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1 September 2021

Dear Sir

Discussion Paper DP/2020/2: Business Combinations under Common Control (BCUCC)

We are pleased to comment on the above Discussion Paper (the DP). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the DP.

We support the efforts of the IASB to introduce requirements in IFRS applicable to business combinations under common control, which are very common in practice. We believe that the application of the proposed requirements would create a higher level of consistency in the reporting business combinations under comm control, however, we do have concerns with certain aspects of the Board's preliminary views.

In addition to our comments supporting the proposals, we have a number of suggestions to improve and clarify the Board's preliminary views.

Our responses to the questions in the DP are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan.

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

Appendix

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 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?

We agree with the proposals. We believe the scope of the project is sufficiently broad to capture the most common types of BCUCC.

We note that paragraph 1.16 of the DP states that the Board has not yet considered whether to clarify the meaning of 'transitory control', which is currently included in paragraph B1 of IFRS 3. Depending on the outcome of the Board's deliberations on this project, the intended meaning of 'transitory control' may become more important. This is because determining whether a transaction results in 'transitory control' of a business might result in it being within the scope of IFRS 3's current requirements or those potential requirements the Board is considering in this project (e.g. the book value method).

We therefore recommend that the Board consider defining the term or expanding on the intended meaning of 'transitory 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?

- *(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?

In our outreach, we have observed that there is general consensus that neither the book value nor the acquisition method is appropriate in all cases. This is because business combinations may involve a substantive change in control from one controlling party (or group of parties) where the acquisition method is clearly appropriate, a 'non-substantive' transaction where a corporate group is restructured with no change in ultimate control where the book value method is clearly appropriate, or a third type of transaction that lies 'in between' the two extremes set out above.

In our organisation, there are diverse views on the boundary that should be established to delineate whether the book value method or acquisition method should be applied.

Some consider that the acquisition method being the 'default approach' unless certain exceptions are met may be too restrictive. In particular, the requirement to apply the acquisition method if any non-controlling shareholders of the receiving company are affected was viewed by some as being potentially open to forms of structuring. For example, the introduction of a non-substantive investment by non-controlling shareholders into the receiving company would introduce the possibility of a subsequent BCUCC being accounted for using the acquisition method, despite the affected non-controlling shareholders being insignificant to the receiving company both in terms of economic investment and voting interest.

We have considered the implication of this concern and potential alternatives and safeguards. We do not believe it is feasible for the Board to introduce a quantitative measure (e.g. x% of shareholders of the receiving company being non-controlling shareholders affected by the BCUCC) because this would not resolve the risk of structuring. 'Bright lines' and rules only introduce the possibility of further structuring.

Despite this, we do believe that the Board should further explore the concept of a 'substantive' effect on non-controlling shareholders, which is briefly discussed in the DP (paragraphs 2.14(b), 2.17 and 2.36). We believe that introducing some form of substantive or de minimis threshold would be consistent with other requirements in IFRS, such as the solely payments of principal and interest test in IFRS 9 (see IFRS 9.B4.1.18 – 'de minimis') and the business model assessment in IFRS 9 (se IFRS 9.B4.1.3B – 'more than insignificant').

The introduction of a 'more than insignificant' or similar threshold might require a consequential amendment to IFRS 10.4(a)(i), which sets out circumstances in which an entity is not required to present consolidated financial statements. This is because the drafting proposed in this discussion paper is identical to IFRS 10.4(a)(i), therefore, adjusting the scope of the exemption in these potential, new requirements may require a corresponding adjustment to IFRS 10 if the Board's intention is to keep the scope of the two exemptions identical.

Aside from those concerns raised around the default approach being the acquisition method, we agree with the principles described in question 2.

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 agree that the acquisition method should be required if the receiving company's shares are traded in a public market. In this situation, the receiving company has a diverse group of investors who do not have direct influence on the decision making of the receiving company. In this case, the information obtained by applying the acquisition method is valuable and we believe it outweighs the costs of the acquisition method.

We note that the requirement as set out in the DP depends on whether the receiving company's shares are traded in a public market. We believe the Board should consider whether this requirement is too restrictive, as companies which do not have their equity shares listed on a public market may have other instruments that are listed (e.g. bonds, and other instruments that do not meet the legal definition of 'shares').

(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?

We agree with the optional exemption from the acquisition method. We observe that this is similar to the requirement in IFRS 10.4(a)(i), which exempts certain entities from preparing consolidated financial statements. Therefore, we believe this criterion will be readily understood by preparers.

We agree that the receiving company should be required to use the book value method if all its non-controlling shareholders are related parties. In this case, there has been no meaningful change in ultimate control of the transferred company, therefore, the acquisition method is not appropriate.

(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?*

We do not disagree with the optional exemption or the related-party exception.

Question 4

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?*

We agree with the Board's preliminary view that publicly traded companies should always apply the acquisition method although, as noted in our response to question 3, we believe that the Board should consider extending this requirement to include entities that do not have equity shares, but do have other instruments, listed on a public market.

In addition to the conceptual argument noted above, we believe that permitting a publicly traded company to apply the related-party exception or the optional exemption would have little practical effect because a publicly traded company would rarely if ever be able to meet the criteria necessary to apply either:

- Optional exemption: informing all non-controlling shareholders and not receiving any objection, which would be necessary in order to apply the optional exemption, would be impractical for most public companies as shares of such companies are widely held.

- Related party exception: it would be rare for all non-controlling shareholders to be related parties of the receiving company because most public companies' shares are widely held. Additionally, most public companies would not incur the regulatory and listing expenses required if all their non-controlling shareholders were related.

Question 5

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?

We do not agree with the Board's preliminary view. Unlike the conclusions reached by the Board when IFRS 3 was developed, it is not necessarily uncommon for the receiving company to 'overpay' in a BCUCC. This is because the parties are not transacting at arm's length, unlike a business combination between unrelated parties. The consideration payable (which ultimately determines whether a distribution or contribution exists) in a BCUCC may not relate to the value of the underlying assets acquired and liabilities assumed, but instead may relate to other factors such as tax consequences.

Due to the potential lack of relationship between the consideration paid in a BCUCC and the economic benefits obtained from the assets and liabilities acquired, it may also be challenging to allocate any goodwill that would be recognised to cash-generating units as required by IAS 36.

The DP notes that if an overpayment occurs, the impairment requirements of IAS 36 that are applicable to goodwill would result in an impairment charge being recognised. As observed by the Board in Discussion Paper 2020/1 Business Combinations – Disclosures, Goodwill and Impairment, impairment charges related to goodwill are often 'too little, too late' and we do not believe that this is a sufficiently mitigating factor to reduce the risk of recognising assets at a value greater than their recoverable amount.

The Board has provided two potential approaches that could be required if the Board determined that a distribution should be recognised. Of the two potential approaches outlined in Appendix C of the DP, we favour the fair-value-based approach. This approach would result in a distribution being recorded in equity for the difference between the consideration paid by the acquirer and the consideration that would have been paid in an arm's length transaction, if different. We acknowledge that this approach could be more complex and costly to apply than the impairment-based-approach set out in the DP, but we believe the benefits of this approach outweigh its costs.

One of the primary reasons we favour the fair-value-based approach is that it results in a distribution being recorded in equity that reflects any actual transfer of value from the shareholders of the acquirer to the acquiree, which will be different parties when the acquisition method is applied because one the conditions for the acquisition method to be applied is that non-controlling shareholders of the receiving company must be affected. If not for the fair-value-based approach, the acquirer in a BCUCC might pay an amount to acquire the acquiree that differs from fair value, resulting in a distribution, which is in substance a dividend. If this distribution is not recorded at its true value, which is only achieved by the fair-value-based approach, then an entity that needs to comply with laws and regulations that exist in many jurisdictions concerning distributable reserves and lawful distributions would have additional complexity and incur additional costs due to the need to keep dual records for accounting and legal purposes.

Additionally, we believe that a distribution being recorded using the fair-value-based approach provides significant information value to users of financial statements, particularly to affected non-controlling shareholders of the acquirer in the BCUCC. A distribution being recorded in equity based on the difference between consideration paid and fair value provides non-controlling shareholders with an indication of the loss (or increase) in value to them as a result of the BCUCC.

Although the fair-value-based approach could be more complex to apply than the impairment-based approach, we observe that in many jurisdictions directors of companies have a legal responsibility to enter into transactions that are in the best interests of the company. Such a requirement would necessarily entail the directors being aware of the fair value of the company being acquired, therefore, we do not believe it is onerous for companies to be required to apply the fair-value-based approach.

(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?

We agree with the Board's preliminary view. An 'underpay' in this case is clearly a transaction with shareholders in their capacity as shareholders and therefore should be excluded from profit or loss.

(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?*

We do not believe any other special requirements for the receiving company are necessary in applying the acquisition method. However, this view is based on the assumption that the intention of the Board when prescribing the use of the acquisition method subject to certain ‘special requirements’ is that the entirety of the acquisition method is applied, with only those ‘special requirements’ exceptions.

For example, we have assumed that certain requirements of the acquisition method, such as the measurement period (IFRS 3.45-50) would be part of the requirements applicable to BCUCCs accounted for using the acquisition method. If this is not the intention of the Board, we recommend this be made clear during the exposure draft phase of this project, assuming it advances to that stage.

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 do not agree with the Board’s preliminary view. The Board’s preliminary view is premised on the concept of maintaining the ‘continuity’ of the carrying values of assets and liabilities when an entity is transferred within a group (paragraph 4.15 of the DP).

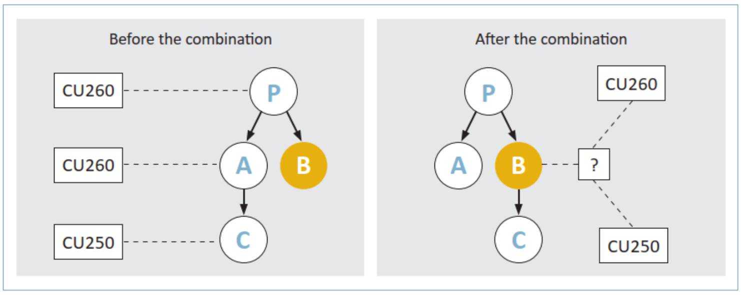
We believe it would provide more useful information to users of financial statements for the carrying values to be based on those included in the ultimate parent’s consolidated IFRS financial statements. This is because these carrying values reflect the consideration paid by the group as a whole when the entity was acquired (assuming it was not a subsidiary formed by the group from the subsidiary’s inception).

In certain cases, the ultimate parent’s financial statements might not be prepared in accordance with IFRS. In these instances, we believe that the requirements should require the acquirer to use the values in the consolidated IFRS financial statements at the highest level in the consolidation. In order to apply this requirement, an entity would begin at the ultimate parent’s level and continue down the group structure to the acquiree in the BCUCC until IFRS compliant, consolidated financial statements are prepared.

In some cases, this might result in the transferred company’s carrying values being used if no entity in the group structure prepares consolidated IFRS financial statements. For example, there could be instances where every entity in the group structure applies US GAAP except for the acquiree. We believe this is an acceptable trade-off between cost and benefit, since otherwise an entity in the group structure above the acquiree might be required to apply IFRS for the first time (i.e. apply IFRS 1), which would be onerous in terms of costs or would result in non-historical financial information (e.g. use of deemed cost in accordance with IFRS 1.D5-D8B), which defeats the purpose of the book value method.

For example, take the entities used in Diagram 4.1 of the DP as an example:

Diagram 4.1—Book values in a business combination under common control



Assume that entity A acquired entity C 10 years ago. When entity C was acquired, entity P recognised significant increases in the carrying value of assets compared to the separate financial statements of entity C. For example, increases in the carrying value of real estate on account of changes in market value, as well as significant intangible assets such as in process research and development, customer lists, etc.

In the current period, entity A transfers entity C to entity B. Assume that this is a BCUCC and the book value method must be applied. If the book values of entity C were used, as proposed by the DP, the increases in market value for real estate and all other intangible assets described above would not be reflected in entity's B's consolidated financial statements. The carrying value of the real estate (and the lack of any recognition of certain intangibles) in entity C's financial statements has no relevance to entity B because those carrying values do not reflect the consideration paid to acquire those assets.

Entity B is an intermediate parent and in our view, the values reflected in the ultimate parent's financial statements (entity P) better reflect the relationship between the group of entities and those assets and liabilities as those values reflect the consideration paid by the group to acquire the entity and the subsequent accounting applied to those assets and liabilities. This is especially true for assets that would not be recognised by entity C due to the differences in the recognition requirements between IFRS 3 and other IFRSs (e.g. IAS 38 for intangible assets).

Additionally, we do not agree with the Board's preliminary view that the proposed approach would be more practical (paragraph 4.17 of the DP). This is because it is very common for the separate financial statements of entities (e.g. entity C in the above example) to be prepared using a different underlying accounting framework than the ultimate parent. For example, many jurisdictions require separate financial statements to be prepared in accordance with local GAAP, as this aligns with the local taxation laws and regulations. Using the transferred entity's carrying values in the BCUCC between entities A and B would result in the group being required to potentially track three different sets of carrying values for entity C:

1. Carrying values based on local GAAP requirements, which do not reflect any past business combinations;
2. Carrying values based on IFRS as at the date the group obtained control of entity C (i.e. 10 years prior), carried forward to the reporting date applying applicable IFRS standards; and
3. Carrying values based on IFRS, not reflecting any past business combinations, as the proposals in the DP would require the accounting policies of the transferred subsidiary to align with those of the receiving company (entity B).

Preparing records for item #3 above might require the application of IFRS 1 for entity C's separate financial statements, which we do not view as a simplification or a practical approach.

Considering both the conceptual merits and the practical considerations, we believe that the carrying values used in applying the book value method should be based on those reflected in the ultimate parent's consolidated financial statements (item #2 in the methods described above), subject to the 'waterfall' approach if the ultimate parent does not prepare consolidated financial statements in accordance with IFRS (see above). This provides continuity of value from the perspective of the group as a whole, as well as ensures that such carrying values in accordance with IFRS will already have been prepared by the group, which would reduce costs.

We also believe that this approach would reduce the risk of other accounting policies needing to be adjusted to align with the receiving entity. This is because in our experience, the accounting policies of the ultimate parent will very often align with the policies of intermediate parents.

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 for the reasons noted in the DP.

However, we observe that if the Board were to introduce requirements to IFRS that would require the consideration paid by the receiving company to be based on the receiving company's book values, this requirement might introduce a perceived or actual conflict with other requirements in IFRS. Set out below are two examples.

<u>Separate financial statements (IAS 27)</u>

If an acquirer in a BCUCC applies the book value method and is not required to measure consideration paid in its own shares at fair value, this might create a conflict between the book value method accounting and the approach applied in the acquirer's separate financial statements.

Entities that prepare separate financial statements often present investments in subsidiaries at cost, as permitted by IAS 27.10(a), which is also required on initial recognition. In determining the 'cost' of a subsidiary (which is not defined in IAS 27), many entities apply the definition of cost in other IFRSs, such as IAS 16.6:

> *Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, eg IFRS 2 Share-based Payment.*

Applying this definition of cost requires the entity to measure its investment in the subsidiary based on the fair value of consideration given up, which includes its own equity instruments. Requiring this basis of accounting for separate financial statements but not specifying any method be used when the book value method is applied in the acquirer's consolidated financial statements would appear logically inconsistent, as the approach required in the separate financial statements could be significantly more onerous and costly than the approach followed in the consolidated financial statements, despite the fact that separate financial statements are generally less costly and simpler to prepare.

<u>Property, plant and equipment (IAS 16)</u>

If the receiving company's consideration paid consisted of items of property, plant and equipment, this requirement might conflict with the requirements of IAS 16.71 and 72, which require the gain or loss recognised upon the derecognition of an item of property, plant and equipment to be based on the requirements applicable in determining the transaction price in accordance with IFRS 15.

We believe that any new requirements should consider such potential conflicts and ensure the new requirements are drafted in a manner that does not conflict with other IFRSs. This might require consequential amendments to other IFRSs.

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 for the reasons noted in paragraphs 4.44-4.50 of the DP.

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 view? Why or why not? If you disagree, what approach do you suggest and why?

We agree with the Board's preliminary view. We observe that transaction costs (e.g. legal and professional fees) are not 'transactions with owners in their capacity as owners' and therefore we do not believe there is any conceptual basis to recognise these costs as an adjustment to equity of the receiving company.

This requirement would also align the requirements applicable to transaction costs incurred in relation to a BCUCC with those incurred with other types of business combinations. We do not believe there is any conceptual reason why there should be divergence between the requirements applicable to these two different types of business combinations with regards to 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 view? Why or why not? If you disagree, what approach do you suggest and why?

We do not agree with the Board's preliminary view that when applying a book value method, the receiving company should not restate comparative information. We believe that restating comparative figures prior to the date of a BCUCC should at least be permitted. Our view is based primarily on a cost-benefit analysis and corresponds to the needs of many financial statement users, which we explain below.

We understand the Board's conceptual basis for not restating comparative information since it does create 'pro forma' financial information that is not based on historical information (i.e. the acquirer and acquiree were not parent and subsidiary prior to the date of the BCUCC). However, we believe the practical benefits of providing this information outweigh the conceptual arguments.

Fundamentally, the Board has acknowledged that some form of the book value method is a cost-benefit trade-off and is based on the practical needs of financial statements users (paragraph 2.23 of the DP). We believe the logic of this conclusion should be extended in this case as well.

In our experience, many BCUCCs occur in anticipation of a public offering, sale of a component of a group or other significant transaction that trigger various financial reporting requirements under jurisdictional laws and regulations. For example, a group restructuring itself prior to a spin-off, IPO or sale of certain subsidiaries. Many such transactions require financial information of the group that is to be spun-off or initiate the public offering to be prepared as if the 'new structure' had always been in place (i.e. with comparative information for 2 or more years). If the book value method proposed by the Board would not permit the restatement of comparative information, then those companies would be required to either prepare non-GAAP financial information or attempt to meet their regulatory requirements by providing disclosures.

We acknowledge that in weighing the pros and cons of whether comparative information should be presented, the Board considered that an entity might provide disclosures of such information rather than restating the primary financial statements themselves. While such an option would somewhat mitigate the loss of information, we do not believe this is sufficient.

We do not agree with the preliminary view of the Board in paragraph 4.61 of the DP that restating comparative information would generally be more costly. This is because entities are generally required to prepare this information for regulatory purposes as noted above, and/or they are required to establish processes for combining the financial information on a go forward basis, which mitigates the costs involved with preparing restated comparative information. Not being permitted to restate comparative information may increase costs as entities might be required to prepare alternative disclosure information over and above the primary financial statements.

In addressing concerns related to presenting restated comparative information, we observe that this 'pro forma' or non-historical financial information would only typically affect financial statements of an entity for 1-2 periods. In our view, this is a contributing factor in weighing the costs vs. benefits.

Finally, we note that in forming its preliminary view that some form of book value method should be permitted, it was observed that information provided to potential shareholders about those companies should not depend on the legal structure chosen for the combination (paragraph 2.14(a) of the DP). In our view, a similar logic should apply in this case. For example, if two entities in a group had restructured themselves prior to a transaction such as an IPO (e.g. 2 years earlier), then there would not be a need to restate comparative information at the time of the IPO. However, if the group executes the restructuring shortly prior to the applicable transaction, then comparative information could not be restated if the Board's preliminary view is applied. In our view, as the restructuring of the group does not affect non-controlling shareholders, then there is little logic in the timing of the restructuring significantly affecting the information available to users of financial statements of the reorganised group. We believe this conclusion is conceptually consistent with the Board's preliminary view that one of the benefits of the book value method is that it ignores non-substantive aspects of the restructuring, such as its legal form.

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 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?

We agree with the Board's preliminary view. If the acquisition method is applied, then non-controlling interests are generally being affected, meaning they should receive the same quality of information as when the acquisition method is applied to business combinations generally.

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 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?

We agree with the Board's preliminary view, though as noted in our response to question 10, we believe that entities should be at least permitted to restate comparative information. Our views on this question affect our views on Question 12(b), because if an entity were not permitted to state comparative information, then we agree that they should be permitted to disclose information relating to the pre-combination financial information. If the Board were to conclude that an entity should not be permitted to restate the primary financial statements themselves, then we believe that the Board should develop requirements for when an entity elects to disclose pre-combination financial information (e.g. summarised pro forma combined financial information). This is because we believe such disclosures would be common given the frequency that such information is required by law, regulation and users of financial statements, therefore, consistency in those disclosures would be aided by specific requirements in IFRS.