31 August 2021

Dr. Andreas Barckow
Chair
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London, E14 4HD
United Kingdom

Dear Dr. Barckow,

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

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on this Discussion Paper (DP). In formulating these comments, the views of the constituents within each jurisdiction were sought and considered.

The AOSSG currently has 27 member standard-setters from the Asian-Oceanian region: Australia, Bangladesh, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam. To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. The intention of the AOSSG is to enhance the input to the IASB from the Asia-Oceania region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their comment after having been initially developed through the AOSSG Business Combinations under Common Control (BCUCC) Sub-Working Group.

AOSSG members appreciate the IASB's effort in exploring the possible reporting requirements for BCUCC to reduce diversity in practice, improve transparency in reporting BCUCC and provide users of financial statements with better information. Views of the AOSSG members on major areas of the DP are as follows.

Selecting the measurement method

Overall
BCUCC are common in the Asian-Oceania region, and occur for different reasons. Most AOSSG members consider that not all BUCCC have the same nature or economic substance, and so agree that neither the acquisition method nor a book-value method should be applied to all BCUCC.

Most AOSSG members largely agree with the IASB's preliminary views on selecting the measurement method, with some provide the following comments and recommendations:

- The IASB should further explore whether, and if so, how the information needs of holders of equity-like financial instruments that are not classified as equity under IAS 32 *Financial Instruments: Presentation* should be captured in this project given the prevalence of these instruments in private or pre-IPO companies in some AOSSG jurisdictions.
- The extent of ownership interest of non-controlling shareholders (NCS) in the receiving company should be considered when selecting the measurement method. In particular, some members consider that when the NCS's interest in the receiving company is insignificant, the BCUCC could be arguably different from a business combination within the scope of IFRS 3 *Business Combinations* and the costs of applying the acquisition method may not justify its benefits.
- The IASB should clarify the timing of determining the NCS of the receiving company. Specifically, whether such determination should be determined at the combination date or the end of a reporting period.

One member considers that receiving companies with significant NCS should be given an accounting policy choice to apply either the acquisition method or a book-value method because determination of fair values generally involves significant judgement and resources, and the costs of applying the acquisition method may not always justify its benefits.

Another member has concerns about the proposal of using the existence of NCS as the key criterion for determining the measurement method. This member considers that when determining when to apply the acquisition method or a book-value method, the receiving company should consider the substance of the transaction, and the extent of judgement and estimation uncertainty involved in determining whether the transaction price faithfully represents the price that would have been paid in an arm's length transaction.

Two members disagree with the IASB's preliminary views, and consider that a book-value method should be applied to <u>all</u> BCUCC. One of these members considers that BCUCC is a kind of group restructuring or resource allocation directed by the controlling party, rather than an acquisition under IFRS 3 in substance. The economic substance of BCUCC is different from that of a business combination within the scope of IFRS 3, and so a different measurement method should be applied. In addition, this member considers that the existence of NCS should not be a determinative factor in selecting the measurement method. Information needs of other users, such as potential investors and the controlling party should also be considered and the feedback from NCS does not show a strong preference for using the acquisition method. Another member considers that the acquisition method does not provide useful information to the controlling party who always constitutes a primary user, and the costs of applying the acquisition method to BCUCC would not justify its benefits. In addition, under the proposals, the accounting for BCUCC depends on the shareholder structure and the existence, characteristics and behaviour of NCS, which may create opportunities for accounting arbitrage.

<u>Related party exception</u>
While some members support the related party exception, others do not support the proposal for the reason that not all related parties can always access the internal financial information of the receiving company, and so the information needs of related parties could be the same

as the NCS of the receiving company. In addition, identifying related party relationships could be challenging when companies have complex business structures or arrangements involving various parties.

Optional exemption

Some members support the optional exemption for cost-benefit considerations. However, other members express concerns on the potential challenges of applying the proposal, for example, whether the NCS have the knowledge and competency to understand different types of measurement methods and make their decisions. Accordingly, one member recommends that the IASB further explore and understand the practical challenges with implementing this proposal. Another member considers that the optional exemption is most likely suitable in situations where the number of NCS is small or the NCS are knowledgeable about the two measurement methods, and so recommends that the IASB provide such guidance in the final Standard or Basis for Conclusions.

Applying the acquisition method

Most AOSSG members agree with or do not have strong views on the IASB's preliminary views and its rationale on how to apply the acquisition method to BCUCC. However, two members do not agree with the proposal that the receiving company should not recognise a distribution from equity when the receiving company overpays for the BCUCC. These members are of the view that including an overpayment within goodwill would not be consistent with the requirements in paragraph 106(d)(iii) of IAS 1 *Presentation of Financial Statements* and paragraph 48 of IAS 38 *Intangible Assets* because such an overpayment generally includes a distribution from the controlling party and any synergies or internally generated goodwill that already existed within the combining companies before the BCUCC. In addition, these two members consider that having different accounting treatments for overpayments and underpayments would lead to asymmetry, which may confuse users. Another member disagrees with the proposals on how to apply the acquisition method to BCUCC. This member considers that whether a BCUCC is an equity transaction should be determined based on the nature of the transaction and who the counterparty is; it should not be determined based on the amount of consideration. Also, this member notes that IAS 24 *Related Party Transactions* only requires additional disclosures but does not require different accounting treatment when the prices of related party transactions are different from those in arm's length transactions.

Applying a book-value method

Most AOSSG members generally agree with the IASB's preliminary views and its rationale on how to apply a book-value method to BCUCC except the following two areas:

Measuring assets and liabilities received

Some members agree with the IASB's preliminary views and its rationale of using the transferred company's book values to measure assets and liabilities received when applying a book-value method. Another group of members consider that there are situations where using the controlling party's book values would better reflect the economic substance of the transaction and mitigate structuring opportunities. Accordingly, some members recommend that the IASB provide an accounting policy choice for companies to use the controlling party's book values when such an approach would provide useful information, and require companies to disclose which book values they have used. One member considers that the proposal would not provide useful information to the controlling party and would increase the costs of the controlling party to prepare its consolidated financial statements. Hence, this member suggests that only the controlling party's book values should be used. Another member considers that the receiving company should be permitted to use either the transferred company's book values or the transferring company's book values. This member agrees with the IASB's rationale of using the transferred company's book values but also thinks that using the transferring company's book values would be appropriate considering the values of assets and liabilities transferred do not change from the group's perspective. This member considers that limiting the receiving company to use either one of the book values may pose practical application issues.

Pre-combination information

Some members agree with the IASB's preliminary views and its rationale of requiring the receiving company to present only the pre-combination information of the receiving company (i.e. without restating pre-combination information). A few members disagree with the IASB's preliminary views for the following reasons, among others:

- Applying the IASB's preliminary view, the presentation of pre-combination information would solely depend on how the BCUCC is legally structured. This would result in different pre-combination information being presented for economically similar transactions, which would impair comparability. Questions also arise as to how to apply the IASB's preliminary view to cases where it is economically unclear who the receiving company is, e.g. a merger of two equals.
- The IASB's preliminary view ignores the information needs of potential investors and capital market regulators for BCUCC undertaken in preparation for IPO. These members consider that restated pre-combination information provides evidence of management's track record of the listing group as a whole, which helps potential investors to make informed investment decisions and capital market regulators to assess the eligibility of the applicants for listing.

Accordingly, two members recommend that the IASB provide an accounting policy choice for companies to choose whether to restate pre-combination information in their primary financial statements. Another member suggests that the IASB allow companies to disclose restated pre-combination information in the notes to the financial statements.

Detailed comments of our members are provided in the Appendix of this submission. If you have any questions regarding this submission, please contact either one of us.

Yours sincerely,

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AOSSG Chair

Ernest Lee
AOSSG Business Combinations
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Appendix – Comments from AOSSG members

Comments from some jurisdictions in this paper are based on staff's views. Therefore, these comments may not necessarily reflect the views of the official entity in each jurisdiction.

Project scope (refer to DP Question 1)

1. Most AOSSG members generally agree with the IASB's preliminary views on the scope of the project. One of these members considers that the concept of 'transitory control' should be removed from the definition of BCUCC in IFRS 3 because current IFRS Standards usually do not set standards on the grounds of preventing abuse, and that the scope of IFRS 3 does not exclude business combinations with temporary control.

2. However, one member disagrees with the IASB's preliminary views that the project should cover BCUCC where common control is transitory, for the following reasons:
   (a) The definition of BCUCC in paragraph B1 of IFRS 3 excludes those combinations where control is transitory, and this definition has been implemented well in China.
   (b) This member considers that the substance of some BCUCC where common control is transitory is similar to that of business combinations within the scope of IFRS 3. Therefore, such transactions should not be included in the scope of the project, and instead should be included in the scope of IFRS 3. This could be the case where the BCUCC is followed by an immediate sale of the transferred company to an external party, and that the sale is not part of the package deal of the BCUCC.

3. Another member considers that this project should not limit its scope to BCUCC only. It should cover all common control transactions, including reporting common control transactions in separate financial statements. This member considers that excluding other common control transactions from the project scope would reduce the comparability of financial statements. However, if the IASB were to proceed with its proposals for practical reasons, then this member suggests that the IASB consider a separate project to cover other common control transactions and their effects on separate financial statements.

Selecting the measurement method (refer to DP Questions 2, 3 and 4)

Overall

4. BCUCC are common among both listed and private companies in the Asian-Oceania region and occur for different reasons, such as group restructuring, tax planning, or preparing for an IPO. Most AOSSG members consider that not all BUCCC have the same nature or economic substance; some are similar to business combinations covered by IFRS 3 while others are not. Therefore, most members agree that neither the acquisition method nor a book-value method should be applied to all BCUCC.

5. Most AOSSG members largely agree with the IASB's preliminary views as set out in Diagram IN.2 of the DP, with some providing the following comments and recommendations:

(a) In some AOSSG jurisdictions, private or pre-IPO companies are often funded by a variety of complex financial instruments, such as preference shares or convertible bonds. Depending on the terms of these instruments, they may not be classified as equity instruments under IAS 32 but may nevertheless have equity-like features. However, it seems that the DP does not address the information needs of holders of these financial instruments. Therefore, some members suggest that the IASB further explore whether, and if so, how these information needs should be captured; for example, whether they should be considered as NCS and what types of financial instruments should be considered.

(b) Some members consider that the extent of ownership interest of NCS in the receiving company should be considered when determining the measurement method. In particular, the acquisition method would not be appropriate for BCUCC when the NCS's interest in the receiving company is insignificant, for the following reasons:

   (i) When the NCS's interests in the receiving company is insignificant, their involvement in determining the transaction price of the BCUCC is likely to be limited and so the transaction may not be conducted at arm's length terms. Therefore, in these cases, the BCUCC is arguably different from a business combination within the scope of IFRS 3.

   (ii) The costs of applying the acquisition method may not justify its benefits when the NCS's interest in the receiving company is insignificant.

(c) One of these members suggests that the IASB clarify the timing of determining the NCS of the receiving company. Specifically, whether such determination should be made at the combination date or the end of a reporting period.

6. One member agrees with the IASB's preliminary views and its rationale that a book-value method should be applied to BCUCC that does not affect NCS of the receiving company. However, this member considers that:

   (a) A book-value method should be applied for BCUCC that affects insignificant NCS of the receiving company for the reasons stated in paragraph 5(b) above.

   (b) The receiving company should be given an accounting policy choice to apply either the acquisition method or a book-value method for BCUCC that affect significant NCS, irrespective of whether the receiving company is listed or not. This member agrees that when the NCS's interest in the receiving company is significant, the substance of the BCUCC would likely be similar to that of a business combination within the scope of IFRS 3. However, determination of fair values generally involves the use of judgement and resources, and the costs of applying the acquisition method may not always justify its benefits. Therefore, the receiving company should be provided with the flexibility to choose an accounting method that is cost-effective and meets the information needs of users.

   In light of the above, this member suggests that the IASB should discuss and set a quantitative threshold that is indicative of significant NCS in the Basis for Conclusions.

7. Another member agrees that the acquisition method is appropriate for some BCUCC while a book-value method is appropriate for others. However, this member is concerned about the proposals of using the existence of NCS as the key criterion for determining the

measurement method. This member recommends that the receiving company should consider the following factors when determining the measurement method:

(a) substance of the transaction – criteria for determining the substance of a BCUCC include the involvement of NCS and/or other parties in the transaction, whether the transaction was carried out at market terms and the price reflects the fair value of the transferred business, and the purpose of the transaction; and

(b) the extent of judgement and estimation uncertainty involved in determining whether the transaction price faithfully represents the price that would have been paid in an arm's length transaction, i.e. the fair value of the transferred business plus expected synergies from the combination. There could be situations where the fair value of the transferred company cannot be measured reliably due to a high degree of fair value estimation uncertainty, e.g. if the transferred company is in the start-up phase. In such cases, the transaction price may not be a faithfully representative reflection of the fair value of the transferred company and applying the acquisition method would not be appropriate.

8. Two members disagree with the IASB's preliminary views and consider that a book-value method should be applied to <u>all</u> BCUCC.

   (a) One of these two members consider that:

      (i) To some extent, BCUCC is a kind of group restructuring or resource reallocation directed by the controlling party, rather than an acquisition in substance. The economic substance of BCUCC may be different from that of a business combination within the scope of IFRS 3, and so a different measurement method should be applied.

      (ii) A book-value method has been applied for all BCUCC in China since 2007. Feedback from users, including NCS, do not show a strong preference for using the acquisition method. Most NCS consider that the information provided by a book-value method help them perform trend analysis of the financial performance of the combined entities.

      (iii) The proposals in the DP focus solely on the information needs of NCS. This is inconsistent with paragraph 3.8 of the *Conceptual Framework for Financial Reporting* which requires the reporting entity to provide information about transactions from the perspective of the reporting entity as a whole, not from the perspective of any particular group of the entity's existing or potential investors, lenders or other creditors. This member considers that NCS should not be a determinative factor when determining the measurement method. The controlling shareholders are important users of financial statements and their information needs should also be considered.

      (iv) A book-value method is simple and easy to apply in practice. Application of the acquisition method involves significant judgement and estimates (e.g. fair value measurement and accounting for goodwill), which increases the cost of preparing financial statements. In addition, it is hard to identify the acquirer in some BCUCC applying the acquisition method, e.g. in a merger of equals. Different acquirers may be identified, and this may lead to different accounting results and increase structuring opportunities.

(b) The other member considers that:
   (i) Findings of the IASB staff's desktop review showed that currently most companies apply a book-value method to BCUCC[1].
   (ii) The controlling party always constitutes a primary user of financial statements. From the perspective of the controlling party, BCUCC is merely a transaction within the group. There is no change to the values of the assets and liabilities transferred. The information provided by the acquisition method is not useful to the controlling party.
   (iii) NCS should have acquired the shares of the receiving company with the knowledge of the existence of the controlling party. It is not necessary to account for BCUCC using the acquisition method just like business combinations under the scope of IFRS 3. Besides, under the proposals, the accounting may change depending on the shareholder structure and the existence, characteristics and behavior of the NCS. This may create opportunities for accounting arbitrage.
   (iv) Applying the proposals, the receiving company would need to maintain accounting information for both the acquisition method (for its consolidated financial statements) and a book-value method (for reporting to the controlling party) in certain situations. The costs of doing so would not justify its benefits.

<u>Related party exception</u>

9. AOSSG members express mixed views regarding the related party exception. Some members support the related party exception for the reasons set out in paragraph 2.45 of the DP. Those who disagree consider that:
   (a) Similar to NCS, not all related parties can always access the internal financial information of the receiving company. Sometimes investors with significant influence in associates often struggle to obtain internal financial information of the associates. In such cases, the information needs of related parties could be the same as the NCS of the receiving company. This situation is particularly common in Hong Kong and China given the persuasiveness of related party relationships among state-owned enterprises.
   (b) Identifying related party relationships under IAS 24 *Related Party Disclosures* could be challenging in some cases, particularly when companies have complex business structures or arrangements involving various parties.

   Accordingly, one member recommends that the IASB remove the related party exception so the optional exemption would also apply to related parties.

<u>Optional exemption</u>

10. AOSSG members expressed mixed views regarding the optional exemption. Some members support the optional exemption for the cost-benefit considerations as stated in paragraph 2.41 of the DP. Other members expressed concerns on the following potential challenges of applying the optional exemption:

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[1] https://www.ifrs.org/content/dam/ifrs/meetings/2020/february/iasb/ap23b-bcucc.pdf

(a) NCS may not always have the knowledge and competency to understand different types of measurement methods, and so may not understand the consequences of their decisions and whether or not they should object to the use of a book-value method.
(b) Because this optional exemption is applied on a transaction-by-transaction basis and driven by the decision of the NCS, different measurement methods could be applied in similar transactions. This would impair the comparability of financial statements.
(c) The accounting for BCUCC would change whenever a NCS raises an objection to the use of a book-value method at any time. For example, a NCS can raise an objection even when the financial statements have already been prepared and are ready for issuance. This could lead to significant changes to the information presented in the financial statements and delay publication.
(d) Permitting the receiving company to use the optional exemption based on the agreement of the NCS might create structuring opportunities. For example, the NCS could decide to agree or disagree with the use of a book-value method in order to achieve intended accounting outcomes.
(e) The NCS opt-out mechanism should not be analogized to the consolidation exemption in paragraph 4(a)(i) of IFRS 10 *Consolidated Financial Statements* as they are used in different contexts. The consolidation exemption in IFRS 10 affects the presentation of financial statements, whereas the optional exemption affects the measurement method for a BCUCC.

11. In view of the above concerns, one member recommends that the IASB further explore and understand the practical challenges with implementing this proposal. Another member considers that the above challenges would be exacerbated if the receiving company has a large number of widely dispersed NCS or when the composition of the NCS changes regularly. Accordingly, this member recommends that the IASB add guidance in the final Standard to explain that the optional exemption is most likely to be suitable in situations where the number of NCS is small and/or the NCS are relatively sophisticated investors who understand the difference between the acquisition method and a book-value method. This could help prevent the receiving companies from attempting to apply the optional exemption when the costs of doing so would exceed its benefits.

Applying the acquisition method (refer to DP Question 5)

12. Most AOSSG members either agree with or do not have strong views on the IASB's preliminary views and its rationale on how to apply the acquisition method to BCUCC. One of these members notes that following the IASB's preliminary views, the receiving company would recognise a contribution to equity when it underpays for a BCUCC. This is different from the acquisition method as set out in IFRS 3, where a gain from a bargain purchase is recognised in profit or loss. This member suggests that the IASB provide detailed explanation on the rationale of such difference to provide better clarity and understanding of the final Standard and IFRS 3.

13. Two members agree with the proposal of recognising a contribution to equity if the fair value of the identifiable assets and liabilities received exceeds the fair value of consideration paid ('underpayment'). However, they disagree with the IASB's preliminary

view that the receiving company should not be required to identify, measure and recognise a distribution from equity when the fair value of consideration paid exceeds the fair value of assets and liabilities received ('overpayment') for the following reasons:

(a) These members consider that an overpayment does not solely represent the synergies expected from the combination. It also represents a distribution from the controlling party, and any synergies or internally generated goodwill that already existed within the combining companies before the BCUCC. In the context of BCUCC where the controlling party does not change before and after the combination, including an overpayment within goodwill would not be consistent with the requirements in IAS 1.106(d)(iii) and IAS 38.48. In addition, such treatment may not provide useful information to users as the nature of goodwill arising from a BCUCC could be different from that of a business combination within the scope of IFRS 3. On this same point, another member suggests that the IASB clarify whether it has considered the interaction and possible inconsistency with IAS 38.48.

(b) The DP proposes that the receiving company recognises a contribution to equity in the case of an underpayment but is not required to recognise a distribution from equity in the case of an overpayment. These two different accounting treatments may lead to asymmetry, which may confuse users.

14. One member disagrees with the proposals on how to apply the acquisition method to BCUCC. This member considers that:

(a) whether a transaction is an equity transaction should be determined based on the nature/economic substance of the transaction and who the counterparty is; it should not be determined based on the amount of consideration paid.

(b) IAS 24 acknowledges that the prices paid for related party transactions may be different from those paid in arm's length transactions. However, IAS 24 does not require different accounting for related party transactions but only requires additional disclosures.

15. Another member notes that respondents in its jurisdiction have diverse views on the application of the acquisition method. Some respondents support the IASB's preliminary views. Some respondents consider that the receiving company should also recognise a distribution from equity in the case of an overpayment because BCUCC are similar to transactions with owners acting in their capacity as owners. Some respondents support applying the acquisition method in IFRS 3 without modification because they consider that modification would increase complexity.

Applying a book-value method (refer to DP Questions 6 - 10)

Measuring assets and liabilities received

16. AOSSG members express mixed views on the IASB's preliminary views of using the transferred company's book values to measure assets and liabilities received when applying a book-value method.

17. Some members agree with the IASB's preliminary views and its rationale of using the transferred company's book values.

18. Another group of members consider that there are situations where using the controlling party's book values would better reflect the economic substance of the transactions and mitigate structuring opportunities. For example,
    (a) This could be the case when the BCUCC occurs immediately after a recent external acquisition, i.e. the controlling party acquired the transferred company from an external party and shortly after the acquisition, sold it to another group company. In such case, some members consider that the BCUCC seems to be an extra step in the acquisition of the transferred company from the external party. The receiving company could have acquired the transferred company directly from the external party, rather than through the controlling party. Accordingly, some members consider that in such situations, the receiving company should recognise the assets and liabilities received using the controlling party's book values.
    (b) Consider a scenario where the controlling party acquired several transferred companies from external parties and in doing so recognised goodwill and intangible assets in its consolidated financial statements. Subsequently, the controlling party set up a new investment holding company (Interco) and directed Interco to acquire the transferred companies. Applying the IASB's preliminary views, Interco would be able to 'reset' the book values of the transferred companies without having to recognise the goodwill and intangible assets, and potentially any associated impairment losses. In this case, the consolidated financial statements of Interco (i.e. the receiving company) represent a continuation of the financial statements of the controlling party, and so the controlling party's book values should be used.

    In light of the above, these members recommend that the IASB provide an accounting policy option for companies to use the controlling party's book values when using such an approach would provide useful information, and require companies to disclose which book values they have used.

    One of these members also suggests considering whether, in situations where the transferred company does not prepare IFRS financial statements, the receiving company should be allowed to recognise the assets and liabilities received using the controlling party's book values. If the IASB decides not to allow this, this member recommends that the IASB provide guidance on how to apply a book-value method in such situations.

19. One member disagrees with the IASB's preliminary view and suggests using <u>only</u> the controlling party's book values to measure the assets and liabilities received for the following reasons:
    (a) Applying the IASB's preliminary views may increase structuring opportunities. Similar to the scenarios described in paragraph 18 above, a receiving company can initiate and conduct a BCUCC through its controlling party so that the goodwill, intangible assets and relevant assets appreciation of the transferred company arising from an external acquisition are not reflected in the consolidated financial statements of the receiving company. When the receiving company disposes the transferred company to a third party subsequently, it can recognise a larger gain on disposal.

(b) Using the transferred company's book values would not provide useful information to the controlling party and would increase the costs of the controlling party to prepare its consolidated financial statements.

20. Another member also disagrees with the IASB's preliminary views and considers that the receiving company should be permitted to use either the transferred company's book values or the transferring company's book values for the following reasons:
   (a) Using the transferred company's book values would faithfully represent the nature of the BCUCC from the perspective of the receiving company. On the other hand, from the perspective of the controlling party, the values of the assets and liabilities transferred didn't change, and so using the transferring company's book values would be more appropriate. This member considers that limiting the receiving company to either one of the book values may pose practical application issues, e,g. when the receiving company has no access to the transferring company's book values.
   (b) The cost of using the controlling party's book values is generally higher than that of the transferred company's book values because the receiving company usually does not know the controlling party's book values.

Pre-combination information

21. AOSSG members express mixed views on the IASB's preliminary view that requires the receiving company to present only the pre-combination information of the receiving company (i.e. without restating pre-combination information) when applying a book-value method.

22. Some members agree with the IASB's preliminary view and its rationale of not restating the pre-combination information when applying a book-value method. In particular, these members are concerned that applying the retrospective approach would provide a picture of a group in a period when the group did not exist, and therefore consider it inappropriate to include such information in the primary financial statements.

23. Other members do not agree with the IASB's preliminary views for the following reasons:
   (a) Applying the IASB's preliminary views, the presentation of pre-combination information would solely depend on how the BCUCC is legally structured. This would result in different pre-combination information presented for economically similar transactions, which in turn would reduce comparability. In addition, questions also arise as to how to apply the IASB's preliminary views to cases where it is economically unclear who the receiving company is, e.g. a merger of two equals/ legal amalgamations.
   (b) Restated pre-combination information could be useful to users of financial statements, especially for IPO cases. Unlike business combinations within the scope of IFRS 3, BCUCC undertaken for the purpose of IPO are often internal group restructurings. Restating pre-combination information in such cases would meet the information needs of potential investors because it provides evidence of management's track record of the listing group as a whole, which helps potential investors to perform trend analysis and assess the prospects for future cash flows to

the listing group and management's stewardship of the listing group's economic resources.

(c) Capital market regulators often require listing applicants to provide restated pre-combination information in their financial statements for the purpose of IPO. One member notes that such requirement has existed in its jurisdiction for many years, and is considered to be useful, effective and essential by investors for making investment decisions, and by regulators for assessing the suitability of applicants for listing. This member considers that if the IASB were to prohibit the presentation of restated pre-combination information in the financial statements, this would necessarily result in other parties such as capital market regulators setting relevant requirements, e.g. to have such information presented as pro forma information in IPO prospectuses. This would impair the quality and completeness of information presented under IFRS. Also were regulators to require restated pre-combination information to be presented as pro forma information in IPO prospectuses, they would also likely require such information to be audited, which would not be optimal from a cost and efficiency perspective.

(d) In cases where the controlling party sets up a new investment holding company (newco) as the receiving company to acquire its subsidiaries, the newco is arguably a continuation of the controlling party, and therefore it would be appropriate to restate the pre-combination information.

(e) The issue of pre-combination information is only a presentation matter. It does not affect the recognition and measurement of the combined entity at the combination date or subsequently. Therefore, the IASB should not prohibit companies from restating pre-combination information when companies are willing to do so to meet their users' information needs.

Given the above, two members recommend that the IASB provide an accounting policy choice for companies to choose whether to restate pre-combination information in their primary financial statements to cater for the information needs of potential investors and regulators. Another member suggests that the IASB allow companies to disclose restated pre-combination information in the notes to the financial statements.

24. One member notes that the DP does not specify whether the receiving company should recognise the transferred company's equity reserves of other comprehensive income (OCI) when applying a book-value method to BCUCC prospectively. This member suggests that the IASB clarify how the transferred company's OCI, e.g. property, plant and equipment revaluation reserves and cash flow hedge reserves, should be accounted for in the receiving company's consolidated financial statements at the combination date.

<u>Recognising the difference in equity</u>

25. The majority of AOSSG members agree with the IASB's preliminary views that the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received, and that the IASB should not prescribe in which component, or components, of equity the receiving company should present this difference.

26. One member suggests that the IASB specify the location of presenting this difference in the financial statements, such as retained earnings or share premium, to ensure consistency and comparability.

Recognising the transaction costs as an expense

27. The majority of AOSSG members agree with the IASB's preliminary views of recognising the transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments are accounted for in accordance with the applicable IFRS Standards.

28. However, two members do not agree with the IASB's preliminary views.
    (a) One of these members considers that if the receiving company were to apply a book-value method to BCUCC following the IASB's preliminary views on selecting the measurement method, the nature of such transaction would not be similar to that of a business combination within the scope of IFRS 3. Therefore, the accounting for transaction costs should not be analogized to IFRS 3 in such cases. Also, under a book-value method, the entire BCUCC transaction could be viewed as a transaction with owners acting in their capacity as owners, and hence it is an equity transaction. Accordingly, this member considers that the receiving company should recognise the transaction costs applying the relevant applicable IFRS Standards that are related to equity transactions.
    (b) Another member considers that the objective of purchase price allocation in IFRS 3 is to allocate the total consideration to assets acquired and liabilities assumed in a business combination, and this forms the historical costs of those assets and liabilities. According to paragraph 6.5 of *Conceptual Framework for Financial Reporting,* the historical cost of an asset comprises the consideration paid to acquire the asset plus transaction costs. This concept would also apply to a book-value method and therefore, the transaction costs should be included in the acquisition cost.

Measuring the consideration paid

29. The majority of AOSSG members agree with the IASB's preliminary views as set out in paragraph 4.43 of the DP.

30. However, one member notes that there is diversity in practice in how consideration paid in own shares is measured, e.g. at fair value or par value. Accordingly, this member suggests that the IASB specify how the receiving company should measure the consideration paid in own shares when applying a book-value method to enhance consistency and comparability.

31. Another member suggests that the IASB provide guidance on the accounting for BCUCC when no consideration is paid. Specifically, for accounting purposes, whether such consideration is considered to be nil, measured at the net assets acquired or measured on another basis (e.g. based on the underlying substance of the overall arrangement).

Disclosure requirements (refer to DP Questions 11-12)

32. The majority of AOSSG members agree with the IASB's preliminary views as set out in paragraphs 5.12 and 5.28 of the DP regarding the disclosure requirements for BCUCC.

33. However, one member expresses the following concerns about the disclosures on the subsequent performance of acquisitions and expected synergies as proposed in the IASB's Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*, noting that these concerns would also apply when applying the acquisition method to BCUCC.
    (a) The subjective nature of the disclosures on the subsequent performance of acquisitions may lead to ineffective disclosures in the financial statements, and these disclosures may be challenging to audit. Furthermore, disclosures about synergies may be based on information that lacks accuracy and completeness.
    (b) The cost of preparing the disclosures and having them audited would significantly increase costs for preparers of financial statements, and this member is not convinced that these costs are outweighed by the possible benefits of the disclosures.
    (c) There is a risk that the proposed disclosures would be provided in such a generic way so as not to be useful to investors (for example, due to concerns about commercial sensitivity).
    (d) While the Goodwill and Impairment DP proposes relatively extensive disclosures in relation to business acquisitions, this member notes that no such disclosures are proposed in relation to organic growth, which may be equally as significant to the entity and of as much interest to investors as growth through business acquisitions. Arguably, it would be beneficial for investors to understand how successfully management is running the business as a whole and creating value for investors – be it through acquisitions or organic growth.

~ End ~