable timeframe, we agree that it should be limited to transfers of businesses under common control. However, we suggest that the project should address the accounting for these transactions in both the consolidated and separate financial statements of the receiving entity. Once the Board has established clear principles for transactions within that limited scope, it can then consider if and how these principles apply to a broader range of transactions under common control.

We generally agree with the Board's preliminary views as expressed in this DP. In particular, we agree that different methods should be applied depending on the characteristics of the receiving entity.

We agree that when the receiving entity does not have non-controlling shareholders, use of a book-value method is justified by cost-benefit considerations. However, we do not agree that the receiving entity should be required to use the transferred entity's book values. For the same cost-benefit considerations, we believe that the receiving entity should be allowed to choose which book values to use. These could be the book values of the transferred entity, an intermediate parent of the transferred entity or the common parent of the transferred entity and the receiving entity. We agree that a receiving entity applying the book-value method should include in its financial statements the assets, liabilities, income and expenses of the transferred business prospectively from the business combination date, without restating pre-combination information. We believe that this approach is simpler and the most cost effective.

We also agree that the acquisition method is likely to provide more relevant information to investors that must rely on general purpose financial statements of the receiving entity to obtain the information they require. Accordingly, we believe that the application of the acquisition method should be required more

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4a, 3TR, United Kingdom.

© 2021 . For information, contact Deloitte Touche Tohmatsu Limited.

broadly than what is proposed in the DP. Indeed, we suggest that the acquisition method should be used when the receiving entity has issued *any* form of publicly traded instruments, whether shares or debt instruments and regardless of their classification for IFRS Standards purposes (equity or financial liability). Regardless of the nature of instruments they hold, the holders of publicly traded instruments will be better served by the transparency that the acquisition method provides on the pricing of transactions under common control.

In our detailed responses, we highlight a few areas that may benefit from additional guidance. In particular, we suggest that the Board should provide guidance to assist the receiving entity in its assessment of whether a single arrangement includes more than one transaction that should be accounted for separately and when multiple arrangements should be combined as a single transaction. The existing guidance in IFRS 3, on transactions that are separate from a business combination, and in IFRS 10 and other IFRS Standards, on arrangements that should be combined, may be relevant in that respect.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

Appendix

Section 1 – Objective, scope and focus

Question 1

Paragraphs 1.10–1.23 discuss the Board's preliminary view that it should develop proposals that cover reporting by the receiving company for all transfers of a business under common control (in the Discussion Paper, collectively called business combinations under common control) even if the transfer:

(a) is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or

(b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering.

Do you agree with the Board's preliminary view on the scope of the proposals it should develop? Why or why not? If you disagree, what transactions do you suggest that the Board consider and why?

We agree that the Board's project should cover all transfers of a business under common control, including some that do not meet the definition of a business combination such as transfers of a business to a newly established parent entity and transactions where common control is 'transitory'. We believe that this is appropriate to avoid the complexity that would result from having to identify whether a transaction is in or out of the scope (e.g. the need to define when common control is transitory) and also to reduce the likelihood that transactions that are similar in substance would be treated differently because of the manner in which they are structured.

We note that paragraph 1.12 of the DP indicates that the project focuses on business combinations under common control ('BCUCC') that are excluded from the scope of IFRS 3, i.e. business combinations in which all of the combining entities or businesses are ultimately controlled by the same party *or parties* before and after the business combination. On the other hand, paragraph 1.16 of the DP simply refers to transfers of businesses in which all of the combining companies are ultimately controlled by the same party. However, the DP does not discuss whether indeed the intention of the Board is to limit the scope of its project to transactions in which there is ultimately a single controlling party (a single individual or entity). We believe that it would be important to clarify whether this is indeed the case. In particular, it would be important to clarify whether the following transactions are outside the scope of the transactions addressed in this project:

- Common ownership transactions, i.e. transactions in which the receiving entity and the transferring entity are held by the same group of shareholders albeit with the shareholders having different percentage of ownership in each
- Transactions in which the receiving entity and the transferring entity are under the joint control of the same joint operators or venturers or are under the control of the same group of shareholders acting in concert.

Please note that we are proposing that the scope should be clarified rather than suggesting that these transactions should also be addressed as part of the Board's current project. This reflects our view that the scope of the transactions addressed should be circumscribed to ensure that the project can be completed within a reasonable timeframe. Once the Board has established clear principles for transactions within that limited scope, it can then consider if and how these principles apply to a broader range of transactions under common control.

Similarly, we believe that the following transactions should not be addressed at this time, in order to ensure that the scope of the project remains manageable:

- Acquisition of an interest in an associate or joint venture from an entity under common control
- Transfer of asset(s) between entities under common control
- Disposal of a business under common control (i.e., accounting by the transferor in a BCUCC) other than where it is effected by way of a distribution (in the scope of IFRIC 17).

To ensure that entities appropriately identify transactions that are within the scope of the future standard, it will be important to provide guidance to support the assessment of whether a single arrangement includes more than one transaction that should be accounted for separately and when multiple arrangements should be combined as a single transaction. For example, this guidance would help to ensure that a transfer of a business is not artificially broken into multiple transfers of assets. The existing guidance in IFRS 3, on transactions that are separate from a business combination, and in IFRS 10 and other IFRS Standards, on arrangements that should be combined, may be relevant in that respect.

Whilst we believe that the scope of the project should be circumscribed, we believe that the project should address accounting for transfers of businesses under common control in both the consolidated and the separate financial statements of the receiving entity. Indeed, it would appear appropriate that a transaction within the scope of the project should be measured consistently at fair value or book value in the separate and consolidated financial statements of the receiving entity. We acknowledge that this may require further clarification of what is the 'book value' and the corresponding cost to be used in the context of separate financial statements.

Similarly, we suggest that the Board may want to consider whether the distribution of a business under common control should also be brought into the scope of the project. These transactions are currently also subject to a 'common control' scope exclusion (from IFRIC 17) and may be the corresponding transaction for the transferor in a BCUCC. As such, we suggest that the Board consider whether the principles that determine whether the receiving entity should recognise the transaction at book value or fair value can be applied also by the transferring entity, for transactions effected as a distribution.

We note that for reasons of simplicity a decision was made to use some terms in the DP in a manner that does not reflect the meaning generally attributed to these terms. We believe that in some cases this decision results in a lack of clarity. In particular, we believe that the use of the following terms should be reconsidered:

- 'Business combinations under common control' to describe the project when in fact it is acknowledged that the scope extends beyond 'business combinations' as this term is defined in IFRS 3. An alternative could be to refer to 'transfers of business under common control'
- 'Company', in particular in the context of 'transferred company'. This can lead to confusion as to whether the DP only covers transactions that involves the transfer of an incorporated business, which is not the case. An alternative could be 'transferred business'.

Section 2 – Selecting the measurement method

Question 2

Paragraphs 2.15–2.34 discuss the Board's preliminary views that:

(a) neither the acquisition method nor a book-value method should be applied to all business combinations under common control.

Do you agree? Why or why not? If you disagree, which method do you think should be applied to all such combinations and why?

(b) in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company, subject to the cost–benefit trade-off and other practical considerations discussed in paragraphs 2.35–2.47 (see Question 3).

Do you agree? Why or why not? If you disagree, in your view, when should the acquisition method be applied and why?

(c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly owned companies.

Do you agree? Why or why not? If you disagree, in your view, when should a book-value method be applied and why?

We agree that different methods should be applied depending on the characteristics of the receiving entity. In particular, we agree that when the receiving entity does not have non-controlling shareholders, use of a book-value method is justified by cost-benefit considerations.

We also agree that the acquisition method is likely to provide more relevant information to investors that must rely on general purpose financial statements of the receiving entity to obtain the information they require. Accordingly, we believe that the application of the acquisition method should be required more broadly than proposed in the DP. Indeed, we suggest that it should be used when the receiving entity has issued *any* form of publicly traded instruments, whether shares or debt instruments and regardless of their classification for IFRS Standards purposes (equity or financial liability). Regardless of the nature of instruments they hold, the holders of publicly traded instruments will be better served by the transparency that the acquisition method provides on the pricing of the transactions under common control. Further, this ensures that the transactions are measured in the same way regardless of the classification of the instruments issued by the receiving entity under IAS 32.

We agree that when a privately-held receiving entity has non-related non-controlling shareholders, it may use the book-value method only if the non-controlling shareholders are informed and do not object to the use of that method. To ensure that entities properly identify transactions for which it may be required to apply the acquisition method, we suggest that the Board should provide further clarification on the assessment of whether a transaction affects non-controlling shareholders. For example, should this assessment reflect the legal form of the instruments held by third parties or the classification of the instruments under IAS 32? Should holders of instruments of potential voting shares (e.g. warrants or convertible instruments) or other more complex instruments be considered in that assessment? We also note that the DP does not clearly address whether the identification of the receiving entity should be based on the legal form or based on the criteria used to identify an 'acquirer' in IFRS 3. We infer from DP 2.26-27, which discuss that a benefit of the book-value method is that the identification of the acquirer has little impact, that the assessment of whether the book-value or the acquisition method should be applied is based on legal considerations. We agree that the assessment of whether the receiving entity is publicly traded should focus on the legal receiving entity and believe that this should be clarified.

Question 3

Paragraphs 2.35–2.47 discuss the cost–benefit trade-off and other practical considerations for business combinations under common control that affect non-controlling shareholders of the receiving company.

Deloitte.

(a) In the Board's preliminary view, the acquisition method should be required if the receiving company's shares are traded in a public market.

Do you agree? Why or why not?

(b) In the Board's preliminary view, if the receiving company's shares are privately held:

(i) the receiving company should be permitted to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected (the optional exemption from the acquisition method).

Do you agree with this exemption? Why or why not? Do you believe that the exemption will be workable in practice? If not, in your view, how should such an exemption be designed so that it is workable in practice?

(ii) the receiving company should be required to use a book-value method if all of its non-controlling shareholders are related parties of the company (the related-party exception to the acquisition method).

Do you agree with this exception? Why or why not?

(c) If you disagree with the optional exemption (Question 3(b)(i)) or the related-party exception (Question 3(b)(ii)), in your view, how should the benefits of applying the acquisition method be balanced against the costs of applying that method for privately held companies?

As noted in our response to Question 2, we believe that the acquisition method should be required if the receiving entity's shares or debt instruments are traded in a public market, regardless of their classification for IFRS Standards purposes (equity or financial liability).

To ensure consistency in application, we suggest that Board provides guidance on the characteristics of exchanges that qualify as 'public market' and what it means for shares (or debt instruments) to be traded (including whether this includes instruments that are simply listed on an exchange). The Board may wish to take the opportunity to assess whether similar clarification should be made to IFRS 8 and IAS 33 which include a similar requirement.

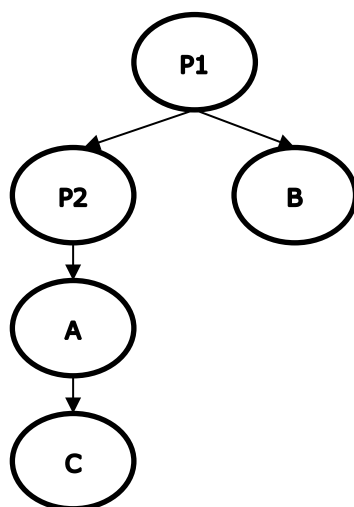
Further, we believe that it would be important to clarify on which date the receiving entity should assess whether it is required to apply the acquisition method. We believe that this is particularly important considering the decision to include within the scope of the project transactions for which the common control is transitory. For example, we suggest that the Board clarifies whether the shares of the receiving entity would be considered as trading in a public market if the BCUCC is conditional on an initial public offering. Similarly, we suggest that the Board clarifies whether the receiving entity is considered to have non-controlling shareholders (for the purposes of assessing which method to use to account for the transaction) if non-controlling shareholders are introduced as part of the BCUCC.

Whilst DP 2.39 confirms that acquisition method should be used when the receiving entity is publicly traded, the decision tree in DP 2.55 presents the first step in the assessment of the method to be used as being whether the BCUCC affects non-controlling shareholders of the receiving entity. In the unlikely situation that the receiving entity is a public entity with no non-controlling shareholders, applying the decision tree would result in applying the book-value method. Accordingly, it would seem appropriate that the decision tree should be adjusted by presenting step 2 as the first step. The current step 1 and step 3 could then be combined. We note that this adjustment of the decision tree will be even more important if Board agrees with our suggestion that the acquisition method should be required if the

receiving entity has publicly traded debt instruments since this will increase the likelihood of the receiving entity not having non-controlling shareholders.

We agree that a privately held entity with non-related party non-controlling shareholders should be permitted to use the book-value method if all non-controlling shareholders have been informed and have not objected to the use of that method. As noted in our response to Question 2, we believe that the Board should consider providing clarification on the assessment of whether a transaction affects non-controlling shareholders. Further, we believe that the Board should clarify whether an entity makes that decision on a transaction by transaction basis (for example, can a receiving entity that did not seek to apply the optional exemption from the acquisition method for a BCUCC be allowed to apply this exemption at a later date for another such transaction).

The corporate structure of a group may be such that there is one or more parent entity between the common control parent and the immediate receiving entity. DP 1.18 makes it clear that the term 'receiving entity' refers not only to the immediate receiving entity, but rather to all those parent companies (if any) of the immediate receiving entity that did not control the transferred entity before the BCUCC. However, it is not clear whether the assessment of the method to be used should consider only the characteristics of the immediate receiving entity or whether it should also consider the characteristics of all parent entities between the immediate receiving entity and the common control parent. For example, the corporate structure may be as follows, where P2, A, B and C are ultimately controlled by P1 and control of business C is transferred from Entity B to Entity A.



Should the transfer of C be recognised using the acquisition method if either A or P2 has publicly traded shares (alternatively, would the transfer of C be accounted for differently by A and P if one is privately held and the other is not)? If A is a privately held wholly-owned subsidiary of P2, is the method to be used by A to account for the transaction affected by whether P2 has non-controlling shareholders (alternatively, in such a situation, would the transaction be accounted by A and P2 applying different method)? Additional guidance to clarify this issue would be useful.

Question 4

Paragraphs 2.48–2.54 discuss suggestions from some stakeholders that the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies. However, in the Board's preliminary view, publicly traded receiving companies should always apply the acquisition method.

(a) Do you agree that the optional exemption from the acquisition method should not be available for publicly traded receiving companies?

Why or why not? If you disagree, in your view, how should such an exemption be designed so that it is workable in practice?

(b) Do you agree that the related-party exception to the acquisition method should not apply to publicly traded receiving companies? Why or why not?

We agree that publicly traded receiving companies should always use the acquisition method, i.e. the optional exemption from the acquisition method and the related-party exception should not apply to these companies.

Section 3 – Applying the acquisition method

Question 5

Paragraphs 3.11–3.20 discuss how to apply the acquisition method to business combinations under common control.

(a) In the Board's preliminary view, it should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach for identifying and measuring a distribution from equity do you recommend and why? In particular, do you recommend either of the two approaches discussed in Appendix C or do you have a different recommendation?

(b) In the Board's preliminary view, it should develop a requirement for the receiving company to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, not as a bargain purchase gain in the statement of profit or loss, when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach do you recommend and why?

(c) Do you recommend that the Board develop any other special requirements for the receiving company on how to apply the acquisition method to business combinations under common control? If so, what requirements should be developed and why are any such requirements needed?

We agree with the preliminary decision not to develop a requirement to include any 'overpayment' in equity. As noted in the DP, it would be difficult to detect or quantify the overpayment. Further, where the BCUCC affects NCI shareholders of the receiving entity, the possibility that an overpayment would arise is likely to be mitigated by legal requirements and regulations or the mere presence of these non-controlling shareholders.

Presumably, this absence of specific requirement should not be read to imply that a single transaction would be recognised if a distribution takes place at the same time as the BCUCC. Rather, similar to our comment in response to Question 1, the receiving entity would be expected to assess whether multiple transactions are taking place concurrently and if so, recognise each applying the relevant requirements. If our understanding is correct, we suggest that the Board may wish to clarify this and provide relevant guidance.

We agree also with the preliminary view that underpayments should be recognised in equity for the reasons given in the DP. Similar to the above, we presume that an entity would be expected to assess whether multiple transactions are taking place concurrently before recognising what appears to be an underpayment in equity. Again, we believe that this principle should be made clear and relevant guidance provided.

We believe that it would be important to clarify that for the purpose of applying the acquisition method, it is necessary to identify the acquirer as defined in IFRS 3. We believe that this clarification is warranted because of the potential ambiguity with the fact that the determination of the method to use to account for the BCUCC is made by reference to the legal entity (see our response to Question 1). We suggest that in describing the acquisition method, it should be made clear whether the requirements relate to the receiving entity (i.e. the legal acquirer) or the accounting acquirer. The Board may wish to consider whether defined terms should be used to refer to each. The Board may also wish to assess whether additional guidance should be provided to support the identification of the acquirer in the context of a BCUCC.

Section 4 – Applying a book-value method

Question 6

Paragraphs 4.10–4.19 discuss the Board's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should measure the assets and liabilities received using the transferred company's book values.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

We do not agree with the proposal to require the receiving entity to use the book values of the transferred entity.

As noted in paragraph 4.17 of the DP, the facts and circumstances of each BCUCC will determine whether it is less costly to use the transferred entity or the controlling entity book values. Accordingly, consistent with the fact that support for a book-value method is driven by costs consideration, we believe that entities should be allowed to choose which book values to use.

Indeed, we believe that the receiving entity should be permitted to use the book values of the transferred entity, an intermediate parent of the transferred entity or the common parent of the transferred entity and the receiving entity.

This choice should be available, on a transaction-by-transaction basis, regardless whether the BCUCC is effected through a transfer of the shares or of the assets and liabilities of the transferred entity. It should also be available to entities that are required to use the book-value method and those that take advantage of the optional exemption from the acquisition method.

We note that the DP acknowledges that there are conceptual merits in the different book value alternatives. Further, we do not believe that the comparability that results from imposing a single method

is a significant consideration in this case since the book-value method is applied to financial statements that generally have limited users.

We note also that significant costs may be required to apply a book-value method when the transferred entity and/or its parent (including intermediate parents) have not been preparing financial statements applying IFRS Standards. In this case, use of a book-value method would require application of IFRS 1 to produce book values compliant with IFRS Standards. We also note that IFRS 1 requires the date of transition to be the beginning of the earliest period for which an entity presents comparative information. Since the DP proposes that comparative periods should not be restated for the effect of the BCUCC, we suggest that the Board may wish to consider whether simplifications to the application of IFRS 1 may be appropriate when this Standard is applied solely to determine the book values necessary to account for the BCUCC. For example, the Board may wish to consider whether an entity should be allowed to use the date of the BCUCC as the date of transition in applying IFRS 1 thereby avoiding preparation of comparative information that will not be used.

Question 7

Paragraphs 4.20–4.43 discuss the Board's preliminary views that:

(a) the Board should not prescribe how the receiving company should measure the consideration paid in its own shares when applying a book-value method to a business combination under common control; and

(b) when applying that method, the receiving company should measure the consideration paid as follows:

(i) consideration paid in assets—at the receiving company's book values of those assets at the combination date; and

(ii) consideration paid by incurring or assuming liabilities—at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards.

Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Consistent with our response to Question 1, we believe that this project should be viewed as a stepping stone towards a more comprehensive review of transactions under common control. In this context, we believe that the Board's preliminary views provide an appropriate approach that may be reassessed at a later date.

The reason why we suggest that it may be appropriate to revisit this approach as part of a future project is that the approach introduces conceptual inconsistences with the requirements generally applicable to transfers and disposals of assets. In particular, we note that the preliminary view that consideration paid in assets should be measured based on the book value of these assets appears inconsistent, for example, with IAS 16:72 which refers to IFRS 15 for the determination of the consideration to measure the gain/loss on derecognition of property, plant and equipment (i.e. a measurement at fair value of the consideration received). A similar principle exists in most other IFRS Standards and applies regardless of whether the transaction is between entities under common control. Hence the proposals would introduce different requirements for a subset of transfers of assets under common control. This is something that the Board should reassess in a future project addressing common control transactions more broadly.

One area that may require further guidance as part of this current project on transfers of business under common control is the proposal that consideration paid by incurring or assuming liabilities should be

measured at the amount determined on initial recognition of the liability at the BCUCC date applying IFRS Standards. It is not clear whether this is meant to capture only liabilities incurred with third parties (e.g. external debt financing of the transaction) or is also meant to apply to liabilities incurred with other entities under common control, for example with the former parent of the transferred business. If it also applies to the latter liabilities, we note that this requirement will result in a different initial recognition amount in the financial statements of the receiving entity depending on whether a liability is incurred directly with the transferor (in which case the liability would be recognised, in many cases, at fair value) or indirectly through the transferred business (in which case the liability would remain at book value). It is not clear whether this difference is justified. If the Board maintains this requirement, further guidance may be necessary to assist entities identifying those liabilities that should be measured at fair value at the date of the BCUCC vs those that are recognised at book value.

We suggest that the Board should also consider whether additional guidance is required with respect to arrangements containing contingent consideration. This is because the current requirements in IFRS 9:4.2.1 apply specifically to contingent consideration recognised in a business combination to which IFRS 3 applies.

Question 8

Paragraphs 4.44–4.50 discuss the Board's preliminary views that:

(a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and

(b) the Board should not prescribe in which component, or components, of equity the receiving company should present that difference.

Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

We agree with these proposals. We believe that this approach is consistent with measurement of the BCUCC at book values and with the cost considerations that apply to these transactions.

However, we believe that it will be important to provide guidance to ensure that the amount recognised in equity is limited to the difference between the consideration paid for the BCUCC and the book value of the assets and liabilities received. If other transactions take place at the same time as the BCUCC (e.g. recharge of transaction costs), it would seem appropriate that these be recognised separately (potentially through profit or loss). The existing guidance in IFRS 3 on determining what is part of the business combination may provide relevant principles.

Question 9

Paragraphs 4.51–4.56 discuss the Board's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

We agree with these proposals. As noted in our response to Question 8, we suggest that the Board should consider providing additional guidance to explain that a transaction that reimburses the acquiree or its former parent for paying the acquirer's BCUCC-related costs is recognised separately from the BCUCC.

> Question 10
>
> *Paragraphs 4.57–4.65 discuss the Board's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information.*
>
> Do you agree with the Board's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

We agree with the proposal that the receiving entity should include in its financial statements the assets, liabilities, income and expenses of the transferred business prospectively from the BCUCC date, without restating pre-combination information. We believe that this approach is simpler and the most cost effective.

We acknowledge that in practice many entities currently restate comparative information for BCUCCs measured at book values, in particular when the combination is done in contemplation of a public offering that will require historical information of the reporting entity. However, entities that face this issue can (or may be required by the market regulator to) present additional pro forma information. Therefore, there are means available for entities who wish to provide additional information to do so. This is why we prefer that the IFRS requirements be kept simple by requiring that the BCUCC be reflected prospectively.

Section 5 – Disclosure requirements

> Question 11
>
> *Paragraphs 5.5–5.12 discuss the Board's preliminary views that for business combinations under common control to which the acquisition method applies:*
>
> *(a) the receiving company should be required to comply with the disclosure requirements in IFRS 3 Business Combinations, including any improvements to those requirements resulting from the Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment; and*
>
> *(b) the Board should provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 Related Party Disclosures when providing information about these combinations, particularly information about the terms of the combination.*
>
> Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

We agree with these proposals. However, as noted in our response to the Discussion Paper 2020/1 *Business Combinations—Disclosures, Goodwill and Impairment,* we believe that the Board should consider whether the volume of disclosure suggested is relevant for *all* combinations. We believe this level of information is generally appropriate for strategically important and significant combinations. Many other capital expenditures projects are strategically important and significant. Overall, a balance needs to be considered to achieve a better explanation of how capital is invested. This is something that the Board may wish to consider as part of its project to improve disclosures in financial statements.

Question 12

Paragraphs 5.13–5.28 discuss the Board's preliminary views that for business combinations under common control to which a book-value method applies:

(a) some, but not all, of the disclosure requirements in IFRS 3 Business Combinations, including any improvements to those requirements resulting from the Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment, are appropriate (as summarised in paragraphs 5.17 and 5.19);

(b) the Board should not require the disclosure of pre-combination information; and

(c) the receiving company should disclose:

(i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and

(ii) the component, or components, of equity that includes this difference.

Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

We generally agree with the proposals.

However, we note that paragraph 5.19(a) proposes that an entity should provide 'a description of how the receiving entity obtained control'. It seems that strict compliance with this requirement would necessitate an assessment of who is the 'acquirer' in order to determine which entity has 'obtained control'. The Board may wish to consider what element of information is meant to be captured by this proposed requirement and ensure that it is consistent with the principles underlying the book-value method.

We also note that paragraph 5.19(f) requires 'the amount and an explanation of any gain or loss…that relates to assets and liabilities received in a business combination under common control…'. Presumably, this is meant to capture information on the gain or loss recognised in equity for the difference between the consideration paid and the net book value of the assets and liabilities received. If so, we suggest that the requirements may need to be reworded. We also suggest that the Board may wish to consider the nature and level of information expected to be provided as an explanation of the gain or loss recognised. As noted in paragraph 4.46, the decision to require the full amount of the difference to be recognised in equity was taken considering the costs and complexity that would be required in identifying the components of that gain/loss. It would be appropriate that the information required to be provided on the gain/loss does not negate the effect of this decision.

Finally, we believe that transactions that are subject to the proposed requirements should be clearly identified by the reporting entity to indicate to the users of the financial statements that these transactions are within the scope of a different standard and do not follow the general IFRS 3 approach.