INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA

*Our Ref: STA/001*

**24 August 2021**

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

Dear Sir/Madam

**DP/2020/2 BUSINESS COMBINATIONS UNDER COMMON CONTROL**

The Institute of Certified Public Accountants of Uganda (ICPAU) is pleased to submit comments on the Discussion Paper as provided in **Appendix 1**.

Overall, ICPAU welcomes the proposed objective to 'fill the gap' in accounting for business combinations under common control that has led to similar transactions being reported differently.

We hope that the Board finds our comments helpful.

For any inquiries relating to this comment letter, kindly contact CPA Charles Lutimba by email at clutimba@icpau.co.ug

Yours faithfully,

CPA Mark Omona
DIRECTOR STANDARDS AND REGULATION
For: **SECRETARY/CEO**

*Encl/... (ICPAU's Responses to DP/2020/2 Business Combinations under Common Control)*

*NNN/.......*

**Appendix 1**

| Project Scope |
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| 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:<br>(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<br>(b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering.<br>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? |

**Our Response**

Yes, ICPAU agrees with the proposed transactions within the scope of the project. We note that in describing business combinations under common control, IFRS 3 currently requires that common control is 'not transitory' but does not provide guidance on that notion. Our interpretation of paragraph 1.16 of the Discussion Paper (DP) is that a transfer would be transitory if it 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 conditional on a sale of the combining companies to an external party, such as in an initial public offering.

Since the outcome of this project could lead to the Board modifying or removing the scope exclusion in IFRS 3:B1, we agree that the Board does not need to clarify the meaning of 'transitory control' at this particular time. Otherwise, if IFRS 3:B1 is not modified or removed, a simple and clear definition of 'transitory control' would guard against unintended consequences such as preventing entities which bring a business into their group from a third party from applying the methods described in the DP.

**Appendix 1**

| Selecting the measurement method |
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| Question 2 |
| Paragraphs 2.15–2.34 discuss the Board's preliminary views that:<br>(a) neither the acquisition method nor a book-value method should be applied to *all* business combinations under common control.<br>Do you agree? Why or why not? If you disagree, which method do you think should be applied to all such combinations and why?<br>(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).<br>Do you agree? Why or why not? If you disagree, in your view, when should the acquisition method be applied and why?<br>(c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly-owned companies.<br>Do you agree? Why or why not? If you disagree, in your view, when should a book-value method be applied and why? |

**<u>Our Responses</u>**

a) Yes, ICPAU agrees that neither the acquisition method nor a book-value method should be applied to all business combinations under common control. We agree with the Board that not all business combinations under common control are the same and that neither of the two methods is appropriate in all cases.
b) Yes, the acquisition method of IFRS 3 should be applied if the business combination under common control affects non-controlling shareholders of the receiving company. The consequence of such a transaction would be acquisition of ownership interest of the transferred company by the non-controlling shareholders of the receiving company. We believe this is similar to the business combinations covered by IFRS 3 and that, therefore, the acquisition method would provide useful information on the same. We also find it appropriate for this to be subject to the cost-benefit trade-off.
c) We agree that the book-value method should be applied to all other combinations under common control.

**Appendix 1**

Selecting the measurement method

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?

**Our Response**

Yes, we agree that the acquisition method should be required if the receiving company's shares are traded in a public market because the benefits of applying this method would likely justify the costs involved. We invite the Board to extend this requirement to when the receiving company has any other instruments that are traded in a public market, for example debt instruments.

(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?

**Our Responses**

(i) Yes, we agree with this exemption as it is similar to the principle requirement in IFRS 10.4a (i).

(ii) Yes, we agree with the preclusion of a receiving company in a business combination under common control from applying the acquisition method, where all the parties are related.

Furthermore, we invite the Board to consider the implication of these preliminary views to Section 19 Business Combinations and Goodwill of the IFRS for SMEs Standard.

**Appendix 1**

| Selecting the measurement method |
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| **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? |

**<u>Our Responses</u>**

(a) Yes, we agree that if the NCI of the receiving entity is affected and it is a publicly traded company, then the acquisition method should be required and that the optional exemption from the acquisition method should not be available in those combinations. However, please also refer to our response to question 3(a) above.

(b) Yes, we agree that if the NCI of the receiving entity is affected and the receiving company is a publicly traded company, then the acquisition method should be required and that the related party exception to the acquisition method should not be available in those combinations.

| Applying the acquisition method |
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| **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? |

**<u>Our Response</u>**

(a) We agree with the Board's preliminary view not to 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.

**Appendix 1**

(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?

**Our Response**

(b) Yes, ICPAU agrees with this preliminary view because, in our opinion, it may be uncommon that the fair value of the assets would exceed the fair value of the consideration in business combinations under common control where the acquisition method is required following diagram 2.5 in the DP. If however such a scenario were to occur, the excess may represent a contribution by the shareholders in their capacity as shareholders rather that a 'gain on bargain purchase'.

(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?

**Our Response**

(c) None.

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?

**Our Response**

We agree with 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. We believe that this may be more prudent as it would limit distortion of the historical information about the transferred company.

## Appendix 1

| Applying a book-value method |
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| **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?

**Our response**

ICPAU agrees 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 as this does not need to be prescribed by IFRS Standards.
b. The consideration paid in assets should be measured at the receiving company's book values of those assets at the combination date and that the consideration paid by incurring or assuming liabilities should be measured at the amount determined on initial recognition of the liability at the combination date applying the relevant IFRS Standards.

| Applying a book-value method |
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| **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?

**Our Response**

ICPAU agrees that 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. We believe this is in line with the requirement in IAS 1 that transactions with owners acting in their capacity as owners should be reported in the statement of changes in equity.

Applying a book-value method

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?

**Our Response**

Yes, ICPAU agrees with these views. We note that under IFRS 3, transaction costs other than costs of issuing shares or debt instruments are not deemed part of the exchange between the buyer and the seller for the business but rather as separate transactions in which the buyer pays for the services received. Therefore, we agree that there is no reason for a book-value method to treat transaction costs differently from the approach required by IFRS 3.

Applying a book-value method

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?

**Appendix 1**

**Our Response**

In our opinion, the requirements for companies applying a book value method to a business combination under common control should be consistent with those of IFRS 3.

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?

**Our Response**

Yes, ICPAU agrees with the Board's preliminary views. We are further supportive of 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 business combinations under common control.

**Appendix 1**

| Disclosure requirements |
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| 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:<br>(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);<br>(b) the Board should not require the disclosure of pre-combination information; and<br>(c) the receiving company should disclose:<br>(i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and<br>(ii) the component, or components, of equity that includes this difference.<br>Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why? |

**<u>Our Response</u>**

Yes, ICPAU agrees with the Board's preliminary views.