Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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104. Sitzung IFRS-FA am 12.07.2021
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Berlin, XX September 2021

Mr Andreas Barckow
Chair of the
International Accounting Standards Board
Columbus Building
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London E14 4HD

Dear Andreas,

IASB Discussion Paper DP/2020/2 *Business Combinations under Common Control*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Discussion Paper DP/2020/2 *Business Combinations under Common Control* issued by the IASB on 30 November 2020 (herein referred to as 'DP').

Durch IFRS-FA zu erörtern, auf welche Themen bereits im Anschreiben eingegangen werden soll.

Our responses to the questions of the DP are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Peter Zimniok (zimniok@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

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Appendix – Answers to the questions in the DP

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?

The ASCG generally agrees with the preliminary view that the IASB should develop proposals that cover reporting by the receiving company for all transfers of a business under common control even if the transfer 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 is conditional on a sale of the combining companies to an external party, such as in an initial public offering.

We discussed particularly whether the 'point in time approach' the IASB uses when determining the requirements is appropriate. This approach considers only the fact pattern (e.g., with regard to the participation of non-controlling shareholders (NCS)) at the time of the BCUCC, irrespective of any preceding or subsequent steps (e.g., initial public offering (IPO)). As a result, at the time of the BCUCC, there may be different stakeholders involved and thus also different information needs than at the time of an IPO. We were informed, however, that, in practice, all strategic options are often being left open at the beginning of a restructuring, so that the targeted final process status cannot always be foreseen with certainty at the time of a BCUCC. In addition, strategic goals may change over time, possibly due to enticing options arising (e.g., sale to a strategic investor) or due to previously unforeseeable external effects (e.g., cancellation of an IPO due to Covid19-pandemic). Accordingly, we support the IASB proposal that the requirements should not take into account whether an acquisition from an external party had previously taken place, whether a subsequent sale to an external party follows, or whether the transfer is conditional on a sale of the combining parties to an external party, such as in an IPO.

Regarding the scope of the project, we support that the project is also considering transactions that involve a transfer of a business under common control, even if the transfer does not meet the definition of a business combination in IFRS 3 ('group restructurings'). Beyond that, the effects of a BCUCC on the separate financial statements of the receiving entity and, if applicable, also of the ultimate controlling entity could be explored. Our preferred approach would be addressing the basic principles for accounting for a BCUCC in both the consolidated

financial statements and the separate financial statements in the current project so that the respective concepts can be developed consistently. However, the specific development of the requirements relating to separate financial statements could then also be carried out in a separate IASB project.

Likewise, we think that there are a number of other topics that could be considered in the context of transactions under common control, like transfers of assets and transfers of associates.

In summary, we think that the scope of the project should be as broad as possible in order to initially discuss all relevant topics. Subsequently, specific topics could be addressed in different ways and projects or, if necessary, deliberately and justifiably excluded from further work (e.g., intra-group supply and service relationships).

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?

The ASCG agrees with the preliminary view that neither the acquisition method nor a book-value method should be applied to all business combinations under common control (Question 2(a)). We support the use of more than one measurement method and think that a single measurement approach is not appropriate for all BCUCC.

Also, we reluctantly agree with the preliminary views that, in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company (Question 2(b)) and that a book-value method should be applied to all other business combinations under common control, including all combinations between wholly-owned companies (Question 2(c)). While we are not entirely

convinced that the distinguishing criterium for the application of the acquisition method or a book-value method should be whether NCS of the receiving company are affected, we concede that we did not identify a superior approach.

We agree with the IASB that the application of the acquisition method is appropriate when the substance of the BCUCC transaction is similar to the substance of a business combination (BC; as defined in IFRS 3). We think that, conceptually, the acquisition method is the appropriate accounting method for both a BC and a BCUCC that affects non-controlling shareholders of the receiving company, as in the case of a BC there is a change of control and in the case of a BCUCC that affects non-controlling shareholders of the receiving company there is a partial loss of control, which in both cases constitutes a significant event that necessitates a revaluation. In addition, we think that NCS are an indication of an at arm's length-transaction, which also indicates an objectification of the purchase price paid. If the BCUCC does not affect non-controlling shareholders of the receiving company, a revaluation of the assets and liabilities of the transferred company would not be justified in our opinion.

Having said that, we are apprehensive of practical difficulties that may arise out of the interaction of this 'NCS approach' and the 'point in time approach' (see our answer to Question 1). Our main criticism relates to the oftentimes long duration of a BCUCC process (e.g., often the execution of a spin-off takes several years) in connection with a potential change of strategic goals in the meantime or the intention to pursue favourable options that present themselves later (e.g., eventual sale of NCS to a strategic investor). As we understand the proposals in the DP, a change in the configuration of the BCUCC, in a way that NCS would be affected, would lead to a different measurement (i.e., application of the acquisition method instead of a book-value method). We were informed by our constituents, though, that in practice IPOs are usually prepared internally via wholly-owned subsidiaries in order to be able to make decisions autonomously. Since the proposals of the IASB would not take any preceding and/or following steps of such a restructuring process into account, for many internal restructurings in preparation of an IPO or a spin-off a book-value method would have to be applied until just before the end of that process, i.e., the actual IPO or spin-off. The requirement to change the measurement method from a book-value method to the acquisition method only at the final stage of such a BCUCC process, though, would lead to high complexity and sizeable costs for the preparers.

In this context, we discussed the case of a BCUCC in preparation of an IPO, specifically a "contingent" BCUCC, which is only carried out if an IPO actually takes place, resulting in a (subsequent) investment of NCS in the receiving company. In this case, at the time of a preparatory internal BCUCC, there would be different stakeholders involved and thus also different information needs than at the time of the actual IPO. Due to this and the difficulties detailed above, we think that the IASB should consider the application of the acquisition method in this specific case.

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.

(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?

We agree with the preliminary view of the IASB that the acquisition method should be required if the business combinations under common control affects non-controlling shareholders of the receiving company and the receiving company's shares are traded in a public market (Question 3(a)). As stated in our answer to Question 2(b), we reluctantly agree with the preliminary view that, in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company. We think that, conceptually, the acquisition method is the appropriate accounting method for a BCUCC that affects non-controlling shareholders of a publicly traded receiving company, as the substance of the BCUCC transaction is similar to the substance of a 'regular' business combination.

However, even in the case of NCS being affected, we think that there are certain cases in which the information benefit obtained by applying the acquisition method does not justify the costs incurred. Namely, if the receiving company's shares are privately held. We think that, in these cases, a book value method should be applied, which the IASB, in our view, appropriately addresses by proposing the specified exception and exemption. Therefore, we agree with the preliminary views, inquired about in Question 3(b), that 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) and that 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).

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?

The ASCG agrees that the optional exemption from the acquisition method should not be available for publicly traded receiving companies (Question 4(a)). We think that the optional exemption would not be workable in practice, as it might be more difficult to apply for publicly traded companies because such companies often have many shareholders, with frequent changes in share ownership, whereas privately held companies are likely to have a more stable and concentrated ownership structure.

We also agree that the related-party exception to the acquisition method should not apply to publicly traded receiving companies (Question 4(b)). We think that extending the related-party exception to publicly traded companies would have little practical effect, as listing requirements or capital market regulations often limit how many shares of a publicly traded company can be held by parties that are considered to be related to the company. Accordingly, we support the expectation of the IASB that it would be unusual for all the non-controlling shareholders of a publicly traded receiving company to be related parties of that company.

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?

With regard to how to apply the acquisition method, we would prefix that the acquisition method only applies to business combinations under common control that affect non-controlling shareholders of the receiving company.

Due to this participation of third parties, we would expect the consideration paid to be priced at arm's length. In addition, many jurisdictions have legal requirements and regulations that are designed to protect the interests of minorities in the theoretical case of a transfer of resources ('overpayment') from the receiving company (with non-controlling shareholders) to the transferring company (i.e. distribution from equity), so that this case is highly unlikely in practice.

We would also deem the contrasting case of an 'underpayment' in the sense of a contribution to equity, which would represent a transfer of resources from the transferring company to the receiving company (with non-controlling shareholders benefiting from this), to be very unlikely. Therefore, in our opinion, there is no need for requirements for both scenarios. Furthermore, we think that developing such requirements would imply the need for an ~~cost- and effort-intensive~~ analysis of whether an overpayment or underpayment may have occurred, which would be needlessly burdensome for companies and would not be justified.

Having said that, in case that the IASB does intend to go forward with the development of requirements, we would advocate for symmetrical recognition, in both cases with a recognition of the difference in equity.

In case of a distribution from equity (Question 5(a)), we think that it is important to distinguish between goodwill and a true 'overpayment'. We do not agree with the IASB's expectation that ~~in case of a distribution,~~ 'it [the overpayment] is addressed through subsequent testing of goodwill for impairment' (DP 3.11). We think that the current requirements pertaining goodwill allocation would regularly enable companies to allocate the acquisition to a CGU with pre-existing headroom, so that the acquisition may be shielded from impairment in subsequent tests. In addition, we think that the costs for an impairment test would also be comparable to the costs that would arise for quantifying an overpayment (for presentation as a distribution from equity), as most of the necessary information for recognising a distribution and, therefore, for distinguishing between goodwill and a true 'overpayment', can also be derived from cash-flow forecasts and calculations needed for the purchase-price allocation. Additionally, we would like to refer to the issue of linked transactions. We think that, conceptually, it is necessary

that a jointly executed BCUCC and a repayment of capital are shown separately and not as a single BCUCC transaction with an overpayment.

In case of a contribution to equity (Question 5(b)), we agree with the IASB´s preliminary view 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. Furthermore, when a contribution to equity is identified, we think the receiving company should be required to perform a reassessment, as provided for by IFRS 3.36 regarding bargain purchase gains, as the economic justifications for a bargain purchase gain occurring in a business combination (information asymmetries, forced sales, etc.) are not applicable in the case of a business combination under common control.

We did not identify any other need for special requirements for the receiving company on how to apply the acquisition method to business combinations under common control (Question 5(c)), as we think that the acquisition method should be applied as set out in IFRS 3.

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?

The ASCG does not agree with the 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.

Our disagreement with the proposed requirement is based on our observation, that supporting arguments can be found for each of the three theoretical approaches, i.e., the use of the book values of the transferred company C, of the transferring company A or of the (ultimate) controlling company P. However, we think that the advantageousness of the respective book values depends in each case on the specifics of the BCUCC transaction to be accounted for, e.g., with regard to any historical acquisition steps as well as the reasons for any existing differences between the various book values (e.g., goodwill from previous transactions, different recognition of internally generated intangible assets of company C, disclosure of hidden reserves, etc.).

Additionally, practicability aspects also depend on the specific facts and circumstances of the BCUCC and could favour each of the possible approaches, for example with regard to the availability of book values in accordance with IFRS. In this respect, we would assume that the 'higher' the group level of the book values to be used, the more likely it is that this company prepares its financial statements applying IFRS Standards, therefore ensuring the necessary 'data quality' and minimising the need for adjustments.

Therefore, we do understand the rationale behind the IASB´s proposal of using the transferred company's book values to measure the assets and liabilities received in the business

combination under common control, as this would provide uninterrupted historical information about the transferred company, that is useful in analysing trends; present the combination from the perspective of the combining companies, rather than from the perspective of the controlling party; and treat the assets and liabilities of the combining companies on the same basis, as each company's assets and liabilities would continue to be measured at the book values previously reported by that company. We also think that using the book values of the transferred company may be comparatively simple if IFRS reporting packages were already available at the transferred company, but this cannot be assumed in every case. Also, the possibility that the transferred company may have internally generated intangible assets, which are not (allowed to be) recognised in the separate financial statements of C, could be seen as problematic.

However, in case of a previous external acquisition of company C by company A, these internally generated intangible assets would be recognised in the book values of the transferring company A and of the controlling company P, which is why using of one of these book values instead may be seen as preferable. Yet, as stated above, there likewise may be certain advantages and disadvantages to the use of the respective book values.

The use of the book values of the transferring company A may be supported by the fact that these book values result from an at arm's length transaction (acquisition of company C by company A), and would therefore be more objective and also more up to date than the book values of company C.

The concept of 'common control', though, may suggest the use of the (ultimate) controlling party's book values to measure the assets and liabilities received. Also, in some cases (e.g., subsequent acquisition of companies A and C by company P) this would provide information based on a more recent valuation of the assets and liabilities of the transferred company C. Nevertheless, we think that the argument of the recency of the book values should not be decisive, compared to conceptual arguments, as these book values typically would not reflect the fair value of those assets and liabilities at the date of the business combination under common control, especially if the prior external acquisition occurred a long time ago. Also, this approach would treat the assets and liabilities of the combining companies, company B and company C, on a different basis. That is, following the combination, the assets and liabilities of the receiving company B would continue to be measured at the book values reported by that company, whereas the assets and liabilities of the transferred company C would be measured at the book values reported by the controlling party. Therefore, such an approach could provide structuring opportunities, as different information would be provided about the assets and liabilities of the combining companies, depending on how the combination is structured (i.e., whether company C is transferred to company B or vice versa).

Further, we think that from a practical perspective, which book values are least costly to use also depend on the facts and circumstances of each BCUCC, e.g., the consolidation procedures and IT systems used by the companies involved.

Furthermore, we do not agree with the IASB's view stated in para. 4.16 of the DP, that 'the controlling party is not a party to the combination of the receiving company with the transferred company', which we understand as one of the main arguments against using the book values of the controlling company. Usually, the controlling party is in fact the initiator of the transaction and thus at least indirectly significantly involved in the BCUCC.

In summary, given the observable complexity of BCUCC transactions and the diversity of arguments for and against the respective alternative approaches, we think that granting an option for the receiving company to choose which of these book value approaches it wants to apply, depending on the individual facts and circumstances, is worth considering. We think that the argument often brought up against granting options, namely the resulting lack of comparability, would not be of much relevance for the business combinations under common control to which a book-value method applies, i.e., all BCUCC transactions that do not affect non-controlling shareholders of the receiving company and specified BCUCC transactions that affect non-controlling shareholders of a privately held receiving company.

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?

The ASCG agrees with the preliminary views that the IASB 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 (Question 7(a)). We also agree with the IASB that the reporting of components within a reporting company´s equity and the measurement of issued shares for the purpose of that reporting are often affected by national requirements and regulations and are generally not prescribed in IFRS Standards.

Additionally, we agree that when applying a book-value method, the receiving company should measure the consideration paid in assets at the receiving company's book values of those assets at the combination date and the consideration paid by incurring or assuming liabilities at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards (Question 7(b)).

~~Hinweis: In der Öffentlichen Diskussion soll zudem erfragt werden, ob noch andere Arten von Gegenleistungen (bspw. ein *business*) in der Praxis vorkommen und dementsprechend regelungsbedürftig sein könnten.~~

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?

The ASCG agrees with the IASB´s preliminary views that, 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 (Question 8(a)) and that the Board should not prescribe in which component, or components, of equity the receiving company should present that difference (Question 8(b)).

In our opinion, a difference between the consideration paid and the book value of the assets and liabilities received can arise from a variety of factors (as detailed by the IASB in DP 4.45), so that various components of equity could be appropriate for the recognition of individual components of that difference. As disaggregating these components would likely be costly and complex, we support the proposal to recognise the ~~recognition of the~~ whole difference within one single component of equity. Based on that, and due to the presentation of components of equity often depending on national laws, regulations or other requirements in particular jurisdictions, the IASB should not prescribe in which component, or components, of equity the receiving company should present that difference.

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 the 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.

When undertaking a business combination under common control, companies might incur transaction costs, such as advisory, legal, accounting, valuation and other professional fees and the costs of issuing shares or debt instruments. These potential transaction costs are identical to the potential transaction costs when undertaking a 'regular' business combination. Therefore, the IASB´s rationale for the requirements of IFRS 3 should also apply to transactions costs when undertaking a business combination under common control. Specifically, that transaction costs are not part of the exchange between the buyer and the seller of the business, rather, they are separate transactions in which the buyer pays for services received. Accordingly, the costs of those services received and consumed during the period should be recognised as expenses in the period in which they are incurred, except that the costs related to the issue of debt or equity instruments should be recognised in accordance with IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*.

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?

The ASCG generally agrees with 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.

While we agree with the IASB´s conclusion "that the benefits of information provided by a retrospective approach may be limited and may not outweigh the costs of providing that information" (DP 4.62), our main argument against applying a retrospective approach is that it would provide a picture of a group in a period when that group did not exist. Conceptually, we thus identified no reason to deviate from the requirements of IFRS 3 for 'regular' business combinations.

We would like to point out though, that related issues should be taken into account. This refers, for example, to comparative periods, as only the values of the receiving company would be shown for previous periods. In addition, pre-combination information could possibly be required in some jurisdictions on the basis of other laws and regulations (e.g. EU Regulation 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market). This may justify granting companies an option to apply a retrospective approach, so that companies in such jurisdictions would not, in effect, be forced to apply both approaches.

We would like to add that we were informed, in the course of the outreach we conducted, that some entities have chosen to voluntarily apply the retrospective approach to their business combinations under common control as this enabled them to better depict the 'history' of the new-formed entity and supported their investors in performing trend analysis.

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 the preliminary view that, for business combinations under common control to which the acquisition method applies, 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* (Question 11(a)). We think that these business combinations under common control are similar to 'regular' business combinations covered by IFRS 3 and, therefore, similar information about these transactions should be provided.

We also generally agree with the IASB´s intention to provide additional 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 (Question 11(b)). We would like to emphasise, though, that this application guidance should only be provided to help companies apply existing disclosure requirements and that it must be ensured that thereby no additional disclosure requirements are imposed.

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?

The ASCG agrees with the preliminary view that, for business combinations under common control to which a book-value method applies, 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 (Question 12 (a)).

As we see it, the DP represents an early stage of the IASB´s considerations of business combinations under common control, as the IASB has not fully developed the book-value method and feedback of constituents to the DP has not yet been considered. Therefore, it is inherently difficult to evaluate potential details of disclosures. However, we welcome the IASB´s preliminary assessment that various disclosure requirements of IFRS 3 should not be required when a book-value method is applied.

~~With regard to the disclosures intended, we are concerned that the requirement of 'aggregate information for individually immaterial combinations that are material collectively' (paragraph B65 of IFRS 3) could be complex and burdensome to fulfil for companies. This would apply especially to business combinations under common control that are preceded by (possibly several) preparatory acquisitions and/or restructuring steps. If these preparatory measures were also covered by the disclosure requirement, plenty of complexity could arise, but at least a reversal of the burden of proof would be installed, so that companies would have to prove the immateriality of the preparatory measures - possibly at great effort and expense.~~

Regarding pre-combination information, we generally agree with the preliminary view that the IASB should not require the disclosure of pre-combination information (Question 12(b)). But, as stated in our answer to Question 10 (see above), pre-combination information could possibly be required in some jurisdictions on the basis of other laws and regulations. This may justify granting companies an option to apply a retrospective approach, so that companies in such jurisdictions would not, in effect, be forced to apply both approaches.

Lastly, we agree with the preliminary view that the receiving company should disclose the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and the component, or components, of equity that include(s) this difference (Question 12(c)). We consider this information to be relevant for users.