UKEB FEEDBACK STATEMENT

IASB DP/2020/2 Business Combinations Under Common Control

26 August 2021

The UK Endorsement Board (UKEB) is the UK's National Standard Setter for IFRS. Its statutory functions include influencing the development and subsequent adoption of International Accounting Standards for use in the UK. UKEB's comment letter on this IASB Discussion Paper forms part of those influencing activities and is intended to contribute to the International Accounting Standards Board's (IASB) due process.

The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

UKEB UK Endorsement Board

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Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB's outreach activities on the IASB's DP/2020/2 *Business Combinations Under Common Control* and explains how the UKEB comment letter addressed those views.

Background to the IASB's Discussion Paper

The discussion paper was produced as part of an IASB research project into business combinations under common control (BCUCC)—combinations in which all of the combining companies or businesses are ultimately controlled by the same party, both before and after the combination.

The project arose in response to stakeholder feedback that the lack of a specifically applicable IFRS Standard for such combinations has resulted in diversity in practice. Furthermore, companies often provide little information about such combinations.

The objective of the project was to explore possible reporting requirements for a receiving company that would reduce that diversity in practice and provide users of the receiving company's financial statements with better information about these combinations. The Discussion Paper summarised and sought feedback on IASB's preliminary views on these matters.

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Overview – the IASB’s main proposals

The Discussion Paper addresses the accounting and disclosure requirements for the receiving company.

1. Selection of methodology

IASB propose that not all BCUCC are the same, and therefore they do not require the same accounting treatment. BCUCC where the receiving company has shares traded in a public market should be accounted for using the acquisition method, while others should use the book value method. Non-controlling shareholder and related party exemptions to the use of the acquisition method are available. When using the book value method it is the book values recorded in the transferred company that should be used.

2. Treatment of differences between consideration and the fair value of assets/liabilities acquired

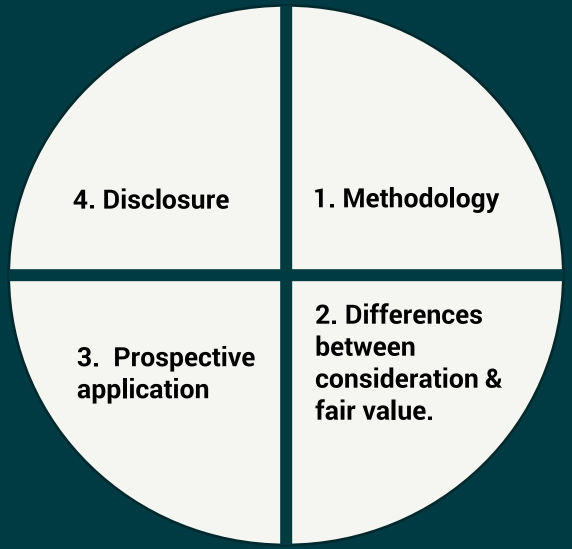
Entities using the acquisition method would treat consideration in excess of fair value as goodwill and fair value in excess of consideration as a distribution of equity (not a bargain purchase gain through the statement of profit and loss). For entities using the book value method it is proposed that all differences between consideration and fair value be treated as a contribution to/ distribution from equity.

3. Prospective application

Where the book value method is used IASB propose prospective application of the requirements, with no need for disclosure of pre-combination information or retrospective application.

4. Disclosure

IASB propose that those following the acquisition method prepare the disclosures required by IFRS 3 *Business Combinations*. Those following the book value method prepare a specified subset of the IFRS 3 disclosures.



UKEB comment letter

The UKEB comment letter expressed the following views on IASB's main proposals:

Overall view.

The UKEB supported the IASB proposals in general, noting they provided users with consistent information on BCUCC, a significant step forward from the minimal information required today.

1. Methodology.

UKEB agreed that not all BCUCC have the same characteristics and therefore do not require the same accounting solution. UKEB supported the requirement for companies with publicly traded equity instruments to use the acquisition method, while the book value method is used in other circumstances. UKEB recommend that those who qualify for the book value method should have the option to use the acquisition method where they consider it appropriate. UKEB supported the availability of exemptions, but highlighted potential practical concerns with the proposed shareholder exemption and an opportunity to simplify the proposals. UKEB recommend that when applying the book value method parent or seller company valuations could be used to identify book value, in addition to the values in the transferred company as specified by IASB.

2. Treatment of differences between consideration and fair value.

UKEB agreed that where the acquisition method is used consideration paid in excess of fair value should be treated as goodwill, while noting this support is predicated on the issues currently associated with goodwill highlighted in the recent DP/2020/1 consultation being resolved. UKEB agreed that where fair value exceeds consideration the difference should be treated as a distribution of equity, and all differences under the book value method should be treated as a contribution to/distribution from equity.

3. Prospective application.

UKEB agree with the prospective approach to application however recommend that an option be made available to elect retrospective application where appropriate, for example in preparation for a financing transaction, subject to disclosure that a retrospective method has been used.

4. Disclosure

UKEB agree that entities using the acquisition method should prepare the disclosures required by IFRS 3 *Business Combinations*. Those using the book value method prepare a specified subset of the IFRS 3 disclosures.

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Project approach

The UKEB's outreach activities took place between March and June 2021. The outreach approach was underpinned by the UKEB's guiding principles of thought leadership, transparency, independence and accountability. Outreach activities included an educational video in conjunction with IASB to raise awareness of the proposals and the opportunity to comment, a stakeholder survey, and public consultation on the UKEB' s draft comment letter.

Four preparers of financial statements responded to the stakeholder survey, one investor provided feedback via interview, and one accounting membership body provided formal feedback on the UKEB draft comment letter. All comments and views shared by UK stakeholders were considered in reaching our final position. We also exchanged views with regulators and other national standard setters.

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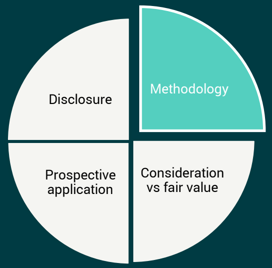
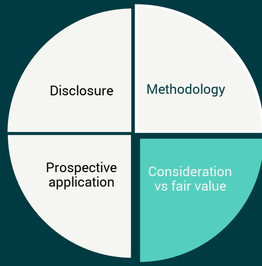
Methodology: UKEB comment letter

IASB proposals, stakeholder views, and UKEB Secretariat position



IASB proposals	Stakeholder views	UKEB draft position	UKEB final position
Not all BCUCC are the same so do not require the same accounting solution. Receiving companies with publicly traded equity to use the acquisition method.	Mixed. • Most agreed that "one size does not fit all". • One stakeholder preferred book value be used in all instances, while another preferred that the acquisition method be used as often as possible. • Concern was expressed that the dividing line between methods not be too rigid. An option for those who qualify for book value accounting to have the option of using the acquisition method was supported.	Support IASB proposal	Support, but with the option for those who qualify for book value accounting to use the acquisition method where they consider this appropriate.
Exemptions to this are available to private companies for related parties and under the non-controlling shareholder exemption.	Mixed. • One stakeholder agreed with the principle while noting there may be practical issues. • Two others preferred the decision to be an accounting policy choice rather than a shareholder exemption. • Two stakeholders thought the exemption should extend to public companies in some or all circumstances.	Support IASB proposal	Supported the availability of exemptions but noted there may be practical issues in application of the exemption.
The book values in the transferred company should be used for the book value methodology.	Mixed. • Most stakeholders requested a wider range of values be considered, such as book values in a parent company or selling entity. • Two stakeholders noted it was unclear whether non-IFRS book values could be used for this purpose. The need for further practical guidance with the book value method was noted.	Support IASB proposal.	Support, but recommend that parent company valuations should also be permitted. Recommend that non IFRS book values should be converted to IFRS.

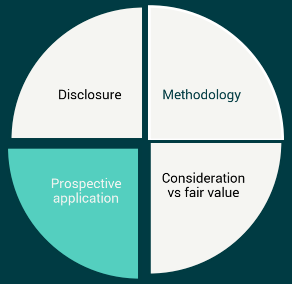


Consideration & fair value: UKEB comment letter

IASB proposals, stakeholder views, and UKEB Secretariat position

IASB proposals	Stakeholder views	UKEB draft position	UKEB final position
Acquisition method: Consideration in excess of fair value treated as goodwill.	Mixed. One stakeholder agreed with this approach, another expressed concern that this treatment would be confusing for users, particularly at company and sub-consolidation levels, inconsistent with the substance of the transaction and inconsistent with the principle that internally generated goodwill should not be recognised.	Support IASB proposal subject to the issues currently associated with goodwill identified in the recent response to DP/2020/1 being resolved.	Acknowledged the range of opinions on this issue. Supported goodwill treatment subject to the issues currently associated with goodwill identified in the recent response to DP/2020/1 being resolved.
Acquisition method: Fair value in excess of consideration treated as distribution of equity not as a bargain purchase gain through profit & loss.	All stakeholder feedback agreed with the IASB proposals.	Support IASB proposal.	Support IASB proposal.
Book value method: All differences between consideration and fair value treated as a distribution from/ contribution to equity.	All stakeholder feedback agreed with the IASB proposals.	Support IASB proposal.	Support IASB proposal.

Prospective application: UKEB comment letter



IASB proposals, stakeholder views, and UKEB Secretariat position

IASB proposals	Stakeholder views	UKEB draft position	UKEB final position
Those using the book value method will apply the requirements prospectively, with no requirement to disclose pre combination information or perform retrospective application.	Mixed. One stakeholder disagreed with this approach, while others supported it.	Support IASB proposal, but expand to allow retrospective application if required for regulatory or financing purposes, subject to suitable disclosure.	Support IASB proposal, but expand to allow retrospective application if required for regulatory or financing purposes, subject to suitable disclosure.

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Disclosure: UKEB comment letter

IASB proposals, stakeholder views, and UKEB Secretariat position

Disclosure
Methodology
Prospective application
Consideration vs fair value

IASB proposals	Stakeholder views	UKEB draft position	UKEB final position
Acquisition method to use IFRS 3 *Business Combinations* disclosures.	Most stakeholders agreed with this approach. One noted there may be some circumstances in which this disclosure could be too onerous for a common control transaction.	Support IASB proposal	Support IASB proposal.
Book value method to use a specified subset of the IFRS 3 disclosures.	Stakeholders agreed that some of the specified disclosure would be useful to users but noted that some or all of these disclosures would be burdensome to preparers. All respondents to the stakeholder survey agreed that a reduced disclosure regime in cases where the receiving company had no external debt or equity would be welcome.	Support IASB proposal*	Support IASB proposal*

* UKEB considered the concept of a reduced disclosure regime in such circumstances, but noted that there is no equivalent concept of reduced disclosure in other standards. It was concluded this would be better addressed in an IFRS-wide disclosure project rather than within individual standards such as IFRS 3/ BCUCC.

Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on the IASB's *Business Combinations Under Common Control* DP/2020/2 and should not be relied upon for any other purpose. The views expressed in this feedback statement are those of the UK Endorsement Board at the point of publication. Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

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