FAR

International Accounting Standards Board

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Discussion Paper DP/2020/2 Business Combinations under Common Control

FAR, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the above Discussion Paper Business Combinations under Common Control.

FAR welcomes the initiative to address the existing lack of guidance for business combination transactions under common control. FAR's detailed comments are set out in appendix to this comment letter. However, FAR's main comments are summarised below:

Application of the book value method

FAR finds the arguments provided by the Board reasonable for when a book-value method is applied. However, FAR disagrees with the approach that the receiving company should measure the assets and liabilities received using the transferred company's book values. Instead, FAR believes that the receiving company may apply a policy choice providing the company a possibility to choose the book-values that best reflects the common control transaction. Consequently, FAR does not believe that the IASB should prescribe which book-values to be used.

Restatement of pre-combination information

It is FAR's view that it should be an allowed alternative to present restated pre-combination information. FAR believes that many users, for example in case of an Initial Public Offer, find such information valuable and useful for making investment decisions. FAR finds this to be the case even if the users understand that the group did not exist prior to the combination/formation of the new group.

Yours sincerely,

Pernilla Lundqvist
Chairman Accounting Practices Committee

FAR

Appendix

Question 1

Paragraphs 1.10–1.23 discuss the IASB'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 IASB'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?

Response

Generally, FAR agrees with the preliminary scope as set out in the DP. FAR acknowledges that the IASB, for simplicity, uses the term business combinations under common control for group restructurings that involve a transfer of a business under common control that do not meet the definition of a business combination under IFRS 3. It is FAR's view that such a simplification is reasonable but may be clarified in the next phase of developing guidance for common control transactions.

Question 2

Paragraphs 2.15–2.34 of the DP discuss the IASB'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 of the DP.

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?

Response to 2 a, b and c
FAR agrees.

Question 3
Paragraphs 2.35–2.47 of the DP discuss the cost–benefit trade-off and other practical considerations for business combinations under common control that affect noncontrolling shareholders of the receiving company:

(a) In the IASB'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?

Response to 3 a
It is FAR's view that the Board should reconsider its preliminary view that the acquisition method should be required only if the receiving company's shares are traded in a public market to also include companies who has listed debt instruments as well. FARfinds the information needs for debt investors in many cases are similar to equity investors and therefore find such a widened requirement in this specific case reasonable.

(b) In the IASB'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?

Response to 3 b

3 b i) In general, FAR agrees and find it reasonable that a non-listed entity, in a common control transaction involving a non-controlling interest, can apply the book-value-method provided that the non-controlling shareholders has not objected. However, FAR would consider it helpful if the IASB could elaborate and explain what is meant with “not objected”. For example, how should an entity consider if one non-controlling shareholder of many is silent, would that be considered as they do not object or do the IASB expect that the non-controlling shareholders act in order for the controlling party to understand whether they object or not.

3 b ii) FAR agrees.

(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?

Response to 3 c

Not applicable as FAR find the related party exception reasonable.

Question 4

Paragraphs 2.48–2.54 of the DP 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 IASB’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?

Response 4 a and b

FAR agrees.

Question 5

Paragraphs 3.11–3.20 discuss how to apply the acquisition method to business combinations under common control.

FAR

(a) In the IASB'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?

Response to 5 a

FAR agrees that the IASB 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. Instead, the receiving company should recognise any difference between the fair value of consideration paid and the fair value of identifiable acquired assets and liabilities entirely as goodwill. FAR agrees with the IASB that such overpayments are not likely to occur. In addition, it would be difficult, if not impossible, to quantify such an overpayment, and any measure of such an overpayment would typically involve significant measurement uncertainty and be costly to apply. FAR does not believe that it is reasonable that a business combination under common control should be more complex and burdensome to account for than a normal business combination that does not involve entities under common control. Instead, FAR supports consistency with the requirements in IFRS 3 (i.e., recognising any difference between the fair value of consideration paid and the fair value of identifiable assets and liabilities as goodwill).

(b) In the IASB'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?

Response to 5 b

When the consideration paid is lower than the identifiable assets and liabilities acquired in the business combination, FAR agrees with the IASB's proposal to recognise the difference in equity as a contribution to equity, instead of recognising such difference in the income statement. Although, not consistent with IFRS 3, FAR believes that such a requirement would not cause unnecessary volatility into the income statement, would not be burdensome or costly to apply, and there is a strong argument provided in the Discussion Paper that such effect could be argued to be a transaction with owners in their capacity as owners and therefore should be reported in the receiving company's statement of changes in equity.

(c) Do you recommend that the IASB 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?

Response to 5 c

FAR has not identified a need to consider any other special requirements on how to apply the acquisition method to business combinations under common control.

Question 6

Paragraphs 4.10–4.19 discuss the IASB'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 IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Response

FAR is not convinced by the arguments set out in IASB's preliminary view that when applying a book value method, then the receiving company should measure the assets and liabilities received using the transferred company's book values. Business combinations under common control are made for many different reasons and set-ups why FAR believes there should be a policy choice on to measure assets and liabilities received providing the receiving entity to choose a method that best reflects the substance of the transaction, i.e. FAR believes the policy choice should allow the receiving company to measure the assets and liabilities received at the transferred company's book values or at the controlling party's book values.

When applying a book value method, our opinion is that entities preferably should use the most recent value taking into consideration how the transaction has been priced. Also, the entities that end up with the possibility to use the book-value method are less public and should therefore have more freedom of choice than publicly traded entities.

Question 7

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

(a) the IASB 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 IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Response

FAR agrees with the IASB proposal not to prescribe how the receiving company should measure the consideration paid in its own shares. The proposed interaction between measurement of consideration paid and the question of how to report any difference between that consideration and the book value of the assets and liabilities received, could only affect the amounts reported for particular components of the receiving company's equity. FAR agrees Boards view that the reporting of components within a reporting company's equity and the measurement of issued shares are often affected by national requirements and regulations and are generally not prescribed in IFRS Standards.

FAR also agrees with the measurement proposed for consideration paid by in assets and consideration paid by incurring or assuming liabilities. Measuring the consideration paid in assets at the receiving company's book value is consistent with the measuring approach focused on book values rather than fair values. Also, it is likely to be less burdensome and costly to use book value rather than fair value.

Question 8

Paragraphs 4.44–4.50 discuss the IASB'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 IASB should not prescribe in which component, or components, of equity the receiving company should present that difference.

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

Response

FAR agrees that when applying the book-value method for business combination under common control, the receiving company should recognize in equity any difference between the consideration paid and the book value of the assets and liabilities received. The proposal is aligned with how the differences in practice are reported.

FAR also agrees with the proposal not specifying in which component(s) of equity the difference between considerations paid and the book assets and liabilities received, should be presented. This because IFRS Standards generally do not prescribe within which component of equity particular amounts should be presented and due to the circumstance that presentation of components of equity might also be regulated by national law.

Question 9

Paragraphs 4.51–4.56 discuss the IASB's preliminary view that, when applying a bookvalue 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 IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Response

FAR agrees with the IASB's preliminary view, that when applying the book-value method to a business combination under common control, the receiving company should recognize transaction costs as an expense in the period when incurred, except that transaction costs of issuing shares or debt instruments should be accounted for in accordance with applicable IFRS Standards.

The proposal is consistent with requirements for transactions costs under IFRS 3, based on the rationale that transactions costs are not part of the exchange between buyer and seller of the business. Transaction costs are rather payment for services received. FAR agrees with this reasoning and that the same approach should be used for transaction costs when applying the book-value method.

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Question 10
Paragraphs 4.57–4.65 discuss the IASB'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 IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Response
FAR believes that including pre-combination information should be an option. FAR believes that many users find this information useful even if the users know that the group did not exist before the companies are combined.

FAR acknowledges that, as the Board noted (p 4.61), the retrospective approach would be more costly, therefore FAR believes that it should be an option and not mandatory to present pre-combination information. Companies who believe that the benefits outweigh the cost should have the choice to present pre-combination information. This choice could be made taken into consideration effects for the combination, size of the combination and number of stakeholders.

Question 11
Paragraphs 5.5–5.12 of the DP discuss the IASB'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 IASB 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 IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Response
FAR supports the proposed disclosure requirements for BCUCC accounted for under the acquisition method.

Question 12

Paragraphs 5.13–5.28 of the DP discuss the IASB’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) of the DP;

(b) the IASB should not require the disclosure of pre-combination information; and

(c) The receiving company should disclose:

(i) The amount recognized 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 IASB’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Response

FAR considers that the proposed disclosure requirements for BCUCC accounted for under the book-value method would provide relevant information about the transaction. However, FAR believes that it would be appropriate to require pro forma information (revenue and profit or loss) for the current period as though the acquisition had occurred at the beginning of the annual reporting period. This information would be relevant to users of financial statements in cases where a BCUCC accounted for under the book-value method occurs in the same annual reporting period (as a preparation for an IPO) as the receiving entity does an IPO.