



Mr. Andreas Barckow
IASB Chairman

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Re: Comments on DP *Business*
Combinations under Common Control

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Contact: Ms. Raquel Zaragoza

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Dear Andreas,

EFFAS' Commission on Financial Reporting (“Commission”, “we”) has reviewed the Discussion Paper DP/2020/2 Business Combinations under Common Control (the “DP”) of November 2020 and considers that the subject of BCUCCs is comprehensively covered in the document. Thus, the commission has decided to comment on the questions that it considers to be more relevant for users.

The key points contemplated are the following:

Question-1

We agree that the Board should develop proposals to cover the reporting by the receiving company for transfers of a business under common control. Since BCUCC transactions are not covered by IFRS 3, we support the proposal to develop guidelines for this type of transactions. However, some concerns about the precise scope and how it has been approached should be mentioned.

In the first instance, BCUCCs are of course *business combinations*. See paragraph 1.12 of the DP as stated also in Diagram 1.1 which is only one type of BCUCC.

Somewhat different is paragraph 1.15 of the DP notes that a BCUCC is not necessarily a business combination which linguistically, we think, is not consistent. The DP refers to the examples in Appendix-1 and describes the transactions depicted there as “group restructurings”. We are unclear how the principles outlined in the DP should be applied in the case of these group restructurings. Illustrative examples, we think, would be helpful to avoid misunderstandings regarding what the DP tries specifically to cover.

We think that the scope of the proposal could be approached as “transfers of businesses under common control”. This should outline the principles that need to be applied - “if and when” -rather than about Business Combinations under Common Control in the strict sense of the word.



Question-2

(a) We agree with the approach developed in the DP as the proposal tries to capture different circumstances. Although this might be difficult to apply in more complex circumstances, we consider it inappropriate to apply the acquisition method or the book-value method for all business combinations. The most appropriate method depends on the specific circumstances and that is what the above-mentioned decision tree tries to capture.

(b) We agree.

Assuming that there are non-controlling shareholders involved, the acquisition method from the perspective of the receiving entity is the best way to account for the business combination.

(c) We also support the principles developed related to the use of the book-value method.

Question-3

We agree.

When the receiving entity is traded on a public market, we consider the acquisition method to be the most adequate method to inform the non-controlling shareholders (e.g., private investors). From the perspective of these non-controlling shareholders, their company is investing (most likely) cash to acquire one or more other businesses. Therefore, we consider the acquisition method to be the most adequate to inform the non-controlling shareholders of the impact of the acquisition on their company.

Question-4

As above.

Question-6

We agree.

The commission considers that it is difficult to apply other measurement options to the acquired assets and liabilities. Other approaches, in our view, could lead to a biased outcome. Hence, using the transferred company's book value is the most appropriate approach to the book-value method.



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As noted above, the commission has addressed what it considers the most relevant points for users. If you would like to discuss the additional points, please do not hesitate to contact us.

Yours sincerely,

Javier de Frutos, Chairman

On behalf of EFFAS Commission on Financial Reporting

EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 15-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) Luca D'Onofrio (AIAF, Italy), Dr. Carsten Zielke (DVFA, Germany) and Andreas Schenone (SFAA, Switzerland).