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

Warsaw, 3 September 2021

Dear Mr. Barckow,,

Invitation to comment – Discussion Paper DP/2020/2 - Business Combinations under Common Control

The Polish Accounting Standards Committee welcomes the opportunity to present its views on the Discussion Paper DP/2020/2 – Business Combinations under Common Control related to combinations in which all of the combining companies or businesses are ultimately controlled by the same party, both before and after the combination (the 'DP BCUCC').

General comments

We generally support the objective of the Board's project to explore possible reporting requirements for a receiving company that would reduce the diversity in practice and provide users of the receiving company's financial statements with better information about these combinations. While we broadly agree with the approach proposed by the Board, we believe that further consideration should be given to the following aspects:

- It is unclear whether the scope of DP BCUCC includes legal mergers. We suggest that the DP further clarifies whether these transactions would be in the scope of the project. In order to reduce diversity in practice we would recommend that the standard covers these transactions from the perspective of the receiving company's separate financial statements. Separate financial statements are widespread and crucial from the perspective of dividend distribution or tax settlements.
- We propose to limit the applicability of the acquisition method only to situations where the transaction has an 'economic substance'. This will align DP with what we observe in the current practice. In this regard, it may be helpful for the Board to define what is meant by 'economic substance', given that the Board takes the view that economic substance exists for each BCUCC for the receiving company and at the same time it does perceive a difference in the two types of shareholder groups: NCIs and majority shareholder(s). Also, in order to avoid an accounting arbitrage by creating an insignificant non controlling interest prior to the BCUCC transaction, we propose to add a condition that non controlling shareholders of the receiving company have a 'significant influence' on it. We would recommend that both terms mentioned above be defined.
- We disagree with the Board's preliminary view that the receiving company should only be allowed to 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 in BCUCC. We believe that restated information is valuable and expected by interested parties. Accordingly, we suggest that the Board consider an alternative approach whereby, generally, retrospective restatement of comparative information would be required, except where it is impracticable to do so.
- We suggest that, consistent with the practice we have observed, the receiving company should have the choice of which data to use: either (i) values from the transferred entity's separate financial statements or (ii) from the consolidated financial statements of the controlling entity P, depending on which information appears more reasonable under the specific circumstances.

Should you wish to discuss the contents of this letter with us, please contact sekretarz.KSR@mf.gov.pl.

Yours faithfully,

Agnieszka Stachniak

Chairman of the Polish Accounting Standards Committee (PASC)

c/c EFRAG

Appendix 1 – Responses to specific questions

We support the Board's efforts to develop guidance on how to account for business combinations under common control (BCUCC) because, due to the exclusion of these transactions from the scope of IFRS 3, there has been a diversity of practice in this area for a long time. We believe that guidance on accounting for BCUCC will contribute to greater comparability, transparency and relevance of financial information.

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?

Answer to Question 1.

We agree with the Board's preliminary view that the new standard should cover all BCUCC transactions, even if they do not meet the definition in IFRS 3.B1. Transactions that would not meet the requirements of IFRS 3 and are preceded by an acquisition from a third party or depend on a subsequent sale to a third party should also be within the scope of this project. The reason is the desire to regulate the discussed issue comprehensively and the mentioned issues, despite their specificity, do not require reaching for other accounting tools.

Additionally, we would like to note that it is unclear whether the scope of DP BCUCC includes legal mergers. Existing regulations do not address the accounting treatment of these types of transactions, and their arbitrary exclusion from the scope of the new standard would leave these important accounting issues unresolved. In order to unify the current different approaches, we propose to extend the scope of the standard to cover these transactions from the perspective of receiving company's separate financial statements.

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).

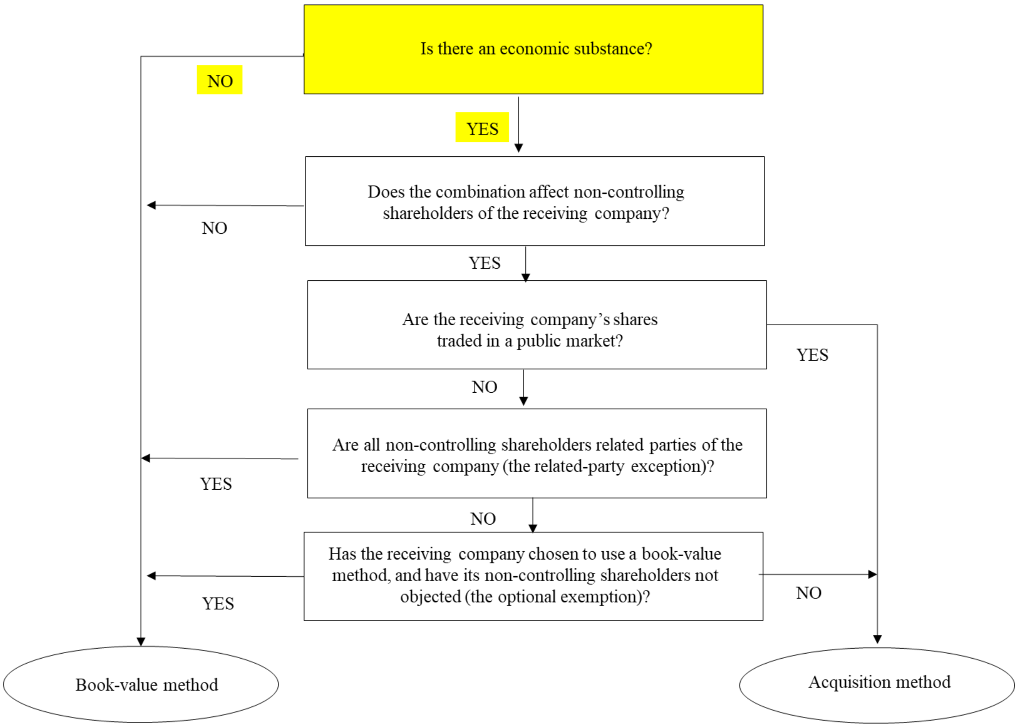
Do you agree? Why or why not? If you disagree, in your view, when should the acquisition method be applied and why?

(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?

Answer to Question 2a:

We agree with the Board's preliminary view that neither the acquisition method nor the book-value method should be used in every case. Nevertheless, we propose to limit the applicability of the acquisition method only to situations where the transaction has an economic substance. At the same time we propose that the Board define this overriding concept e.g. by referring to and clarifying the concepts already used in the Basis for Conclusions of IFRS 3 (“economic substance”) or in IAS 16 (“commercial substance”). Figure 1 below represents proposed changes to the Board's position:



In addition, in order to avoid an accounting arbitrage by creating an insignificant minority interest prior to the BCUCC transaction, we propose to add a condition that minority shareholders of the receiving company have a "significant influence" on it. We suggest that the Board define the term "significant influence" on the basis of the public discussion held, e.g. based on qualitative parameters or by reference to existing similar definitions in other IFRSs.

Answer to Question 2b.

We agree with the Board's proposed view that, in principle, the acquisition method should be used if the transaction affects minority shareholders, subject to the comments referred to in 2a.

Answer to Question 2c.

We agree with the Board's position that the book-value method should be applied to all other transactions under common control, including between entities 100% owned by the same owner. Additionally, we believe that the book-value method should always be used in the absence of economic substance.

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?

(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?

(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?

Answer to Question 3a.

Assuming the overriding condition that there be economic substance to the transaction, we agree with the Board's view that the acquisition method should be required where there are non-controlling shareholders and the company is a publicly traded entity.

Answer to Question 3bi)

We agree that the receiving company may use the book-value method as long as it informs all minority shareholders of its intention to do so and they do not object.

Answer to Question 3bii)

We agree that an entity whose all minority shareholders are related parties should use the book-value method.

Answer to Question 3c.

We propose to consider the appropriateness of the selected methods of accounting for BCUCC transactions without including as an overriding argument the cost factor associated with the use of the acquisition method. In our view, the solutions adopted for BCUCC should primarily ensure that users receive information that is more relevant and comparable.

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?

Answer to Question 4a.

We agree with the proposal of the Board outlined in DP, where the optional exemption from the acquisition method should only be available to entities whose shares are not publicly traded.

Answer to Question 4b.

We agree with the current DP proposal where the mandatory related-party exception should only apply to entities whose shares are not publicly traded. However, we also consider, as worth further analysis, an alternative approach in which the mandatory exception would also be available to entities whose shares are publicly traded.

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?

(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?

(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?

Answer to Question 5a.

We support the Board's preliminary view that when there is a distribution of capital, a BCUCC transaction accounted for under the acquisition method should be settled in the same way as business combination covered by IFRS 3.

Answer to Question 5b.

We agree with the Board's view that, unlike accounting for an acquisition under IFRS 3, the receiving company should recognize any excess of the fair value of the identifiable assets acquired and liabilities assumed over the consideration paid as a contribution to equity rather than as a gain on a bargain purchase.

Answer to Question 5c.

We believe that the requirements proposed in the DP on how to apply the acquisition method to BCUCC transaction are sufficient for the receiving entity.

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?

Answer to Question 6.

We support the Board's preliminary view to include guidance on how the receiving company should measure assets and liabilities received using the book value-method because it will reduce the current diversity in practice. However, we disagree with the Board's preliminary view that the receiving company should measure the assets and liabilities received based on the book values of the transferred company in all circumstances. We suggest that, consistent with the practice we have observed, the receiving company should have the choice of which data to use: either (i) values from the transferred entity's separate financial statements or (ii) from the consolidated financial statements of the controlling entity P, depending on which information appears more reasonable under the specific circumstances. Accordingly, we propose that the selection of the appropriate method should occur after considering the following circumstances:

- Consistent accounting policies - IAS 8.13 requires an entity to select and apply accounting policies consistently for similar transactions, unless an IFRS specifically requires or permits different accounting policy. Therefore, the accounting policies selected to account for BCUCC must be applied to all such transactions.

- The timing of the transaction in relation to when the transferred entity was formed - the longer the period of time that has elapsed, the less useful the data from the separate financial statements of the transferred company may be.
- Other transactions – e.g. if the receiving company is to be sold or spun off following a BCUCC transaction, data from the consolidated financial statements of the controlling entity P will likely provide more useful financial information.
- Users of financial statements - If the majority of users of the receiving entity's financial statements after BCUCC are parties that previously relied on the transferred entity's financial statements (for example, if there are significant non-controlling shareholders), then the approach of using data from the transferred entity's separate financial statements may provide more useful financial information.

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?

Answer to Question 7a.

We agree with the Board's proposed solution. The method of valuing consideration paid in own shares is irrelevant as it does not affect the total "outcome" that will be recognized in the equity of the receiving entity, as illustrated in Figure 4.3 on page 54 of the BCUCC DP. At the same time, we propose that the standard include specific examples of the application of different methods of measuring consideration paid in own shares.

Answer to Question 7bi.

We agree with the Board's proposal that the consideration paid in assets should be measured at the book value of those assets recognized by the receiving company at the combination date. We also propose that the standard clarify that the approach proposed in the DP does not apply to an exchange of non-monetary assets for another under IAS 16.24, where the exchange generally occurs at fair value.

Answer to Question 7bii.

We agree with the Board's preliminary view that consideration paid by incurring or assuming liabilities should be determined by measuring them in accordance with other relevant standards at the combination date. These are generally liabilities that did not previously exist so applying existing IFRS Standards for recognition and initial measurement will improve consistency. We also suggest that the Board include specific examples for these transactions.

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?

Answer to Question 8a.

We agree with the Board’s preliminary view.

Answer to Question 8b.

We agree with the Board’s preliminary view.

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?

Answer to Question 9.

We agree with the Board's preliminary view that the receiving company should recognize transaction costs as an expense in the period in which they are incurred, except for costs of issuing shares or debt instruments, which should be accounted for in accordance with applicable IFRS standards. We believe that the costs incurred represent a separate transaction for services received and are not part of the exchange between the buyer and the seller.

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?

Answer to Question 10

We understand that in considering whether to require retrospective adjustment of comparative information, the Board considered that obtaining such information may be costly in certain situations, for example, when it is necessary to unify different accounting policies. However, we believe that in many situations the benefits provided by the presentation of this retrospective information would outweigh the costs. This is evidenced by the fact that, despite the absence of such a requirement, we have observed in practice that entities in the described situation typically restate comparative information. Thus, we disagree with the Board’s preliminary view that the receiving company should only be allowed to 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 in BCUCC. Accordingly, we suggest that the Board consider an alternative approach whereby, generally, retrospective restatement of comparative information would be required, except where it is impracticable to do so.

In addition, we propose that the new standard addresses presentation of reserves of transferred company in the financial statements of the receiving company, such as revaluation reserves, as it is not clear whether the receiving company should continue the presentation adopted by the transferred company. We believe that such a continuation of the presentation of reserves of transferred company in the financial statements of the receiving company ensures comparability from period to period and should be applied.

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?

Answer to Question 11a.

We agree with the Board's proposed scope of disclosures, which is consistent with IFRS 3 and Discussion Paper*: Business Combinations - Disclosures, Goodwill and Imapirment*. In addition, we propose to include materiality considerations in the guidance as discussed in Amendments to IAS 1 and Practice Statement 2: *Disclosures of Accounting Policies*, which was issued on February 12, 2021 and is effective for annual periods beginning on or after January 1, 2023.

Answer to Question 11b.

We agree with the Board's view to add guidance on the application of disclosure requirements in both IFRS 3 and IAS 24 for combinations under common control accounted for using the acquisition method.

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?

Answer to Question 12a.

We agree with the Board's preliminary view.

Answer to Question 12b.

We disagree with the Board's preliminary view and propose to consider an alternative approach where retrospective disclosure is generally required except where it is impracticable to do so. Details for this rationale were included in the response in paragraph 10.1.

Answer to Question 12c.

We agree with the Board's preliminary view.