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27 August 2021

Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

**Re: Discussion paper DP/2020/2 – *Business Combinations under Common Control***

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Discussion paper DP/2020/2 *Business Combinations under Common Control* ('the DP').

We welcome the IASB's research project on Business Combinations under Common Control with the aim of developing guidance for combinations in which all the combining companies or businesses are ultimately controlled by the same party, both before and after the combination. We consider that such guidance would be helpful, in particular due to the fact that this area, whilst common in practice is not currently addressed by existing International Financial Reporting Standards or similar pronouncements.

However, we consider that the following points need to be reconsidered by the Board.

**1) Does the combination affect non-controlling shareholders of the receiving company.**

We consider that this statement in the context of assessing whether to apply a book-value method or acquisition method is too binary and does not take into consideration other indicators that should be considered as part of a business combination. We consider that the existing framework in IFRS 3 in assessing whether an acquisition has arisen should be applied.

**2) Application of the acquisition method to business combinations under common control**

We consider that the receiving company should identify, measure and recognise all assets and liabilities on acquisition with any unallocated amounts being attributed to goodwill (rather than as a distribution from equity). This is consistent with existing guidance in accordance with IFRS 3 *Business Combinations*.

**3) Application of the acquisition method where the receiving company's shares are traded in a public market**

In determining whether the acquisition or book-value method should be applied in the receiving company's financial statements, we do not consider that the accounting treatment should be determined solely by whether the entity is a listed or non-listed entity. We consider that a principle- based framework to determine who is the acquirer in a business combination, as set out in IFRS 3 remains appropriate.

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Our comments and detailed responses to the questions set out in the Invitation to Comment section of the DP are detailed hereafter.

We would be pleased to respond to any questions the Board of its staff may have about any of our response. If you have any questions or comments please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon

Global Leader, Quality & Risk

RSM International

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## Question 1

**Paragraphs 1.10 - 1.23 discuss the Board's preliminary view that it should develop proposals that cover reporting by the receiving company for all transfers of a business under common control (in the Discussion Paper, collectively called business combinations under common control) even if the transfer:**

**(a) is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or**

**(b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering.**

**Do you agreed 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?**

We agree that guidance on how the receiving company should account for a transfer of business under common control would improve the transparency and consistency in reporting between companies. However, we consider that the Board should provide further guidance on the meaning of both 'common control' (paragraph 1.12) and 'transitory control' (paragraph 1.16) in the context of applying International Financial Reporting Standards if the scope exclusion remains in IFRS 3.

We also consider that the scope of the proposals should include an assessment of when merger accounting should be applied in a Business combination under common control.

## Question 2

**Paragraphs 2.15 – 2.34 discuss the Board's preliminary views that:**

**(a) neither the acquisition method nor a book-value method should be applied to all business combinations under common control.**

**Do you agree? Why or why not? If you disagree, which method do you think should be applied to all such combinations and why?**

We agree that neither the acquisition method or a book-value method should be mandated to all business combinations under common control.

**(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-benefits 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?**

We disagree. In our view, IFRS 10 paragraph 7 provides appropriate guidance on the definition of control which is further supported by additional guidance and indicators in IFRS 3 for identifying the acquirer where it is not clear which party is an acquirer. In practice, every business combination is different, and we therefore believe it is not appropriate to have a single 'bright line' that if the receiving company has a non-controlling interest then the acquisition model should be applied in every circumstance.

We believe that it should be possible to develop a workable set of indicators (2.18) for companies to use in making an evaluation of whether the acquisition or book-value method should be applied. Whilst this in practice will lead to diversity in financial reporting between companies, the enhancement of disclosures of the key judgements applied in concluding which method has been used will reduce this disparity.

**(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?**

We agree, however we believe that the application of a book-value method should not be mandated to all other business combinations under common control.

## Question 3

**Paragraphs 2.35 – 2.47 discuss the cost-benefit trade-off and other practical considerations for business combinations under common control that affect non-controlling shareholders of the receiving company.**

**(a) In the Board's preliminary view, the acquisition method should be required if the receiving company's shares are traded in a public market.**

**Do you agree? Why or why not?**

We disagree. Mandating companies to apply the acquisition method could lead in practice to the substance of the business combination not being appropriately accounted for.

We do not believe that there should be separate accounting rules for listed and private companies as the creation of two sets of rules causes problems under many scenarios for example if a private company becomes listed and could also imply that the quality private company accounting is not as robust.

**(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 its non-controlling shareholders that it proposed 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?**

We agree that if the receiving company's shares are privately held and they have informed all its non-controlling shareholders then a book-value method should be permitted to be used. Where the ultimate parent entity of both the receiving company and the transferred company within a privately owned group are the same pre and post combination, we also consider that the receiving company should be permitted to use a book-value method.

**ii. the receiving company should be required to use a book-value method if all 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?**

We disagree. In our view the receiving company should be allowed rather than required to use a book-value method if all its non-controlling shareholders are related parties of the company.

In practice related party relationships are very wide ranging under IAS 24 and there are difficulties in identifying all related parties in certain overseas countries due to the prevalence of state owed enterprises.

**(c) If you disagree with the optional exemption (Question 3b, part 1 or the related-party exception (Question 3b, part 2, 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?**

N/A

### Question 4

**Paragraphs 2.48-2.54 discuss suggestions from some stakeholders that the optional exemption from and the related-party exemption 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?**

We disagree on the same basis as our response in 3a.

**(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?**

We disagree on the same basis as our response in 3a. Whilst in practice we would expect few publicly traded receiving companies to have significant non-controlling interests held by a related parties, we consider that this exemption should be allowable.

### Question 5

**Paragraph 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 approached discussed in Appendix C or do you have a different recommendation?**

We agree with the Board's preliminary view. In our view, entities should apply the requirements of IFRS 3 paragraph (5c) to identify the fair value of all separately identifiable assets and liabilities as part of the business combination under common control, including any acquired intangible assets. Any residual unallocated amounts should be recognised on goodwill and assessed for impairment in line with IAS 36.

**(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 and 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?**

We agree that the receiving company should recognise any excess fair value of the identified acquired assets and liabilities over the consideration paid as a contribution to equity. We agree that this would eliminate the ability of companies within a group to structure transactions that would give rise to artificial profits being created.

**(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?**

In our view, IFRS 3 *Business Combinations* and IFRS 10 *Consolidated Financial Statements* has a clear framework and set principals for identifying the acquiror and the acquiree in a business combination transaction and when the acquisition method should be applied. Accordingly, we do not 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.

## Question 6

**Paragraphs 4.10-4.19 discuss the Board's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should measure the assets and liabilities received using the transferred company's book values.**

**Do you agree with the Board's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?**

We agree 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 value. We consider that this is important to show a true and fair reflection of the combined entities assets and liabilities at the date of combination.

## Question 7

**Paragraphs 4.20 – 4.43 discuss the Board's preliminary views that:**

**(a) the Board should not prescribe how the receiving company should measure the consideration paid in its own shares when applying a book-value method to a business combination under common control: and**

**(b) when applying that method, the receiving company should measure the consideration paid as follows:**

- **i. consideration paid in assets – at the receiving company's book values of those assets at the combination date; and**
- **ii. consideration paid by incurring or assuming liabilities – at the amount determined on initial recognition of the liability at the combination date applying IFRS standards.**

**Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?**

We agree with the Board's preliminary views with the exception of 7a. The concept of applying a book-value method is combining the book values of two entities and to allow the receiving company the option to measure the consideration paid in its own shares at fair value would go against this principle. We therefore recommend the Board provide formal guidance to this specific aspect of the ED.

## Question 8

**Paragraphs 4.44-4.50 discuss the Board's preliminary views that:**

**(a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and**

**(b) the Board should not prescribe in which component, or components, of equity the receiving company should present that difference.**

**Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?**

We agree with the Board's preliminary view. The proposed accounting treatment is consistent with current practice that the majority of entities apply today.

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### Question 9

**Paragraphs 4.51 – 4.56 discuss the Board's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS standards.**

**Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?**

We agree with the Board's preliminary view. However, where transaction costs are incurred across multiple elements of the transaction, we consider that it would be helpful if the Board could issue guidance on how companies should apportion these transaction costs.

### Question 10

**Paragraphs 4.57 – 4.65 discuss the Board's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information.**

**Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?**

We disagree, rather we consider that the receiving entity should be allowed a policy choice whether or not to restate its financial statements to show the results as if the combined entities had always existed.

### Question 11

**Paragraphs 5.5-5.12 discuss the Board's preliminary views that for business combinations under common control to which the acquisition method applied:**

**(a) the receiving company should be required to comply with the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper Business Combinations – Disclosures, Goodwill and Impairment; and**

**(b) the Board should provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 *Related Party Disclosures* when providing information about these combinations, particularly information about the terms of the combination.**

**Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?**

We agree that the receiving company should be required to comply with the disclosure requirements in IFRS 3 *Business Combinations* when the acquisition method has been applied to business combinations under common control.

We also consider that it would be helpful if the Board provided additional guidance on disclosure requirements under IAS 24 *Related Party Disclosures*, including enhanced narrative disclosures on the reason and nature of the business combination, the judgements applied in concluding the basis of measurement, details of the nature and amount of the consideration given and summarised financial information on the transferred company.

### Question 12

**Paragraphs 5.13-5.28 discuss the Board's preliminary views that for business combinations under common control to which a book-value method applied:**

**(a) some, but not all, of the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*, are appropriate (As summarised in paragraphs 5.17-5.19);**

**(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 include 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?**

In principle we agree with the Board's preliminary views for business combinations under common control to which a book-value method applies. However, as per our response to question 10, companies should have the ability to either restate for pre-combination information or present this separately in the notes to the financial statements. This flexibility will assist in improving financial reporting.

We have no other comments on the DP.

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