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PDC n°40

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Discussion Paper DP|2020|2—*Business Combinations under Common Control*

Dear Andreas,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned Discussion Paper (DP).

ANC supports the Board's initiative to undertake a project to deal with the accounting for business combinations under common control (BCUCCs). We observe that such business combinations can have a material effect on entities affected and there is diversity in reporting practices in this respect. We also note the accounting for such business combinations has been subject to long-standing discussions. Accordingly, we think it is now time for the IASB (Board) to research this matter and develop adequate requirements. We also support extending the project's scope to transactions often refered to as 'group restructurings' even though those transactions do not formally meet the definition of a business combination in IFRS 3 *Business Combinations*.

Selecting the measurement method (acquisition and book-value method)

ANC acknowledges that BCUCCs may have different features which may justify considering different measurement methods. However, we disagree with the thought process retained in this DP. We think the Board's preliminary view is actually predicated upon the assumption that the acquisition method should, in principle, apply to BCUCCs. The Board concluded, in our view, that the book-value method would apply, by default, in the circumstances in which the acquisition method would either be difficult or too costly to apply. We think this way of developing proposals for BCUCCs is not conceptually satisfactory because it does not sufficiently investigate the 'substance' of BCUCCs. In our view, the 'substance' should be assessed in the particular context of common control which is characterised by (i) the absence of 'free will' of the receiving company—this affects the financial consequences of the combination—and (ii) the fact that the reorganised activities may have already been largely integrated from both operational and financial perspectives prior to the combination. We acknowledge that the presence of non-controlling shareholders in the receiving company may be considered as an indicator of substance. However, this cannot be the only 'bifurcation criterion' and we think that other factors than those considered in the DP should be further investigated. Accordingly, we suggest the Board reconsider its preliminary views in the DP and identify other indicators of substance. In particular, we encourage the Board to research further this matter by better understanding the various purposes of BCUCCs, the rationales for the measurement bases retained and then assess whether other bifurcation criteria can be identified and applied consistently.

Notwithstanding our disagreement with the preliminary approach retained for selecting the measurement method applying to BCUCCs, we have 'stressed tested' the Board's preliminary views that are summarised in Diagram IN.2 of the DP. We have reservations about the operability of some of the Board's proposals. We also think the Board should develop further the existing definition of a 'public market'. We consider the identification of a measurement method should rely on robust bifurcation criteria to avoid significant application difficulties, interpretations or counterintuitive accounting outcomes. We acknowledge that the Board's preliminary views need to be further refined considering the nature of the consultation document. However, at this stage, we observe that some of the Board's proposals lack clarity and could be subject to significant misinterpretations. We have identified in our anwers to questions 2 and 3 matters that should warrant further research from the Board or have made suggestions to improve the Board's preliminary views (see paragraphs 25–50, 54, 56–57, 59 of Appendix A to this letter).

Applying the acquisition method

ANC supports the objective of applying the requirements in IFRS 3 to BCUCCs to which the acquisition method would apply. However, we have the following observations:

- we disagree with the Board's preliminary view whereby 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. We acknowledge that any such excess might include a contribution to equity. However, in our view, the circumstances in which such excess would arise may be infrequent. We consider that any 'negative goodwill' would more frequently arise from the existence of (i) loss-making transferred activities or (ii) assets acquired or liabilities assumed measured at an amount that is not their value at the acquisition date. Therefore we are not convinced that the Board should depart from the requirements in IFRS 3 in this respect (see paragraphs 67–72 of Appendix A).
- we think the existing disclosure requirements in IFRS 3 and IAS 24 *Related Party Disclosures* already provide useful information to users and consequently that the Board does not need to develop additional disclosure requirements. Consistent with our views on the 2020 Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (2020 DP), we disagree with the Board's preliminary view to require entities to disclose information about the acquiree's subsequent performance along the lines of the Board's proposals in the 2020 DP (see paragraphs 115–119 of Appendix A).

Applying the book-value method

ANC observes there is no strong case for measuring the assets and liabilities received using either the transferred company's or the controlling party's book values—each approach has its own merits. We think the Board should undertake further outreach before making any decision in this respect (see paragraphs 74–85 of Appendix A).

Similarly, we think that the approach whereby the receiving company would include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date may not be justified in all circumstances—restating pre-combination information may also be justified in some circumstances. Here again, each approach may be relevant for the receiving company's users and satisfy the cost-benefit trade-off. Accordingly, we suggest the Board identify the scenarios for which each approach would best satisfy the information needs of the receiving company's users (see paragraphs 103–114 of Appendix A).

ANC generally agrees with the other Board's preliminary views about how to apply the book-value method. We have nonetheless the following remarks:

- measuring the consideration paid in assets at the receiving company's book value would require amending the relevant IFRS Standards. This may have unintended consequences (see paragraphs 88–90 of Appendix A).
- we are leaning towards the Board's preliminary view whereby an entity should recognise transaction costs as an expense in the period in which they are incurred, on the grounds that such costs are incurred as part of a transaction that is separate from the acquisition. However, there are alternative arguments that might support presenting those costs in equity. We recommend the Board consider those arguments before confirming its preliminary view (see paragraphs 97–102 of Appendix A).

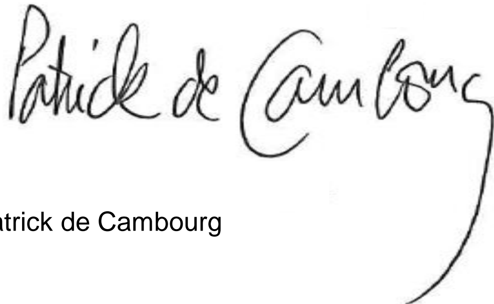
Other points for the Board's consideration

If the Board were to proceed with its preliminary views, we encourage the Board to consider the two following matters:

- convergence with US GAAP: we note that ASC 805 *Business Combinations* includes requirements for common control transactions. Those requirements substantially do not align with the Board's preliminary views. We generally think that convergence with US GAAP is desirable but is not essential when setting IFRS requirements. Nonetheless, we encourage the Board to consider in its future deliberations whether the proposals it may develop could result in significant level playing field issues.
- transition requirements for any Board's final proposals: we encourage the Board to carefully consider such requirements. In our view, the costs of requiring retrospective application for past BCUCCs may exceed the benefits of that application.

Should you need any further information, please do not hesitate to contact me.

Yours sincerely,



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APPENDIX A

Question 1—Project Scope
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 tranfers 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?

1. ANC welcomes the Board's initiative to undertake a research project on BCUCCs and agrees that such an initiative would help reduce diversity in practice and would provide users of the receiving company's financial statements with more useful information.
2. ANC agrees in principle with the Board's preliminary view on the scope of the project. ANC also agrees that the project should also include group restructurings that involve the transfer of a business under common control but do not meet the definition of a business combinations in IFRS 3. We consider that excluding such transactions from the scope of the project would be counterproductive because they present analogies to some BCUCCs which would be similar in substance but structured differently.
3. We nonetheless identified situations which, in our view, warrant further clarifications from the Board:
   a. for example, the project is only considering the transfers of businesses under common control. This raises the question as to whether the transfer of an ownership interest in an entity under common control which on its own does not constitute a transfer of a business from the transferor's perspective is also in the scope of the project. We think the assessment should be performed from the receiving company's perspective and such type of transfer should be in the scope of the project (see Example 1 in Appendix B). However, we suggest the Board clarify this point if it were to develop an Exposure Draft.
   b. we also seek clarifications about another situation in which two unrelated joint venturers A and B hold each an ownership interest of 50% in two joint ventures JV 1 and JV 2 (see Example 2 in Appendix B). Both joint venturers decide to combine their respective ownership interests in JV 1 and JV 2 into a newco which, after the transaction, owns 100% of JV 1 and JV 2. We think this transaction would fall within the scope of the DP—this is because the controlling party is composed of the joint venturers A and B (i) acting in concert as a single controlling party as a result of a contractual arrangement and (ii) controlling altogether all the combining companies before and after the combination. However, we suggest the Board clarify whether it aimed to include such type of transaction within the scope of the project. Otherwise, we recommend the Board explain the reasons for not extending the scope of the project to this type of business combinations.
4. Notwithstanding our overall agreement with the proposed scope, we have concerns about :
   a. transfer of business under common control involving a newco (shell company) as the receiving entity (see paragraphs 5–8 below); and
   b. the lack of developments in relation to transitory control (see paragraphs 9–11 below).

Transfer of business under common control involving a newco (shell company) as the receiving entity

5. We fear that the proposed approach might lead to structuring opportunities, which, in turn, would result in inappropriate accounting outcomes.
6. For example, considering Example 3 in Appendix B to the DP when a business is transferred to a newly established company (a newco), applying the proposed approach in the DP, the book-value method would be applied to the transfer of the business—this is because there are no non-controlling shareholders in the newco.
7. An alternative to this scenario could be that non-controlling shareholders acquire limited interest in the newco with the commitment to object to the optional exemption from the acquisition method specified in paragraph 2.42 of the DP. In those circumstances, is the Board's intention to permit the application of the acquisition method based on the prevalence of the legal approach with the receiving company being the accounting acquirer? If so, we question the appropriateness of the 'business revaluation' that would result from such an approach (see also our request for clarifications on 'receiving company' in paragraphs 36–45 below).

8. If it is not the Board's intention, we suggest the Board clarify that point. We propose that a first step should be to assess whether there is a business combination as defined in IFRS 3, taking into consideration the clarifications that the IFRS Interpretations Committee made in the past and that apply when activities are transferred to a newco. If the transfer of activities to a newco under common control is just a continuation of the preceding entity, we suggest this not be considered a business combinations and, therefore, that any final IFRS Standard set out specific requirements.

The lack of reference to transitory control

9. We note that the Board proposes to change the definition of a BCUCC by removing the reference to 'transitory control' that exists in IFRS 3[1]. We appreciate the Board aims to simplify the accounting for BCUCCs and group restructurings. That being said, we note the Board has not explained why it tentatively decided to remove this reference. We also have concerns about the possible consequences of such removal because it can significantly affect the accounting outcome and may also create incentives for structuring opportunities.

10. For example, an investment fund may create a newco to acquire a subsidiary from a non-related existing group. Newco will account for the acquisition of the transferred subsidiary in accordance with IFRS 3 (acquisition method) in its consolidated financial statements on the basis that newco is in effect an extension of the investment fund acting at its direction to obtain control of the subsidiary. An alternative to this scenario could be that the selling group establishes the newco on behalf of the investment fund and transfers the subsidiary to it. The transfer of the subsidiary to newco is conditional on the sale of the latter to the investment fund that indirectly obtains control of the subsidiary. Applying the preliminary view in the DP, newco would account for the acquisition applying the book-value method. Whereas, both transactions present similarities, the accounting for the subsidiary in the consolidated financial statements of newco could differ significantly depending on whether the transfer of the subsidiary to newco occurs before or after newco is controlled by the investment fund.

11. Therefore, we suggest the Board perform additional outreach activities before going forward with respect to this specific feature that may affect a large number of BCUCCs.

Question 2—Selecting the measurement method
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?

ANC's understanding of the Board's preliminary views

12. As explained in paragraph 2.16 of the DP, the Board holds the preliminary view that BCUCCs '*always have economic substance for the receiving company because the receiving company gains control of a business that it did not control before the combination, just as occurs in a business combination covered by IFRS 3*'.

13. The Board then identified two broad categories of BCUCCs:

    a. combinations in which the receiving company has non-controlling shareholders. For such combinations, the Board thinks they have a substantive effect on both the receiving company and its shareholders and thus, are similar to the business combinations to which IFRS 3 applies. The Board

[1] Paragraph B1 of IFRS 3 states a '*business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, <u>and that control is not transitory</u>*' (emphasis added). In contrast, Appendix A to the DP defines a business combination under common control as '*a business combination in which all of the combining companies or businesses are ultimately controlled by the same party, both before and after the combination*'.

also thinks the composition of users who rely on the receiving company's financial statements for meeting their information needs about the combination is also similar to the composition of users in a business combination covered by IFRS 3. Consequently, the Board concluded that, in principle, the acquisition method should be applied to such BCUCCs, subject to the cost-benefit trade-off and other practical considerations.

b. combinations in which the receiving company has no non-controlling shareholders. In paragraphs 2.24–2.32 of the DP, the Board analysed the practical difficulties, together with the costs and benefits, of applying the acquisition method to such combinations. Further to this analysis, the Board concluded that a book-value method should apply to those combinations.

14. Accordingly, the Board concluded that neither the acquisition method nor a book-value method should be applied to all BCUCCs.

General considerations

15. ANC disagrees with the thought process outlined in paragraphs 12–14 above. We think the Board's preliminary view is actually predicated upon the assumption that the acquisition method should, in principle, apply to BCUCCs. The Board concluded, in our view, that the book-value method would apply, by default, in the circumstances in which the acquisition method would either be difficult or too costly to apply.

16. In our view, this thought process does not sufficiently investigate the 'substance' of BCUCCs.

17. We disagree with the view that BCUCCs always have substance. Some may have, to some extent, an economic substance while others are only group restructurings without any economic substance. On this basis, we think that, in principle, different types of transactions could justify selecting different measurement methods.

18. We think further analysis is needed before concluding that a specific criterion should prevail. We acknowledge that the presence of non-controlling shareholders in the receiving company may be considered as an indicator of substance. However, this cannot be the only 'bifurcation criterion' and we think that other factors than those considered in paragraphs 2.18 and 2.19 of DP should be further investigated.

19. For example, we think that (i) the fact that all BCUCCs are directed by the ultimate controlling party is essential and (ii) the absence of free negotiation between two or more non-related willing parties should also be taken into account in the Board's reflections to determine the most appropriate measurement method. We observe that the absence of 'free will' about the opportunity to effect the combination or the terms of the transaction ineluctably affects the financial consequences of such a transaction from the receiving company's perspective.

20. We acknowledge that some BCUCCs are driven by operational considerations or reorganisation objectives which could support the view that the combination significantly affects the receiving company's non-controlling shareholders. That being said, other BCUCCs only consist in legally reorganising activities that were already largely integrated from an operational and financial perspective. In the latter case, the legal transfer of the transferree's activities will not affect how the respective businesses of the receiving company and the transferee were operated. Applying the book-value method in those circumstances would be relevant because the transfer is not affecting the operations in terms of business purpose or value creation.

21. We also have concerns about the operability of the proposed bifurcation criterion (see below needs for clarification). As currently described, this criterion—that is essential in the analysis because it leads to two differing measurement methods—is insufficiently robust and reliable to avoid significant application difficulties, interpretations or counterintuitive accounting outcomes.

22. As explained in paragraph 17, we think that only some BCUCCs have substance. All of our stakeholders agree on this. This could, in principle, justify apply differing measurement methods to BCUCCs. That being said, there are mixed views among our stakeholders on whether differing measurement methods should be applied in practice.

23. A number of our stakeholders think that BCUCCs have differing economic substances, which, in turn, justify applying either the acquisition method or the book-value method. However, they recommend the Board perform additional outreach to identify a more relevant set of bifurcation criteria.

24. In constrast, a number of other stakeholders think it would be too difficult to identify criteria distinguishing both types of BUCCs. They also think no criterion would ensure an objective and workable dividing line. Therefore, these stakeholders support applying, by default, the book-value to all BCUCCs. Those stakeholders also see the following merits in applying the book-value to all BCUCCs:

a. is less costly in terms of resources for preparers;

b. provides financial information independently of the identification of the acquirer;

c. maintains continuity in the valuation of assets and liabilities of the transferred business; and

d. is consistent with US GAAP.

Needs for clarification and points of attention

25. As mentioned in paragraph 21 above, we have identified areas where the proposed bifurcation criterion––ie assessing whether the combination affect non-controlling shareholders of the receiving company—lacks clarity and could be subject to misinterpretations.

- ***How should the term 'affect' be assessed?***

26. We think the term 'affect' is unclear and could be understood in different ways. The DP, itself, could give rise to differing readings in this respect. For example, the second sentence of paragraph 2.17 of the DP[2] implies that the mere presence of NCS in the receiving company is sufficient to conclude that the receiving company's NCS are affected. In constrast, the third sentence of that paragraph 2.17 states that the '*…non-controlling shareholders acquire an ownership interest in those economic resources that they did not previously have*'.

27. This lack of clarity could lead to differing accounting outcomes. Let's consider Example 3 in Appendix B to this letter. G, a parent entity, controls two entities F1 and F2. Those entities have two NCS. F2 obtains control of F1. The business combination does not alter the ownership interests of each NCS in F2. In this example, it could be argued that the combination:

    a. does not affect the NCS of F2. This would be because the NCS of F2 have ultimately not acquired any ownership interest in F1. This would also be consistent with the staff view expressed during the January 2021 webinar when discussing a similar case in the Q&A session. Accordingly, applying the Board's preliminary views, the book-value method would apply to this combination.

    b. does affect the NCS of F2. This would be because F2 has NCS before the combination. Accordingly, applying the Board's preliminary views, the acquisition method would apply to this combination.

28. We acknowledge the example above might be uncommon. Nevertheless it shows that risks of possible structuring opportunities prior to the combination exist to obtain a specific accounting outcome. Accordingly, we recommend the Board better define the meaning of 'affect NCS'.

- ***Issues related to the notion of 'non-controlling shareholders'***

29. We note the DP uses the concept of NCS instead of non-controlling interests (NCI). IFRS 10 *Consolidated Financial Statements* and IFRS 3 retain the concept of NCI which is defined as '*the equity in a subsidiary not attributable, directly or indirectly to a parent*'. Appendix A to the DP defines NCS as '*shareholders other than the controlling party*' with the word 'shareholders' referring for simplicity to all holders of the company's equity instruments, as defined in IAS 32 *Financial Instruments: Presentation*.

30. Although both definitions look similar, we have reservations about introducing a new concept if that concept does not aim to introduce a significant difference with the existing definition of NCI.

31. With respect to the definition of NCS, we note the first part of the definition refers to the legal notion of a shareholder whereas the second part refers to the accounting concept in IAS 32. This raises the question of the scope of this definition and whether less 'plain vanilla' financial instruments that meet the definition of equity instruments in accordance with IAS 32 (such as warrants, non-redeemable preferred shares, perpetual bonds, members' shares) would also be taken into account when assessing whether the transaction affects NCS.

32. We understand the Board will consider the implication of more complex instruments in the next phase of the project. However, the lack of clarifications in the DP about how such instruments will ultimately affect the project is, in our view, a matter of concern.

33. ANC identified two examples where the uncertainty around the definition of NCS could affect the selection of the measurement method.

34. In the first example, the receiving company has issued a put option over the NCS. The put option is at fixed price and 'immunises' the NCS from any downside that could affect the value of their interest in the receiving company. Applying IAS 32, the NCI have been reclassified from equity to liability in the receiving

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[2] Paragraph 2.17 states : '*In addition, some business combinations under common control result in a change in the ultimate ownership interests in the economic resources transferred in the combination, just as occurs in business combinations covered by IFRS 3. Specifically, this occurs when the receiving company has non-controlling shareholders. In those circumstances, those non-controlling shareholders acquire an ownership interest in those economic resources that they did not previously have, whereas the ownership interest of the controlling party in those economic resources is reduced. Hence, such a business combination under common control has a substantive effect on both the receiving company and its shareholders and is not a mere reallocation of economic resources within the group*'.

company's financial statements. Considering that the receiving company has no NCS from an accounting perspective, it could be argued that the book-value method should be retained—NCS would not be affected by the combination if they are not reflected in the the receiving company's financial statements. Another approach could also be to assess that the terms of the put option do not expose the NCS to any risk of loss and, accordingly, that the transaction does not 'affect' them.

35. In the second example, the receiving company has issued an equity instrument to a non-related party which takes the form of a preferred share redeemable at its nominal value at the issuer's discretion (the receiving company) and for which the coupon is a percentage of the instrument's nominal value. It is assumed that the instrument meets the definition of an equity instrument in IAS 32—therefore the instrument is presented as NCI in the receiving company's financial statements. In that example, it could be argued that:

    a. the transaction does not affect the holder of the instrument (the NCS) because its proportionate share in the net assets is unchanged (ie it has not acquired an ownership interest in the economic resources transferred as a result of the combination). In this case, the book-value method would apply to the transfer of the business.

    b. the economic interest held by the NCS would be affected to some extent because the transaction affects the receiving company's capacity to generate future cash flows and to create value. In this case, the acquisition method would apply.

- ***Clarifications about the 'receiving company'***

36. Appendix A to the DP defines the receiving company as '*the company to which control of a company (or business) is transferred*'. Appendix A to IFRS 3 defines the acquirer in a business combination as '*the entity that obtains control of the acquiree*'—the acquiree being defined as '*the business or businesses that the acquirer obtains control of in a business combination*'.

37. We note the definitions of a receiving company and of an acquirer are not identical. The use of dissimilar definitions raises uncertainty about the Board's intentions. Accordingly, we seek clarifications in this respect.

38. That being said, we have assessed the Board's proposals by considering possible views with regard to the alignement between both definitions. We used Example 4 in Appendix B to this letter to support our analysis below.

    - <u>View 1—The definition of the receiving entity is aligned with the definition of the acquirer as defined in IFRS 3.</u>

39. Under this view, determining the receiving company would require first to apply the guidance of the acquisition method on identifying the acquirer. On the basis of the facts and circumstances in Example 4, applying that guidance[3] would result in Entity F1 being identified as the acquirer and therefore the receiving company.

40. As this view assumes that the accounting acquirer is also the receiving entity for applying the Board's preliminary views in the DP and since Entity F1 has no NCS, the book-value method would apply to the business combination. This would result in:

    a. the measurement of Entity F1's assets and liabilities being unaffected by the combination (except for any journal entry directly related to the combination itself); and

    b. the measurement of Entity F2's assets and liabilities being kept at their historical value.

41. This view illustrates what, we think, are significant limitations :

    a. equating both definitions would result in a circular thought-process in which identifying whether the acquisition method or the book-value method ultimately applies to the combination would depend, as a first step, on the concepts in IFRS 3 on which the acquisition method relies. We view this as being counter-intuitive.

    b. the outcome falls short of the Board's expectations. We think the Board's would expect the acquisition method to result in Entity F1's assets and liabilities being remeasured at fair value. This is because the combination affects Entity F2's NCS and not applying the acquisition method to Entity F1's assets and liabilities would not satisfy those NCS' information needs.

[3] In the scenario set out in the Example 4 the accounting acquirer is the legal transferee, ie Entity F1, because (i) its relative size is significantly greater than the legal receiving company and (ii) the governing body of the new group is mainly composed of former members of the transferred company.

- View 2—The definition of the receiving entity is not aligned with the definition of the acquirer as defined in IFRS 3; the receiving entity is the legal acquirer.

42. Applying this view, the receiving entity is the legal acquirer, ie Entity F2 in Example 4. Applying the Board's preliminary views in the DP, the acquisition method would apply to the combination—this is because F2 has NCS[4] that have been affected by the combination.

43. Applying the acquisition method[5], Entity F1 would be, here again, identified as the acquirer for accounting purpose and the guidance on the reverse acquisition would be required to be applied. This would result in:

    a. the measurement of Entity F1's assets and liabilities at their pre-combination carrying amount (being unaffected by the combination); and

    b. entity F2's assets and liabilities being remeasured at fair value—this is because F2 is the acquiree for accounting purpose.

44. Here again, the outcome falls short of the Board's expectations. As explained in paragraph 41 above, we think the Board's would expect the acquisition method to result in Entity F1's assets and liabilities being remeasured at fair value. However, applying the reverse accounting would result in Entity F2's assets and liabilities being remeasured at fair value—this does not tally with the information needs of F2's NCS.

45. View 1 and View 2 above illustrate that the Board's preliminary views would not align, for this specific fact pattern, with users' information needs. Consequently, we recommend the Board consider further this matter when assessing the relevance of its preliminary views. A possible approach for the Board to meet those needs would be to (i) consider that the receiving entity is the legal acquirer and (ii) adjust the requirements in IFRS 3 to avoid applying the requirements on reverse acquisition. We doubt whether this would be a satisfactory standard-setting approach because it would specify differing requirements for reverse acquisitions.

- ***Multiple 'receiving companies'***

46. In our view, the Board should also clarify how the decision tree would apply when the receiving company includes several companies (the immediate receiving company and the parent companies that did not control the transferred business before the combination).

47. We have identified the challenges linked to this situation and have illustrated them in Example 5 in Appendix B to this letter.

48. In particular, we seek clarifications as to how the decision tree would apply in selecting the measurement method when financial statements are prepared at the level of the immediate receiving company and at the level of the parent company. Should the 'are NCS affected' criterion be assessed for both receiving companies altogether? For example, the fact that there are NCS irrespective of the level at which they are present, would require selecting the acquisition method for both sets of financial statements. We observe in this case that the measurement method applied would be consistent for the consolidated financial statements of each receiving company.

49. However, we recommend the Board provide further clarifications as to how to assess the other criteria related to the exception and/or exemption that may affect the assessment of the NCS. For example, what would be the consequences of NCS of the parent B of the immediate receiving company objecting to the use of the book-value method when considering the financial statements of the immediate receiving company D?

50. Alternatively, if the 'are NCS affected' criterion were to be assessed for each receiving company individually, we would have concerns about the possible burdensome changes arising from the use of differing measurement methods at each stage of the consolidation. Accordingly, we would recommend the Board develop practical expedients in this respect.

[4] We assume that the related-party exception and the optional exemption set out in the DP do not apply here.

[5] In this view, the acquisition is applied in its entirety. This contrasts with View 1 in which only the application guidance for identifying the acquirer is applied.

Question 3—Selecting the measurement method
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?

51. Notwithstanding comments and reservations about the starting point of the decision tree and how it would affect the selection of the measurement method, we have assessed the merits of the Board's preliminary views on the other aspects of the above-mentioned decision tree.

Question 3 a.—Should the Board require the acquisition method when the receiving company's shares are traded in a public market?

52. We agree this requirement builts on a concept that already exists in IFRS Standards[6]. We support an approach relying on an existing concept rather than introducing new concepts or conditions which might raise new interpretative issues.

53. However, we recommend the Board clarify the meaning of 'traded in a public market' and 'publicly traded' because the selection of the measurement method will significantly depend on that criterion. We acknowledge the existing IFRS literature already refers to the definition of 'traded in a public market' as proposed in the DP but we think this definition lacks clarity, may (i) lead to differing interpretations and eventually (ii) produce differing outcomes in selecting the measurement method.

54. We agree with the Board's preliminary view to the extent that the Board's intention with respect to the scope of NCS is to include all types of equity instruments. As explained in question 2, we think that holders of some equity instruments traded in public markets may not be affected by the combination. In such a case, we would see arguments for not requiring the application of the acquisition method.

Question 3 b. i.—Should the Board permit to use a book-value method when the receiving company's shares are privately held and when the receiving company 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)?

55. We welcome this exemption to the acquisition method because the book-value method is less costly to apply and still provides useful information to other users of receiving company's financial statements (ie potential shareholders and lenders).

56. We agree this exemption should be workable in practice and would satisfy the cost-benefit balance. However, we suggest some application guidance be provided in a manner that would avoid situations in which a unique NCS, representing a negligible portion of interests in the receiving company's equity, could impose the use of the acquisition method.

57. Furthermore, we do believe that how NCS will be defined should be taken into consideration because the boundaries of this new concept may have unintended consequences on how the above exemption will ultimately work. For example, if the concept is extended to a notion that is similar to NCI, this would mean that any holder of an equity instrument (which applying IAS 32 could include warrants, options, preferred

[6] It is also embedded in the definition of 'public accountability' in *IFRS for SMEs*.

shares, etc) of the receiving company, could potentially object. We emphasise this may increase the complexity and applicability of the process. We therefore suggest the Board take into account this potential issue and assess whether NCS that should be considered in assessing the applicability of this exemption should be restricted for example to those that give right to a present ownership interest in the receiving company.

Question 3 b. ii.— Should the Board require a book-value method when the receiving company's shares are privately held and when all receiving company's non-controlling shareholders are related parties of the company (the related-party exception to the acquisition method)?

58. We agree that, if all of the receiving company's NCS are related parties, they may not need to rely on its financial statements for their information needs. We also concur with the fact that requiring the book-value method in those circumstances would prevent opportunities to structure the combination for the sole purpose of qualifying for the acquisition method.

59. We draw the Board's attention to the fact that situations in which only some of the NCS would be related parties may be rather common. Related parties may not need to rely on the receiving company's financial statements. Thus, we think such NCS should be excluded when considering the exemption process and suggest that step 4 of decision tree be amended with the following wording: '*Has the receiving company chosen to use a book-value method, and have its non-controlling shareholders except related parties not objected?*'

Question 4—Selecting the measurement method
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?

60. We agree with the Board's preliminary view that the exemption and the exception should respectively not be available for, or apply to, publicly traded receiving companies.

61. With respect to the exception, we are unaware of market regulations that would authorise all NCS of the receiving company being related parties. Thus, we have not identified any need for the exception to apply to publicly traded companies.

Question 5—Applying the acquisition method
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?

Question 5 a.—Should the Board 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?

62. ANC concurs with the Board's preliminary view not to develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a BCUCC.
63. ANC agrees that the existence of a common control situation may imply that the consideration paid might differ from an arm's length price. Consequently, without any adjustment, the amount of goodwill recognised might include an additional component that could be considered as a distribution.
64. However, ANC observes that legal requirements in many jurisdictions exist and protect NCS' interests. Accordingly, ANC expects that the circumstances in which distributions would occur to be rare and thus, should not warrant any further standard-setting developments.
65. Additionally, ANC has not identified new compelling arguments that would change the Board's conclusion in IFRS 3 whereby identifying and quantifying an overpayment at the acquisition date may be difficult—if not impossible.
66. Accordingly, ANC supports the simplification objective of the proposal to align the accounting treatment with the existing requirements in IFRS 3—ie any overpayment is initially included in goodwill and subsequently addressed through subsequent testing for impairment.

Question 5 b.—Should the Board 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?

67. Mixed views exist in this respect.
68. Some of ANC's stakeholders agree with the Board's preliminary view on the basis that the controlling party initiated the combination and set the transaction price. They also consider that the combination includes, to some extent, a transaction with shareholders that should be recognised as an equity transaction.
69. Conversely, other stakeholders disagree with the Board's preliminary view. They challenge the Board's conclusion in paragraph 3.19 of the DP which refers to paragraph 3.6. They observe that paragraph 3.6 of the DP accurately explains that a contribution to equity arises when the consideration paid is lower than the consideration that would have been paid in an arm's length transaction. However, those stakeholders note that any difference between the fair value of (i) the consideration transferred and (ii) the identifiable assets acquired and liabilities assumed may not be limited to a shareholders' contribution—any such difference could arguably include a bargain gain that should not be presented in equity.
70. Those stakeholders agree that a bargain gain under common control is expected to arise unfrequently and would be practically difficult to identify. However, they outline that a 'negative goodwill' component may arise frequently because (i) the transferred entity incurs loss-making activities for which no liability can be

recognised at the acquisition date, or (ii) some of the assets acquired or liabilities assumed are measured at an amount that is not their fair value at the acquisition date—this is because IFRS 3 includes measurement exceptions[7]. In those circumstances, IFRS 3 requires a gain to be recognised in profit or loss. Those stakeholders finally consider that the controlling party is unlikely to transfer resources to an entity with NCS for an amount that does not reflect the fair amount of those resources. Therefore, they think any difference between the fair value of the identifiable assets acquired and liabilities assumed over the fair value of consideration paid should be recognised as a gain in profit or loss. Such a gain could be disclosed in the notes as resulting from a transaction within the group.

71. Having considered the views described above, on balance, ANC disagrees with Board's preliminary view to recognise any excess fair value of the identifiable assets acquired and liabilities assumed over the consideration paid as a contribution to equity—ANC has not identified any compelling reason for departing from the requirements in IFRS 3 in this respect.

72. ANC acknowledges that the accounting for the transaction as a contribution to equity may have some merits. However, ANC thinks that (i) the circumstances in which a controlling party transfers economic resources to NCS for an amount that is less than its fair value are infrequent, (ii) the primary reasons for a BCUCC are not driven by opportunistic profit presentation in the receiving company's financial statements and (iii) it would not be relevant to create a misalignment with the requirements in IFRS 3 when combinations are similar (paragraph 3.2 of the DP).

Question 5 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?

73. ANC identified the following matters that should warrant further consideration from the Board :

    a. paragraph 15 of IFRS 3 requires an entity to classify or designate the identifiable assets acquired and liabilities assumed on the basis of the contractual terms and economic conditions as they exist at the date of acquisition. This requirement may lead to revisions to the classification and measurement of the transferred entity's financial assets and liabilities at the acquisition date if conditions have changed as a result of the acquisition. ANC thinks that reassessing the classification and designation of assets and liabilities could significantly affect the group's financial reporting for items that, in ANC's view, have not changed. ANC does not have feedback from stakeholders on this matter given the low prevalence of BCUCCs measured with the acquisition method in France and therefore suggests the Board clarify the prevalence and materiality of this matter in outreach with jurisdictions where BCUCCs frequently occur.

    b. the combining entities may have significant pre-existing relationships mainly because they belong to the same group. The receiving company will be required to apply the requirements in paragraphs 51–52 of IFRS 3 to distinguish the amounts that are not part of the exchange for the acquiree. This means (i) identifying any amounts that are not part of what the receiving company and the transferred company (or the transferor) exchanged in the business combination and (ii) accounting for those amounts in accordance with the relevant IFRS Standards. ANC notes that applying those requirements could result in recognising 'Day 1' gains or losses in the receiving entity's statement of profit or loss. Should the Board confirm its preliminary view to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, ANC suggests the Board clarify whether the fact that the transaction is effected under common control would affect how pre-existing relationships should be accounted for.

[7] Paragraphs 24–31A of IFRS 3 specify the types of identifiable assets and liabilities that include items for which this IFRS provides limited exceptions to the fair value measurement and require that those assets or liabilities be measured in accordance with other applicable IFRS. For example deferred tax assets are measured in accordance with IAS 12 *Income Taxes*, if it is probable that they will be recovered, without taking into consideration the time value of money and the various scenarios of recoverability.

Question 6—Applying a book-value method
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?

74. ANC has considered the potential outcomes of each approach trying to identify which one would be the most relevant and ensuring the lowest cost-benefit ratio. At this stage, a majority of ANC's stakeholders lean towards retaining the controlling party's method and observe this approach is the prevailing method in France. That being said, they keep their mind open to the merits of the alternative method.

Arguments supporting the use of the transferred company's book values

75. Some of ANC's stakeholders support the use of the transferred company's book values because such a method would provide:

    a. uninterrupted historical information about the transferred company—this could be useful to users when analysing trends and forecasting future performance; and

    b. similar information about assets and liabilities of the combining companies, irrespective of how the combination is structured. Thus, this would avoid the need to rely on identification of an acquirer as outlined in paragraph 4.12 (c) of the DP.

76. Those stakeholders agree that the controlling party's book values may provide users with a more recent valuation of assets acquired and liabilities assumed. However they note this valuation does not necessarily reflect those assets and liabilities' fair value at the combination date and thus, could be outdated.

Arguments supporting the use of the controlling party's book values

77. A majority of ANC's stakeholders support the use of the controlling party's book-value because it:

    a. provides with a more recent valuation of the assets acquired and liabilities assumed;

    b. enables to achieve a stability in the presentation of the transferred values at all levels of the consolidation process—this ensures those using the financial statements of both the controlling and the receiving entities receive consistent information over time; and

    c. is a less costly solution when the transferred company has never prepared its financial statements in accordance with IFRS Standards.

78. Those stakeholders are not convinced by the Board's preliminary view as set out in paragraph 4.12(b) of the DP whereby the use of controlling party's book values would be less appropriate because the controlling party is not a party to the combination. This statement could be considered as true in some circumstances or from a purely legal perspective. However, this statement negates the fact that the controlling party initiated the combination and decided on all the combination's terms and conditions. ANC also highlights the fact that the controlling entity happens to directly hold the transferred company before the transfer, thus leaving the controlling party in a situation in which it is legally a party to the combination.

79. From a practical perspective, those stakeholders say that measuring the assets and liabilities transferred using their book values as reported in the controlling party's financial statements would reduce the implementation costs. The use of the transferred company's book values would require the transferred company to prepare its financial statements in accordance with IFRS Standards. However, in a number BCUCCs, the transferred company does not prepare financial statements in accordance with IFRS Standards. Applying the Board's preliminary view, the transferred company would be required to first adopt IFRS Standards and apply IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. The resulting transition process to IFRS would:

    a. result in additional implementation costs and could negatively affect the cost/benefit balance,

    b. raise the question of transferee's status. Whereas a first-time adopter would apply all the requirements in IFRS 1, the transition to IFRS for the transferee would require the Board to develop specific application guidance, resulting in unforeseen risks and a potential conflict with IFRS 1.

80. As a final note, those stakeholders think that retaining the transferred company's book values would raise additional questions when the transferee controls one or more other entities—ie the transferee is a sub-group of the controlling party.

81. In those circumstances, and if the transferee prepares consolidated financial statements, questions may arise as to whether the transferee's assets and liabilities should :

    a. be measured using their book value in (i) the separate financial statements of each subsidiary composing the sub-group, or alternatively, (ii) the transferee's consolidated financial statements.

    b. also include assets (such as goodwill, indemnification assets) and liabilities (such as contingent liabilities) that were recognised further to past business combinations applying IFRS 3—such as assets and liabilities being not recognised in the separate financial statements of each individual entity of the sub-group transferred.

82. Additionally there are questions about how the Board's preliminary view would apply when the transferee does not prepare consolidated financial statements.

ANC's conclusion

83. ANC recommends the Board perform additional research activities before making any decision in this respect.

84. In the light of the arguments and observations set out above, ANC thinks that both methods have their own merits and may provide useful financial information to users in specific facts and circumstances. Consequently, ANC recommends the Board perform additional research activities before making any final decision in this respect.

85. Should the Board confirm its preliminary view, ANC suggests the Board develop specific application guidance on how the receiving company should convert the non-IFRS values of the transferred company's assets and liabilities into IFRS.

Question 7—Applying a book-value method
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?

Question 7 a.—Should the Board prescribe requirement on how the consideration paid in own shares should be measured?

86. ANC agrees with the Board's preliminary view not to prescribe how the receiving company should measure the consideration paid in its own shares for the reasons set out in paragraphs 4.25–4.27 of the DP, ie:

    a. the measurement approach retained would not affect the receiving company's net equity after the combination has occurred as illustrated in Diagram 4.3 of the DP. The final net increase in the receiving company's equity is the same irrespective of whether the shares issued are measured at par value or at fair value; and

    b. local regulations often affect the measurement of shares issued.

87. ANC also agrees that IFRS Standards do not generally prescribe the reporting of components within a reporting company's equity. Accordingly, ANC sees no compelling reason to specify any exception in this respect.

Question 7 b. i.—Should consideration paid in assets be measured at the receiving company's book values of those assets at the combination date?

88. ANC's stakeholders acknowledge the consistency of measuring the assets transferred at the receiving company's book value with the overall principle of the book-value method. However, they have concerns about the unintended consequences that such a proposal could have as to the application of IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IFRS 15 *Revenue from Contracts with*

Customers or IFRS 9 *Financial Instruments* (when the assets transferred meet the definition of a financial instrument). This is because developing the Board's preliminary's view would necessitate amending the scope of the aforementioned IFRS Standards to explicitly exclude the disposals of assets when the transfer is performed within the context of a BCUCC.

89. ANC recommends the Board analyse all possible effects of the consequential amendments to the above-mentioned IFRS Standards before making any decision. ANC thinks such analysis would be essential because such amendments could pave the way for extending the present discussion on exchange transactions of assets under common control.

90. ANC thinks the alternative approach that would consist in measuring the assets transferred at fair value, is more consistent with the requirements in existing IFRS Standards. ANC considers that such an approach would not result in any significant measurement uncertainty. We acknowledge that fair value measurement could be costly to apply but think (i) it would not be out of the entity's reach and (ii) the same issue arises when the transaction occurs between unrelated parties. We also consider that users (such as lenders and potential shareholders) together with the existing NCS—ie those that have not objected to the use of the book-value method—may be interested in this information because it reflects the (fair) value of the transferred business and, to some extent, its ability to generate future cash flows. In our view, users could consider that (i) measuring the transaction at fair value and (ii) recognising any gain or loss on an asset's disposal would result in more useful information.

Question 7 b. ii.—Should consideration paid by incurring or assuming liabilities be measured at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards?

91. ANC agrees with the Board's preliminary view to measure a liability assumed at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards and welcomes the simplification objective of the proposal.

Question 8—Applying a book-value method
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?

Question 8 a.—Should the difference between the consideration paid and the book-value of the assets and liabilities received be recognised within equity?

92. ANC agrees with the IASB's preliminary view that the difference between the consideration paid and the book value of the assets and liabilities received may include some or all of the following components:
    a. a difference with a transaction price that would have been paid in an arm's length transaction. Such a difference could arise frequently when the book-value method is applied because there is no non-controlling shareholder and there is usually no specific restriction under local jurisdiction to complete a transaction under those conditions,
    b. unrecognised goodwill whose value could be arbitrary,
    c. other differences arising from measuring assets and liabilities received at their book value rather than their respective fair value.

93. We also consider that identifying those components and allocating the difference above into each of those components in order to recognise them separately would be costly and would finally result in applying, to some extent, the acquisition method.

94. Therefore, we agree with the Board's preliminary view to recognise the difference in the receiving company's equity as if it were only a contribution to or a distribution from the receiving company's equity. We note this would be consistent with:
    a. the prevailing accounting practice; and
    b. with the requirements in paragraph 109 of IAS 1 explaining that transactions with owners in their capacity as owners (such as equity contributions, acquisitions of the entity's own equity instruments and dividends) are recognised as changes in an entity's equity.

Question 8 b.––Should the Board prescribe the components of equity in which to present the difference?

95. Paragraph 4.49 of the DP states that the presentation of components of equity often depends on requirements of local jurisdictions and that IFRS standards generally do not prescribe which component of equity should be presented for operations recognised in equity.

96. We agree with those considerations and consequently with the Board's preliminary view.

Question 9—Applying a book-value method—Reporting transaction costs
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?

97. ANC tentatively leans towards the Board's preliminary view that the receiving company should recognise transaction costs as an expense in profit or loss in the period in which such costs are incurred, with the exception of the costs of issuing shares or debt instruments accounted for in accordance with the applicable IFRS Standards.

98. This view is consistent with the requirements in IFRS 3. ANC's stakeholders observe that the nature of transaction costs is identical in a business combination to which IFRS 3 applies and in a BCUCC, regardless of the measurement basis applied to that BCUCC. They also note that IFRS 3 requires such costs to be presented in profit or loss because they are incurred as part of a separate transaction from the acquisition—the buyer pays for distinct services. Those stakeholders think this rationale is equally valid for BCUCC and thus, do not see any compelling reasons for departing from the requirements in IFRS 3.

99. Reporting transaction costs in profit or loss is also a common practice in a number of jurisdictions where the book-value method is applied.

100. ANC's stakeholders also emphasise that, from the controlling party's perspective, those costs cannot be related to an equity transaction in circumstances in which the combination does not change its ownership interest in the economic resources of the transferred company. Therefore, if the receiving company were to recognise transaction costs within equity, the controlling entity would have to restate that specific accounting treatment when preparing its own consolidated financial statements.

101. Some of ANC's stakeholders nonetheless think the Board could consider an alternative approach before confirming its preliminary view. They note the Board's preliminary view whereby the receiving company should recognise within equity any difference between the consideration paid and the book values of the assets and liabilities received when applying a book-value method to a BCUCC. Accordingly, in their view, there may be a valid case for considering that any transaction costs incurred as a result of that transaction should be reported in equity as well. This would be on the basis that paragraph 37 of IAS 32 specifies that '*the transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.*'

102. Therefore, we recommend the Board enhance the rationale supporting its preliminary view by considering the merits (and limitations) of the alternative approach and by considering the relevance and conceptual basis of each approach in the context of a common control situation.

Question 10—Applying a book-value method—Providing pre-combination information
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?

Cost-benefit analysis

103. ANC observes that the Board's preliminary view whereby the receiving company should combine the transferred company's assets, liabilities, income and expenses prospectively from the combination date is mainly predicated on cost-benefit considerations. ANC also notes that the Board's reasons for not retaining the retrospective approach is that (i) such an approach may be more costly to apply and (ii) the benefits of pre-combination information would be limited only to the financial statements for the period in which the combination occurs and the subsequent period.

104. ANC's preliminary analysis on the cost-benefit balance is that a 'one size fits all' approach would not work.

105. Some of ANC's stakeholders confirm that a retrospective approach would be burdensome to apply because it would require to carry out significant consolidation adjustments at different consolidation levels (for example by identifying and eliminating a number of intra-group transactions). They also think retrospective financial information might not always be readily available and would be difficult to reconstruct.

106. Conversely, some of ANC's stakeholders think that the transferred company's financial information is readily available for the receiving company. This is because the combining entities are part of the same group before the combination. For that same reason, reporting dates for both companies are expected to be the same in most cases. Those stakeholders also note that a prospective approach could also be burdensome to apply because combining the transferred company's assets, liabilities and profit or loss as from the date of combination would require the transferred company to prepare its financial position at that date—often called 'the opening balance sheet'. Alternatively, applying a retrospective approach would not require the preparation of such a specific financial position as the combination of the entities would be based on a financial information that is already prepared for the need of the ultimate parent company's consolidated financial statements.

Other observations

107. Paragraph 4.60 of the DP also refers to the views of many stakeholders whereby '*a retrospective approach would provide a picture of a group in a period when that group did not exist' (information often called 'pro forma' (or hypothetical information). Hence, in those stakeholders' view, it would be inappropriate to include such information in primary financial statements*.

108. Some of ANC's stakeholders disagree with that view.

109. They think that the concept of pro forma information might not be the same depending on the jurisdictions. In addition, they think that preparing such financial statements would mainly consist in combining information and amounts relating to transactions and events that actually occurred at the level of either the transferred company or the receiving company. Therefore, they consider that such information reflecting the new organisation still provides a relevant picture of the situation.

110. Those stakeholders also consider that applying the book-value method reflects the controlling party's continuing control of the combining companies. Therefore, they conclude that financial information should present the group's continuity and be prepared as if the companies had always been combined. The retrospective approach which best reflects this continuity would also meet the needs of users of the receiving company's financial statements by providing:

    a. trends for lenders to be able to assess the receiving company's repayment ability,

    b. the basis for existing and potential shareholders to project their assumptions of value creation.

111. ANC observes that, applying the Board's preliminary views, the book-value method would frequently apply to business combinations that are motivated by a reorganisation of activities in anticipation of (i) an IPO or (ii) a transaction with new shareholders. ANC notes that, in these situations, either jurisdictional regulation or any new potential shareholders would probably 'require' the newly combined entities to prepare a set of financial statements with pre-combination information reflecting the transaction as if the companies had always been combined. Therefore, in those circumstances, requiring the receiving company to account for the combination on a prospective basis would lead to the preparation of two sets of accounts and thus,

would result in increased implementation costs. Even though the Board's preliminary view would not preclude the need for the receiving company to disclose a pre-combination information prepared in accordance with the retrospective approach in the notes to its financial statements, some of ANC's stakeholders still consider that such a proposal would affect the cost/benefit balance.

112. Finally, ANC notes that how the controlling party redesigns its subsidiaries may significantly affect the financial information that will be produced. Because the prospective approach provides pre-combination information for the receiving company only, the financial information of the business combination will depend on the receiving company's identification. ANC agrees in this respect with the observations included in paragraph 4.59 of the DP.

ANC's conclusion

113. We recommend the Board not develop any general requirement with regard to the inclusion of the transferred company's financial statements in the receiving company's financial statements. We think such an inclusion either from the acquisition date onwards or on a retrospective basis depends on specific facts and circustamces. Accordingly, we recommend the Board undertake additional research to identify the sets circumstances in which each approach would best respond to users' needs.

114. We acknowledge the challenge of any such research. We also acknowledge that it might be difficult for the Board to define a dividing line between both approaches. If the Board's deliberations were to be inconclusive, we recommend the Board introduce a policy election. We agree any such election would not reduce diversity in practice but think it would have the merit to best satisfy the cost-benefit trade-off.

Question 11—Disclosure requirements
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?

Question 11 a.—Should the receiving company be required to comply with the disclosure requirements in IFRS 3, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*?

115. ANC agrees with the Board's preliminary view that the receiving company should be required to apply the disclosure requirements in IFRS 3, including any improvements resulting from the 2020 DP. ANC thinks that if the acquisition method is deemed to provide more relevant and useful information for some BCUCCs, then the disclosure requirements in IFRS 3 should apply to those BCUCCs.

116. With respect to the expected improvements, we would like to remind that, even though we were globally supportive of the Board's objective to develop disclosures about acquisitions, we expressed strong reservations about requiring entities to provide more information about acquisitions along the lines described in the 2020 DP.

117. In particular, paragraph 5.9 of the DP mentions information about expected synergies as possible improvement to the disclosures on business combinations—this would help users of the receiving company's financial statements to understand how the amount of the consideration paid was determined and whether it was reasonable. Whereas our comments did not aim at challenging all expected improvements to the disclosures requirements in IFRS 3, we highlight that disclosing expected synergies would raise questions about the reliability of the information disclosed and its commercial sensitivity.

Question 11 b.—Should the Board provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 when providing information about these combinations, particularly information about the terms of the combination?

118. We agree that IAS 24 also applies to BCUCCs and consider the combination of the disclosure requirements in IFRS 3 and IAS 24 already include appropriate application guidance about the nature and extent of the information that the receiving company would be expected to disclose. Therefore, we do not support the Board's preliminary view that it should provide specific application guidance particularly about the terms of the combination.

119. We also hold the view that any additional disclosure about the terms of the combination would provide details about legal environment framing the combination far beyond the general purpose of the financial statements described in paragraph 3.2 of the *Conceptual Framework for Financial Reporting*. Should the Board confirm its preliminary view, we suggest this information be located outside IFRS financial statements.

Question 12—Disclosure requirements
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?

120. ANC agrees with the Board's preliminary view that only some of the disclosure requirements in IFRS 3 would be appropriate when a book-value method applies.

121. However, ANC notes that the Board is suggesting to postpone the discussion on matters related to a business combination such as the accounting for step acquisition and pre-existing relationships. As mentioned above in our answers to questions 1 and 5, we are concerned that the Board did not address those issues when determining its preliminary views on how to apply the book-value method.

Question 12 a.—Are some, but not all, of the disclosure requirements in IFRS 3 Business Combinations, including any improvements to those requirements resulting from the 2020 DP, appropriate (as summarised in paragraphs 5.17 and 5.19 of the DP)?

122. ANC generally agrees that companies applying the book-value method should be required to disclose information listed in paragraph 5.19 of the DP.

123. ANC, nonetheless, questions whether the description of how the receiving company obtained control would be relevant. This is because (i) how the combination is structured is mainly driven by the ultimate controlling party and (ii) providing such an information would require to look beyond the legal structure of the transaction—this is what the Board rejected when it considered whether to develop application guidance on how to identify the receiving company when the book-value method is applied. Therefore, ANC recommends the Board not require any disclosure requirement in this respect.

124. ANC highlights that IAS 24 also applies to BCUCCs, including those to which the book-value method apply. Disclosure requirements of this IFRS Standard would be useful and should also be considered when applying the book-value method.

Question 12 b.—Should the Board require the disclosure of pre-combination information?

125. As noted in question 10, ANC's stakeholders observe that a number of transactions for which the book-value method would be applied are group restructurings ie transactions where entities under common control are combined by inserting a newco on the top. They think that in such cases, presenting the pre-combination information as if the combined companies had always been combined, would best satisfy the users' needs.

126. In the other circumstances, ANC would not object to the Board's preliminary view that it should not require the disclosure of pre-combination information.

Question 12 c.—Should the receiving company 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?

127. ANC concurs with the Board's preliminary view that this information could be useful for users of the financial statements of the receiving company. Particularly, we think that the disclosure of the component of equity that includes the difference is essential if users are not familiar with requirements of the receiving company's jurisdiction.

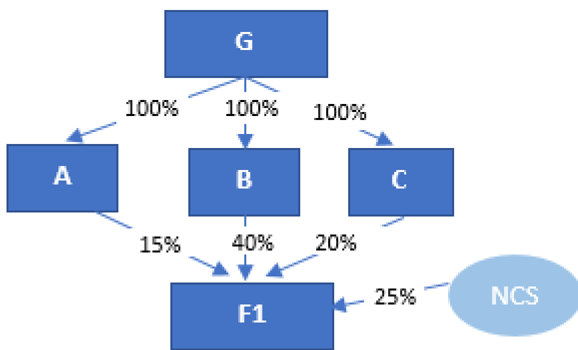
APPENDIX B

Application examples used by ANC task force

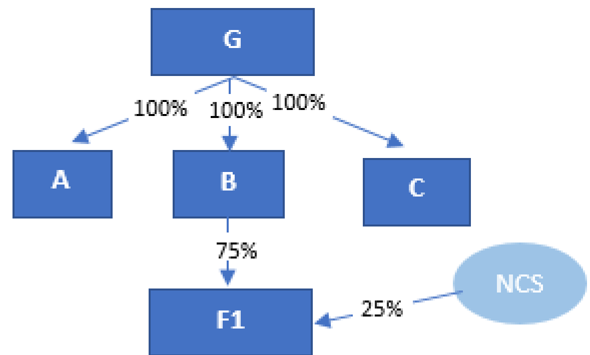
Example 1

As part of the streamlining of the holding patterns of its group subsidiaries, group G decided to transfer all of the shares it holds in its subsidiary F1 to its subsidiary B. F1's NCS are not related parties.

Before the combination



After the combination



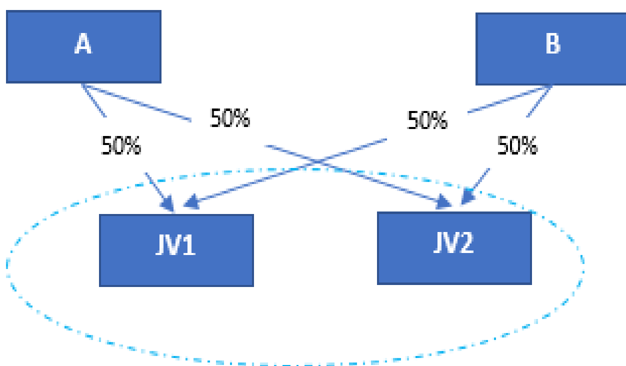
The transfer of F1's shares is not a transfer of a business from A and B's perspectives. Paragraph 1.15 of the DP states that '*all transactions being considered in the project involve the transfer of a business under common contro*l' and specifies that '*the transferred company must have a business for the transaction to be within the scope of the project. The project is not considering reporting requirements for other types of transactions under common control that do not involve the transfer of a business, for example, transfers of assets'.*

From the perspective of receiving company B, the transaction is a step acquisition of F1 with B obtaining control of a business. In our view, the transaction should be in the scope of the DP. Any clarification by the Board that would confirm this view would be welcome.

Example 2

A and B are not related parties and respectively hold an ownership interest in two joint ventures (JV1 and JV2). A and B decide to combine the activities of both joint ventures under a single entity (Newco) in order to optimise their operational activities. Newco presents consolidated accounts in accordance with IFRS Standards.

Before the combination



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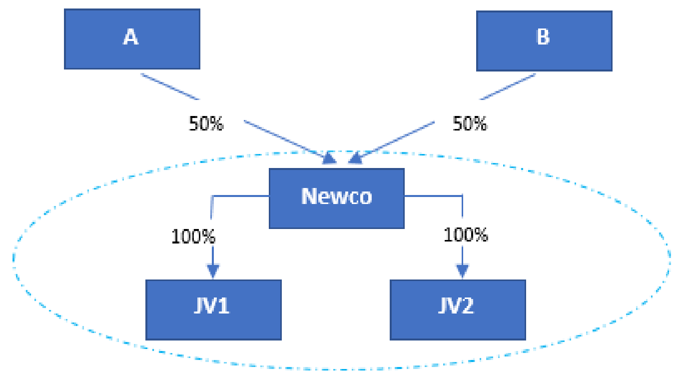
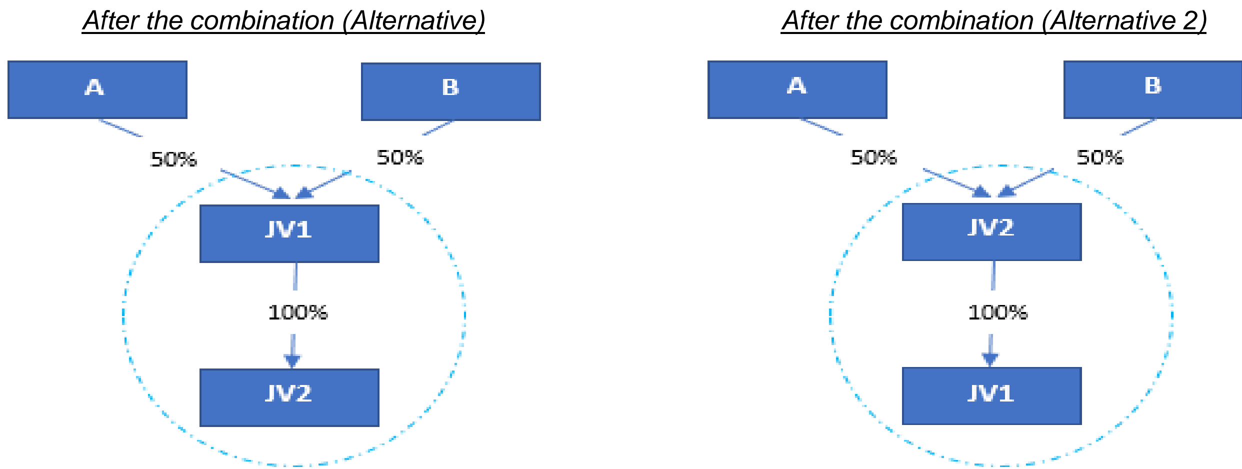




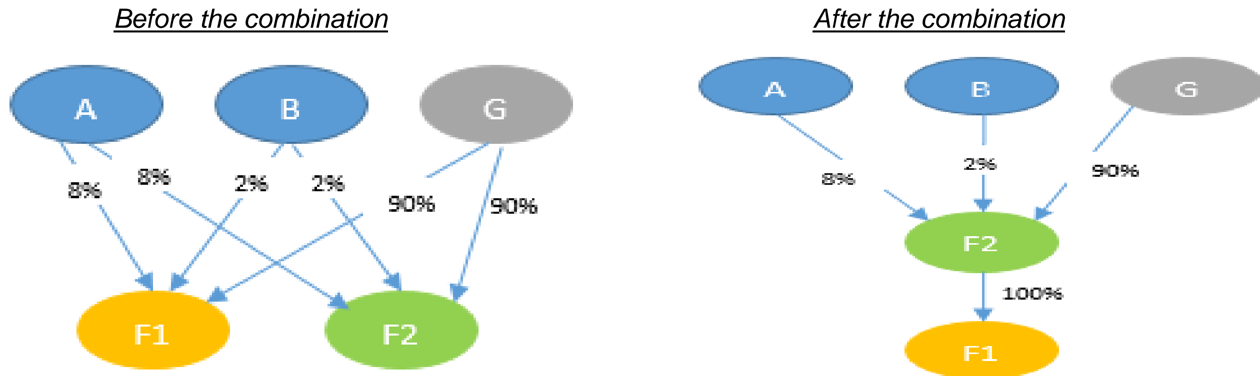
The DP defines the controlling party as '*the party or parties that control all of the combining companies both before and after a business combination under common control*' and states that it could be a company, an individual or, in specified circumstances, a group of individuals.

In that example, some could consider that A and B collectively control both JV1 and JV2 and that since they continue to collectively control JV1 and JV2 after the transaction, the combination would fall within the scope of the DP.

Example 3

F1 and F2 are two non-wholly owned subsidiary of group G. The NCS A and B hold exactly the same ownership interest in F1 and F2.

As part of the reorganisation of its group, G transfers F1 to F2 by contributing the shares of F1 to F2. F1's NCS also contributes its ownership interest in F1 to F2 so that their interest in F2 remains unchanged.



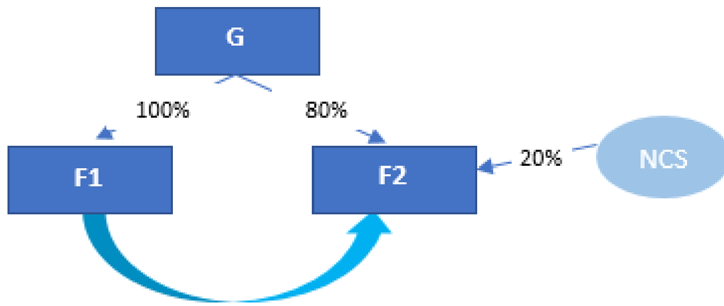
Since NCS in F2 are the same as those in F1 they are not, from an economic perspective, acquiring an ownership interest in the economic resources of company F1. Therefore, in our view and to the extent that the NCS of the receiving company F2 have not been affected by the transaction, the acquisition method should not be applied. Should our understanding be correct, we recommend the Board clarify the outcome of this example.

Example 4

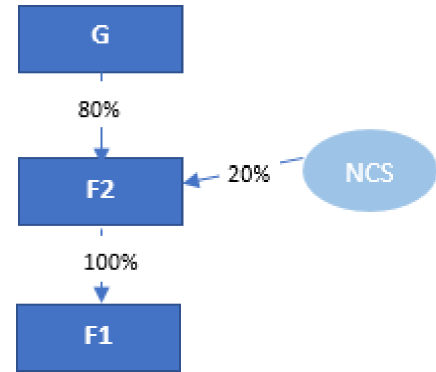
Group G decides to combine its 2 operational subsidiaries F1 and F2 (see diagram below), in order to increase the synergies generated by the combination of their activities. F1 and F2 have a business as defined in IFRS3. Owing to contractual or regulatory constraints with respect to F2, G structures the reorganisation by transferring F1's shares to F2.

F1's size (amounts of the assets and level of revenues and net income) is signficantly greater than that of F2. It is stated that the governance of the new combined activities will be composed by a majority of former members of F1's governing body. Those are pieces of evidence that the combination is a reverse acquisition. It is also indicated that F2's NCS are not related parties.

Before the combination



After the combination



Assuming that the receiving entity is the acquirer as defined in IFRS 3, the application guidance for identifying the acquirer in a business combination would first apply. It would lead to conclude that F1 is the acquirer—this is because it is a reverse acquisition. Thus, F1 is the receiving company. Then, applying the Board's preliminary views in the DP, the book-value would apply to the combination—this is because F1 has no NCS. Both F1's and F2's assets and liabilities would be maintained at their historical values.

Conversely, assuming that the receiving entity is the legal acquirer, the analysis would first consist in applying the Board's preliminary views. F2 would be identified as the receving entity. The acquisition method would then apply––this is because the combination affect F2's NCS. Applying the acquisition method, F1 would be the accounting acquirer and F2 the accounting acquiree. Consequently, the post-combination information would be presented as the continuation of F1's financial accounts with F1's assets and liabilities being measured at their pre-combination book-value and F2's assets and liabilities being remeasured at fair value.

Example 5

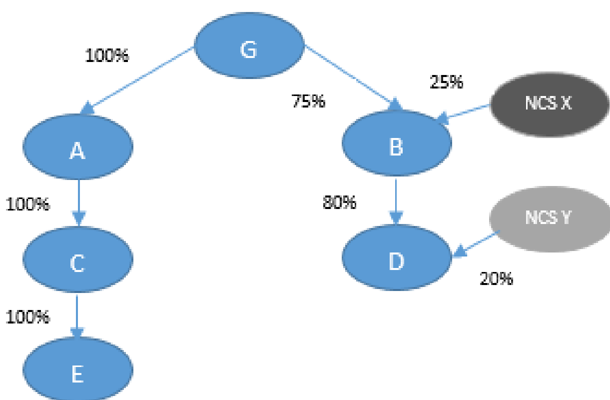
Companies A, B, C, D and E are all controlled by an ultimate parent, company G (see diagram below). Company E is transferred from C to D owned by an intermediate parent B.

Both B and D are receiving companies because they obtain control of E as a result of the combination.

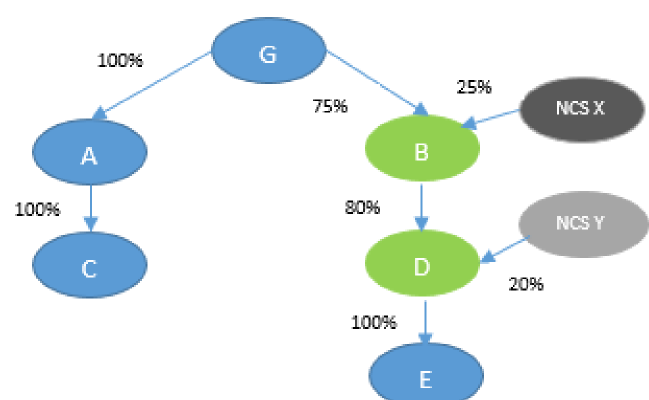
D's NCS (ie NCS Y) are affected by the combination, are not related parties and have objected to the use of the book-value method.

B's NCS (ie NC X) are affected by the combination, are not related parties and have not objected to the use of the book-value method.

Before the combination



After the combination



Question: How should B and D account for the combination in their consolidated financial statements?

- **View 1**: only D should be considered in the decision tree criteria being the immediate new parent of the transferred activity (the 'direct' receiving company in the transaction). Because NCS Y are affected by the combination and have objected to the use of book-value method, the acquisition method should be applied to all receiving companies ie D and B.

- **View 2**: only B should be considered in the decision tree criteria being the ultimate receiving company. Because NCS X did not object to the book-value method, this method should be applied to all the receiving companies. Question is raised about NCS Y's financial information needs when they could expect the acquisition method to be applied to D since they objected to the use of the book-value method.
- **View 3**: both B and D should be considered in the decision tree criteria and the analysis should be performed at each level of the acounting consolidation. Consequently, D would apply the acquisition method and B would apply the book-value method. This would result, from a consolidation process perspective, in B unwinding all the journal entries that D recorded in relation to the acquisition method. Accordigly, there are implementation costs resulting from the adjustments that consolidation teams would have to make in those circumstances.