

August 18, 2021

IFRS Foundation  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

By e-mail: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

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

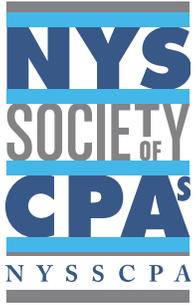
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 22,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned discussion paper.

The NYSSCPA's International Accounting and Auditing Committee deliberated the discussion paper and prepared the attached comments. If you would like additional discussion with us, please contact Richard C. Jones, Chair of the International Accounting and Auditing Committee, at (516) 463-6990, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Rumbi Bwerinofa-Petrozzello  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**DISCUSSION PAPER DP/2020/2 – *BUSINESS COMBINATIONS UNDER COMMON  
CONTROL***

**August 18, 2021**

**Principal Drafter**

**Richard C. Jones**

### **NYSSCPA 2021–2022 Board of Directors**

Rumbidzai Bwerinofa-Petrozzello, <i>President</i>	Edward L. Arcara	John A. Mourer
Lynne M. Fuentes, <i>President-Elect</i>	Ramona Cedeno	Lisa A. Mrkall
Thomas S. Pirro, <i>Secretary/Treasurer</i>	Margaret Chen	Maria L. Petrollese
Kelly Capron, <i>Vice President</i>	William H. Dresnack	Jennifer Pickett
Kimberly G. Johnson, <i>Vice President</i>	Zachary Gordon	Alexander Resnick
Kevin Matz, <i>Vice President</i>	Orumé A. Hays	Ronald F. Ries
Patricia A. McGrath, <i>Vice President</i>	Elliot L. Hendler	Sharon Sica-Costanzo
David G. Young, <i>Vice President</i>	William C. Huether	Denise M. Stefano
Joanne S. Barry, <i>ex officio</i>	John B. Huttlinger	Jennifer Stone
	Michael R. Koeppel	Maria E. Suppa
	Katelyn Kogan	A’Isha Torrence
	Edward N. Lee	Mark M. Ulrich
	Philip J. London	Liren Wei
	Shmueli Milecki	Charles J. Weintraub
	Michael E. Milisits	Craig A. Zellar

### **NYSSCPA 2021–2022 Accounting and Auditing Oversight Committee**

Margaret A. Wood, <i>Chair</i>	Richard C. Jones	Renee Mikalopas-Cassidy
Jennifer L. Biundo	Diane L. Jules	Sean C. Prince
Sharon Brenner	Bonnie S. Mann-Falk	Robert M. Rollmann
Jeannette S. Buttler	Ashley E. Mayer	George I. Victor

### **NYSSCPA 2020–2021 International Accounting and Auditing Committee**

Richard C. Jones, <i>Chair</i>	William C. Huether	Zameer Mohammed Shaikh
Andreas A. Alexandrou	Diane L. Jules	Michael S. Solomon
Kathleen M. Bakarich	Steven Z. Kahn	William M. Stocker III
Francesco Bellandi	Michael R. McMurtry	Tammy W. Tien
Michael Burke	Jane N. Merenini	Eva Varelas
Remi Forgeas	Renee Mikalopas-Cassidy	George I. Victor
Jeffery M. Gellman	Richard M. Posen	Lily H. Wang
Nicholas Hart	Sean C. Prince	Margaret A. Wood
Jean-Pierre Henderson	Ekaterina Prokhorovskaya	Patrick Yaghdjian

### **NYSSCPA Staff**

Keith Lazarus  
Ernest J. Markezin

**New York State Society of Certified Public Accountants**

**Comments on**

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

We welcome the opportunity to respond to the International Accounting Standards Board's (IASB or the Board) invitation to comment on International Financial Reporting Standards Discussion Paper—*Business Combination under Common Control* (DP).

**General Comments**

We appreciate the Board's efforts to clarify the accounting and financial reporting for transactions involving transfers of a business between entities within a controlled group.

Our responses to the specific questions for respondents follow.

**Specific Comments**

***Project Scope***

**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?*

**Response:** Yes. Generally, we support the Board's preliminary view that the final guidance apply to business combinations under common control (BCUCC) and that the definition of the term "business combinations under common control" should be

consistent with ¶s B1–B4 of IFRS 3, “a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.”

Additionally, we believe the Board should use this opportunity to clarify the term “transitory control” which is discussed in the DP and in IFRS 3 but continues to lack clear definition.

Further, we do not support extending the scope of this guidance to “business combinations that do not meet the definition of a business combination under IFRS 3” as expressed in ¶1.15 of the DP.

We believe the definition of a business combination and the transactions to which such definition applies should be consistent between the extant standards. To the extent that the Board believes such definition should be revised or extended, we believe such revision(s) should be made to the definition and application of the related guidance in IFRS 3.

### *Selecting the Measurement Method*

#### **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?*

**Response:** No. We believe BCUCC differ from business combinations discussed in IFRS 3, as expressed in ¶s 2.7-2.9 (View A) of the DP.

Our view focuses on the notion expressed in ¶ 2.7 that in a BCUCC, “the controlling party controls all combining companies both before and after the combination and simply moves its economic resources from one ‘location’ to another within the group.” Thus, we believe that the economics of the BCUCC differs from that of a business combination discussed in IFRS 3 which contemplates control over the transferred company passing from one controlling party to a different controlling party, the acquirer, when the transaction is completed.

We believe that, given that the ownership interest of the controlling party in a BCUCC doesn’t change, the transaction lacks “economic substance” and the accounting for a BCUCC should be consistent with the effect of the transaction on the controlling party.

Therefore, we would support application of the book-value method for a BCUCC transaction for which the controlling interest of the controlling party is unaffected by the transfer.

However, when a BCUCC results in a change in the ownership interest of the controlling party, we believe the business combination should be viewed from the perspective of IFRS 3 and the receiving party must consider applying the acquisition method.

- (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?*

**Response:** No. As indicated in our response to part (a), above, we believe that for BCUCC in which the ownership interest of the controlling party remains the same before and after the transfer, the receiving party should apply the book-value method in accounting for the transfer. However, if the BCUCC results in a change in the ownership interest of the controlling party, the receiving company should apply the guidance of IFRS 3 in accounting for the business combination.

- (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:** See our comments to part (b) above.

### **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?*

**Response:** No. As indicated above, we believe that the acquisition method should be applied only when the BCUCC results in a change in the ownership interest of the controlling party. Otherwise, we support application of the book-value method for BCUCCs that do not result in a change in the ownership interest of the controlling party.

- (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?*

**Response:** Under our recommendation above, the proposed optional exemption would be unnecessary. However, if the Board concludes that the acquisition method should be applied to BCUCCs that “affect noncontrolling shareholders of the receiving company,” we support the proposed optional exemption from the acquisition method.

*(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:** Yes, we agree with the Board’s preliminary recommendation.

#### **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?*

**Response:** We do not support the Board’s preliminary view. Instead, we recommend developing an exemption from the acquisition method for publicly traded companies. However, we do not believe the proposed optional exemption for private companies would be operational or cost effective for publicly traded companies because of the diversity of most publicly traded companies’ noncontrolling ownership. Therefore, we recommend establishing a noncontrolling interest ownership threshold at which a publicly traded company that is the receiving company in a BCUCC transaction would be permitted (or required, if preferable) to apply the book value method.

*(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:** Yes, we agree with the Board’s preliminary view that publicly traded companies would not be permitted to apply the related party exception. Generally, we believe that the non-controlling interest in a publicly traded company would be unrelated to the controlling ownership interests. Therefore, the related-party exception would be impractical for publicly traded companies.

### ***Applying the Acquisition Method***

#### **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?*

**Response:** To the extent that the Board decides to proceed with requiring application of the acquisition method in certain circumstances, which is not our preference, we agree that, in the unlikely event that the receiving party of a BCUCC would incur a contribution to equity, the Board should not develop a requirement for that receiving company to identify, measure and recognize a distribution from equity.

- (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?*

**Response:** We agree with the Board’s observation in ¶3.6 “that the receiving company and the transferring company might not have been involved in deciding how much consideration is paid...” Instead, the controlling party might have established the consideration required for the exchange, which could differ significantly from an amount

that would have been paid in an arms-length exchange between unrelated parties. Therefore, we agree with the Board’s preliminary view that it develop a requirement for the receiving party to recognize the excess fair value of the identifiable net assets acquired over consideration paid as a contribution to equity.

- (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?*

**Response:** We have no other recommendation.

### ***Applying a Book Value Method***

#### **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?*

**Response:** We agree with the Board’s preliminary view that, when applying a book value method to a BCUCC, the receiving company should measure the assets and liabilities received using the transferred company’s book values. In essence, we believe the book-value method implies that the transaction will not change the recorded amounts of the assets and liabilities transferred within the controlled group, including for the controlling party.

#### **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?*

**Response:** We agree with the Board's preliminary views, as stated in (a) and (b) above (and as explained in ¶s 4.20-4.43 of the DP), as follows:

- The Board should not prescribe how to measure the consideration paid in the receiving company's own shares because jurisdictional laws and regulations often prescribe or address equity-related measurement considerations,
- The receiving company should measure the consideration paid in assets at the receiving company's book values of those assets at the combination date, and
- With respect to consideration paid by incurring or assuming liabilities, the receiving company should measure such consideration at the amount determined on initial recognition of the liability at the combination date by applying IFRS Standards, as appropriate.

### **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?*

**Response:** We agree with the Board's preliminary views expressed in (a) and (b) above. In addition, we believe the Board should prescribe how the receiving company should recognize adjustments to contingent consideration included in the BCUCC.

Our view is that the receiving company recognize adjustments to contingent consideration paid or payable in the BCUCC as a component of equity in a manner consistent with the reporting of the initial difference between consideration paid and the book value of assets and liabilities received in the original business combination transaction.

### **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?*

**Response:** We agree with the Board’s preliminary view that, when applying a book-value method to a BCUCC, the receiving company should recognize 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.

### **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?*

**Response:** We agree with the Board’s preliminary view that the receiving company should report the assets, liabilities, income and expenses of the transferred company prospectively from the date of the business combination.

### ***Disclosure Requirements***

### **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?*

**Response:** We anticipate the Board will prescribe the receiving company's required disclosures related to the BCUCC specifically, rather than by reference to the disclosures required by IFRS 3 and IAS 24.

Additionally, regarding Table 5.1 (shown below following our response here) we believe the following disclosures would be relevant to financial statement users and should be prescribed for the receiving company of a BCUCC that applies the acquisition method:

- Strategic rationale, management's objectives for the acquisition and subsequent performance of the acquisition (preliminary view discussed in the IFRS 3 Discussion Paper relating to paragraph B64(d) of IFRS 3).
- Description, timing and estimated amount of expected synergies (preliminary view discussed in the IFRS 3 Discussion Paper relating to paragraph B64(e) of IFRS 3).
- Amount at the acquisition date (and subsequent changes in that amount) and description of contingent consideration and indemnification assets (paragraphs B64(g) and B67(b) of IFRS 3).

Further, while we agree with the Board's view that in many instances the cost of providing "[p]ro forma information for the current period as though the acquisition had occurred at the beginning of the annual reporting period (paragraph B64(q) of IFRS 3 and the related preliminary view discussed in the IFRS 3 Discussion Paper)" will exceed the related benefit of such information, particularly regarding a BCUCC, we believe that, in some circumstances such as for receiving companies that are public companies, financial statement users will benefit greatly from such information and, as such the Board should rely on the comments received from users of financial statements before deciding on requiring or eliminating this disclosure for receiving companies that apply the acquisition method.

**Table 5.1—IFRS 3 disclosures that should not be required when a book-value method is applied**

Main reason for the Board's preliminary view	Disclosure requirement
These combinations may not be similar to combinations covered by IFRS 3	Strategic rationale, management's objectives for the acquisition and subsequent performance of the acquisition (preliminary view discussed in the IFRS 3 Discussion Paper relating to paragraph B64(d) of IFRS 3)
	Description, timing and estimated amount of expected synergies (preliminary view discussed in the IFRS 3 Discussion Paper relating to paragraph B64(e) of IFRS 3)
The book-value method differs from the acquisition method	Description of factors that make up acquired goodwill and reconciliation of its carrying amount at the beginning and at the end of the reporting period (paragraphs B64(e) and B67(d) of IFRS 3)
	Description and estimate of financial effects of contingent liabilities recognised (paragraphs B64(j) and B67(c) of IFRS 3)
	Amount of gain recognised in a bargain purchase (paragraph B64(n) of IFRS 3)
The costs of providing the information outweigh the benefits	Fair value of the consideration transferred and of each major class of consideration at the acquisition date (paragraph B64(f) of IFRS 3)
	Fair value and gross contractual amount of acquired receivables (paragraph B64(h) of IFRS 3)
	Amount of goodwill deductible for tax purposes (paragraph B64(k) of IFRS 3)
	Pro forma information for the current period as though the acquisition had occurred at the beginning of the annual reporting period (paragraph B64(q) of IFRS 3 and the related preliminary view discussed in the IFRS 3 Discussion Paper)
The Board has not yet discussed all aspects of a book-value method and the disclosure relates to a matter not yet considered	Amount at the acquisition date (and subsequent changes in that amount) and description of contingent consideration and indemnification assets (paragraphs B64(g) and B67(b) of IFRS 3)
	Description and amount recognised for separate transactions (paragraphs B64(l) and B64(m) of IFRS 3)
	Fair value of the equity interest in the acquiree in a business combination achieved in stages (paragraph B64(p) of IFRS 3)
	Information to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods (paragraphs 61, 62 and B67(a) of IFRS 3)

## **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?*

**Response:** Subject to specifically enumerating the required disclosures, as we mentioned in our response to Question 11 above, we agree with the Board’s preliminary views regarding the prescribed disclosures for the receiving company of a BCUCC that applies the book-value method.