EFRAG Draft Comment Letter on BCUCC project

Mr. Jean-Paul Gauzès
President of the EFRAG Board
EFRAG
Square de Meeûs 35
B-1000 Brussels
Belgium

Lisbon, 30 July 2021

Subject: EFRAG Draft Comment Letter on BCUCC

Dear Mr. Gauzès,

The Portuguese Accounting Standard Setter (Comissão de Normalização Contabilística - CNC) appreciate the opportunity to comment on the EFRAG Draft Comment Letter on Business Combinations under Common Control.

Individual and Separate Financial Statements

CNC agrees with EFRAG concerning the need for a discussion on the effects of common control transactions on individual and separate financial statements.

Common control transactions are usual in Portugal within companies that use IFRSs and many of the listed Portuguese' companies use international accounting standards in their separate accounts. Common control transactions have relevant impacts on individual accounts (after a merger or an acquisition of assets forming a business) or on separate accounts so they will necessarily have tax and corporate law material effects. The issue is even more important when firms use the equity method on separate financial statements as provided in IAS 27.

Effects of common control transactions in individual and separate financial statements will affect shareholders and the capital market as they will affect tax' cash flows and dividends. So, CNC points out the major importance of deeply discuss accounting of common control transactions and their impact on individual and separate financial statements, mainly when firms use the equity method on separate financial statements.

CNC is aware that in Portugal BCUCC are accounted by the acquisition method, even when they are not in the scope of IFRS 3, mostly because the transfer is conditional on a sale of the combining company to an external party. Using the acquisition method in BCUCC is particularly common in Portugal in demerges under common control followed by a sale to an external party, like an IPO or a sales agreement with a private equity fund.

Because of the diversity in practice and the important impacts on tax and corporate law, affecting future cash flows, CNC is of the opinion that the IASB project should clearly cover individual and separate accounts and not mostly only consolidated accounts.

Given the frequent use of the acquisition method within fully owned common control transactions, CNC is of the opinion that this method should be applicable when control proves to be transitory.

Selecting the measurement method

CNC fully agree with EFRAG concerning the expansion of the scope of entitles to include debt traded in a public market or assets held in a fiduciary capacity. CNC agrees with EFRAG too concerning the reversion of step 1 and step 2. Concerning the related part exception, CNC does not support the exception as the non-controlling interests of the receiving company, even if related, should not be prevented for the economical and material effects of the common control transaction. At least the exemption should be optional, as EFRAG suggests.

Applying the acquisition method

CNC supports EFRAG suggestion of recognizing any negative difference between the fair value of consideration paid and the fair value of identifiable acquired assets and liabilities as a gain in profit or loss, prevailing the consistency with the requirements in IFRS 3.

Applying a book value method

CNC believes that, when applying the book value method, an option should be provided concerning the use of the carrying amounts in the consolidated financial statements of the transferred company's controlling party or the use of the carrying amounts in the financial statements of the transferred company.

Please do not hesitate to contact us (secretariado@cnc.min-financas.pt) for any additional questions.

Yours sincerely,

CNC Vice-President

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(Lúcia Lima Rodrigues)