

COMMENTS TO DISCUSSION PAPER OF ACCOUNTING FOR BUSINESS COMBINATIONS UNDER COMMON CONTROL

1.1 Do you think that the concerns have been accurately described in relation to the issues arising from accounting for BCUCC transactions?

We agree that there is a diversity of accounting treatments for BCUCC among entities and countries since the accounting treatment of Business Combinations under Common Control is not yet established in IFRS. The application of hierarchy set out in IAS 8 can lead to different outcomes depending on the judgment of each entity which makes enforcement difficult or even impossible. Therefore, we believe that consistency in this issue is nowadays in jeopardy since entities can apply different accounting treatments to similar transactions.

1.2 In your experience what approaches are typically applied by preparers in practice for BCUCC transactions and what justification is provided to support their application?

Since we are not responsible for the enforcement of IFRS Financial Statements, we do not have a large experience in the approaches that are typically used in BCUCC transactions. Nevertheless, from our knowledge, the accounting methods that are more frequently used are the pooling of interest and the acquisition method. There are two different views concerning the application of both methods since IFRS 3 scope's out these transactions: there are entities that consider that IFRS 3 can be applied by analogy and others that claim that FAS 141 (R) and US GAAP — 805 should be applied and consequently the pooling of interest method should be used.

Some entities refer that since there is not a standard directly applicable, IAS 8 #10-12 is applied. Consequently, as said in IAS 8, before departing to other GAAP, accounting literature or practice, the management using his judgment, have to analyze what standards on IFRS can be applied. By doing so, some defend that the application of IFRS 3 is possible by analogy.

On the other hand, it can be argued that, since the IFRS 3 scopes out common control transactions even with the resource to hierarchy set out in IAS 8, IFRS 3 cannot be applied. This issue is not a matter of omission of the standards or IFRS 3 in particular. In the scope of IFRS 3 it is clear that these transactions are scoped out, this means that IASB decided intentionally that these BCUCC should not be treated as BC as defined in IFRS 3, so some argue that IFRS 3 cannot be used on these transactions.

Nevertheless, it can also be argued that, although IFRS 3 cannot be used by analogy, nothing prohibits the acquisition method set out in the standard to be used *per se* using the resource of the practice and accounting literature also set out in IAS 8.12.

In both cases it is consensual that, once the policy is established by the issuer, the same policy has to be applied prospectively and consistently.

2.1 Are there any issues not included in the scope of the DP that, in your view, need to be addressed in developing an approach to accounting for BCUCC in the consolidated financial statements of the transferee?

No

2.2 Do you believe that there are any specific issues that need to be addressed in the initial recognition and measurement of BCUCC in the separate and individual financial statements? If so, please explain what those issues are and how they should be addressed.

No, although we agree that in many jurisdictions separate and individual accounts have different users and different purposes both sets of financial statements can have similar accounting treatments regarding initial recognition and measurement of business combinations under common control.

2.3 Are there any specific issues you think need to be addressed when considering what information about BCUCC should be disclosed in the notes to the financial statements of the transferee?

Although this subject has not been fully discussed internally, we believe that disclosures shall be robust enough to guaranty that all users of financial statements can understand the economic substance of the transactions and their impact. To guaranty that those transactions and economic substance are understandable, disclosures regarding the policies chosen, the judgments applied, the principal assumptions used and the impact that these transactions shall be mandatory in the financial statements of the transferee.

3.1 Do you agree that an important step is to understand how the information needs of users may be affected by the BCUCC transaction? If not, why not and what alternative do you suggest?

Yes, we agree.

3.2 It is noted above that the analysis in this DP is from the perspective of the transferee (entity perspective) as opposed to the perspective of the owners (proprietary perspective). Do you agree that to be consistent with existing IFRS the entity perspective should be dominant when considering BCUCC? If not, why not?

Yes, we agree.

3.3 Do you agree with applying the "logic" of the IAS 8 hierarchy in developing an approach to accounting for BCUCC transactions? If not, what alternative would you propose and how would you reconcile that approach with existing IFRS?

We agree with the logic that was set out in the DP. We believe that using IAS 8 hierarchy can be a starting point. In this perspective, before depart to other GAAP or accounting practice, the current applicable standards shall be analyzed searching for a possible analogy.

IFRS 3 should be the first standard to be analyzed because it treats BC. However, we believe that, before reaching to conclusions regarding the possible application of a standard, the

possible differences between both types of transactions (BC vs BCUCC) should be taken into consideration.

However, in the case of lack of economic substance of BCUCC IFRS 3 may not be applied and the acquisition method may not be used, so the departure to other method may be necessary.

3.4 Do you agree that if and when an analogy to IFRS 3 is considered to apply it is appropriate to assume that fair value at initial recognition provides information that is more decision-useful than values based on previously recognised amounts or any other measurement attribute? If not, please explain why?

Yes, we agree.

3.5 Do you agree that if and when the analogy to IFRS 3 does not apply, defining an appropriate measurement attribute should be guided by an analysis of the information needs of users?

Yes, we agree.

4.1 Do you agree with the main features of a BCUCC identified above? If not, what other features would you highlight?

Yes, we agree.

4.2 It is noted above that BCUCC can be substantially different in nature from business combinations between unrelated parties. Do you agree that a BCUCC can be different to a business combination under IFRS 3? If so describe examples you have encountered in practice that verifies this. If not, please explain why?

We agree that BCUCC can be different from a business combination under IFRS 3. In IFRS 3 there is a presumption that the transaction occurs on arm's length with unrelated parties and that may not be the case in BCUCC, since the owners in both entities may be acting in their capacity of owners.

4.3 Do you agree with the analysis that has been performed in relation to the information needs of users? If not, why not?

Yes, we agree

4.4 Do you think that with BCUCC it may be difficult some circumstances to identify an acquirer (View A) or do you believe that an acquirer can always be identified (View B)?

We believe that it may be difficult in some circumstances to identify the acquirer (View A) but that difficulty also occurs in Business Combinations under IFRS 3, so we do not consider this specific problem relevant to establish a difference between BC under IFRS 3 and BCUCC.

4.5 If you believe that an acquirer can always be identified, do you think that an analogy to IFRS 3 is not valid because the ultimate parent entity can direct the identification of an

acquirer so that the accounting outcome is not a faithful representation of the underlying transaction?

N/A

4.6 Do you agree with the analysis above that under IFRS 10 “control” should be assessed from the perspective of the reporting entity and not from that of the ultimate parent entity? If not, why not?

We agree that the definition of control established in IFRS 10 should be assessed from the perspective of the reporting entity and not from the perspective of the ultimate parent entity.

4.7 Do you agree that the definition of a “business” in IFRS 3 raises no particular issues for BCUCC? If not, why not?

We believe that the definition of business as described in IFRS 3 does not raise particular issues for BCUCC, so we think that the same definition can be applicable to BCUCC.

4.8 Do you think the absence of a market based transaction can have consequences when applying the recognition principle in IFRS 3 because of a lack of measurement reliability? If so, do you agree with the analysis? If not, why not?

We think that the recognition principle set out in IFRS 3 is not affected if there is an independent valuation of the business performed based on level 3 of fair value hierarchy, i.e. taking in consideration the use of unobservable inputs or level 2 of fair value hierarchy when there is recourse to observable inputs. If there is no independent valuation involved to establish the fair value, the absence of a market transaction may affect the reliability principle set out in IFRS 3.

4.9 Do you think it is appropriate to apply the *measurement principle* in IFRS 3 to BCUCC when the analogy to IFRS 3 is valid? If not, why not?

Yes we think that it is appropriate to apply the measurement principle set out in IFRS 3 when the analogy is valid.

5.1 Do you believe that the transaction price should be referenced against the fair value of the business acquired and bifurcated (when the transaction price exceeds the fair value of the business acquired) if the transaction price does not reflect a proxy for fair value? This ensures the BCUCC transaction reflects two transactions: a) a contribution from (distribution to) the ultimate parent entity, and b) a business combination.

In our opinion IFRS 3 can only be applied by analogy if the transaction has economic substance from the perspective of transferee, if that is the case, the transaction price should be re-measured based on fair value and BCUCC should reflect two transactions, the BC and a contribution from the ultimate parent.

5.2 Do you believe that goodwill and/or identifiable intangible assets should not be recognised in the balance sheet of the acquirer on the basis that they cannot be reliably measured?

If the transaction has economic substance and IFRS 3 can be analogized then goodwill and intangible assets should be recognized in the balance sheet of the acquirer, based on the fact that from the transferee perspective there is a probability that future economic benefits attributable to the assets will flow to the entity.

5.3 Do you believe that where the consideration transferred is lower than the fair value of the net assets acquired, the difference should reflect a contribution from the ultimate parent entity or recognised as income?

It should be recognized as a contribution of the ultimate parent, even if the transaction can be analogized with IFRS 3.

5.4 Do you think that the BCUCC should be viewed as a 'transfer' of a business rather than an acquisition of a business when the analogy to IFRS 3 can never be applied?

If IFRS 3 can never be applied by analogy, we believe that the transaction should be recognized as a transfer of a business rather than as an acquisition of a business.

5.5 Do you believe that all the arguments and views presented are valid when it is not appropriate to apply an analogy to IFRS 3?

We believe that the economic substance of the BC should be taken into account in the perspective of the transferee. If there is no economic substance of the BCUCC and the BC only happens according to the controlling parent purpose, then the costs assessing the fair value measurement of both (or the transferred entity) can exceed the benefits associated with the transaction.

5.6 Do you agree that the approaches outlined in Appendix 3 are unlikely to result in decision-useful information? If not, why not?

We believe that amend the business combination definition to test commercial or economic substance may be a solution to deal with the particularities of these transactions. The solution can be set two different accounting treatments, as for example IAS 40, according to the absence or not of economic substance of the BCUCC. This solution is not going to solve totally the problem of comparability of BCUCC in the financial statements of entities and countries, but it can provide a solution and more reliable information than propose a single method to all BCUCC disregarding the possible differences and important features in each BCUCC.

5.7 Do you believe that the diversity in the information needs of users when compared to a business combination and the cost constraint in financial reporting provide justification to consider whether or not the recognition and measurement principle in IFRS 3 are appropriate when accounting for BCUCC?

Yes, we do.

5.8 Do you believe that all the arguments presented in relation to view three are valid or are there others that you would consider?

We believe that all the arguments presented are valid.