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Dear Ms Flores,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, I appreciate the opportunity to comment on the Discussion Paper *Accounting for Business Combinations under Common Control* ("Discussion Paper") of the European Financial Reporting Advisory Group (EFRAG) and the Organismo Italiano di Contabilità (OIC). Principal authors of this comment letter were Josef Arminger, Christian Höllerschmid, Erich Kandler, Helmut Kerschbaumer, Walter Müller and Andreas Rauter. The professional background of these authors is heterogeneous (preparers, academics, and accounting firms) in order to assure a balanced Austrian view.

GENERAL REMARKS

In general, we welcome the Business Combinations under Common Control (BCUCC) project. Taking the initiative to stimulate debate on the issues and to assist the International Accounting Standards Board (IASB) in making progress with its common control project seems appropriate, given that questions on this subject come up all the time and that the IASB's project was deferred pending completion of the projects set out in the IASB's Memorandum of Understanding with the FASB.

The current lack of guidance in IFRSs on dealing with such transactions results in divergent practices. EFRAG's project could be a valuable input to IASB's pending project when it is reactivated, if issues relating to transactions under common control can be addressed in a comprehensive manner.

In order to achieve that goal, we think that developing a set of indicators to distinguish business combinations under common control from other business combinations is an essential first step, before any consideration of the appropriate accounting treatment for BCUCC.

In this context we encourage EFRAG and OIC to reconsider the scope of the BCUCC Discussion Paper so that any approaches developed can be applied to other common control transactions that are not business combinations. For this reason, our answers in the 'Specific Remarks' section generally refer to all common control transactions rather than just the BCUCC of the Discussion Paper.

In our view, the main principle governing common control transactions can be summarised as follows. Where an analogy to IFRS 3 is considered to apply, the transactions should be accounted for using the acquisition method; otherwise, we recommend the use of predecessor accounting.

SPECIFIC REMARKS

<u>Question 1.1 – Concerns about BCUCC transactions</u>
Do you think that the concerns have been accurately described in relation to the issues arising from accounting for BCUCC transactions? If not, please could you suggest other significant concerns that have not been addressed?

We believe that the general concerns of the various parties have been adequately addressed. In particular, the Discussion Paper emphasises that the absence of specific guidance in IFRSs on dealing with transactions under common control results in diversity in practice. However, the general concerns are broad, and the narrow scope of the Discussion Paper does not reflect these broad concerns.

The Discussion Paper limits the scope of discussion to common control transactions that are business combinations. In our view, the principles to be explored and the approaches to be developed should also be capable of being applied to other common control transactions that do not necessarily meet the definition of a business combination, such as reorganisations and group restructurings.

<u>Question 1.2 – The approaches in practice</u>
In your experience, what approaches are typically applied by preparers in practice for BCUCC transactions and what justification is provided to support their application of these approaches?

Depending on the nature of the transactions and the circumstances, we have observed the following approaches being applied in practice:

- Predecessor basis of accounting
- Acquisition method (as described in IFRS 3)
- Fresh start accounting

<u>Question 2.1 – The scope of the project</u>
Are there any issues not included in the scope of the DP that, in your view, need to be addressed in developing an approach to accounting for BCUCC in the consolidated financial statements of the transferee?

In our view the scope of the project should not be limited to common control transactions that meet a particular definition (e.g., the IFRS 3 definition) of a business combination. We support the development of principles-based guidance that can be applied to all transactions under common control, so that there will be no exceptions in applying the guidance under IFRSs.

Question 2.2 – Separate and individual financial statements of the transferee

Do you believe that there are any specific issues to be addressed in the initial recognition and measurement of BCUCC in the separate and individual financial statements? If so, please explain what those issues are and how they should be addressed?

Application of IFRSs in the separate and individual financial statements has currently no significant relevance for Austria, so we refrain from comment on this question.

Question 2.3 – Disclosures

Are there any specific issues you think need to be addressed when considering what information about a BCUCC should be disclosed in the notes to the financial statements of the transferee?

Given the nature of common control transactions, adequate disclosures in the notes to the financial statements of the transferee should be required. We recommend the use of the disclosure requirements of IAS 24 as a basis for developing relevant disclosures for common control transactions.

Question 3.1 – Addressing the information needs of primary users

Do you agree that an important step is to understand the information needs of users in the financial reporting of a BCUCC transaction? If not, how else would you set out an approach that satisfies the objective of financial reporting?

See our answer to Question 3.2.

Question 3.2 – The transferee is a reporting entity

It is noted above that the analysis in this DP is taken from the perspective of the transferee (entity perspective) as opposed to the perspective of the owners (proprietary perspective). Do you agree that, to be consistent with existing IFRS, the entity perspective should be dominant when considering BCUCC? If not, why not?

The 'primary users' of financial reporting are clearly defined in the Conceptual Framework for Financial Reporting (2010). The information needs of the primary users should not be understood differently in the context of a common control transaction. However, the approach applied should not negatively influence the level of information provided.

Question 3.3 – Applying the logic of the IAS 8 hierarchy to help develop an approach on how to account for BCUCC

Do you agree with applying the 'logic' of the IAS 8 hierarchy in developing an approach to accounting for BCUCC transactions? If not, what alternative would you propose and how would you reconcile that approach with existing IFRS?

Applying the logic of the IAS 8 hierarchy could be useful in developing basic principles of accounting for common control transactions. However, in order to address the concerns about diversity in practice, accounting for common control transactions needs a new IFRS. In our view, developing an interpretation based on existing IFRSs would not be sufficient to ensure appropriate accounting policies that are faithful representations of common control transactions.

Question 3.4 – Initial recognition and measurement

Do you agree that if and when an analogy to IFRS 3 is considered to apply, it is appropriate to assume that fair value at initial recognition provides information that is more decision-useful than values based on previously recognised amounts or any other measurement attribute? If not, please explain why?

In order to develop an appropriate accounting approach, common control transactions need to be divided into those where an analogy to IFRS 3 should be applied and those where an analogy to IFRS 3 does not apply. Both types of common control transactions are to be found in practice. Principles-based categorisation criteria for different classes of common control transactions should therefore be developed, on which appropriate accounting methods can be based.

As explained above, the scope of the Discussion Paper is in our view too limited: the recognition and measurement criteria should also be applied to other transactions under common control which do not necessarily meet the definition of a business combination.

Where an analogy to IFRS 3 is considered to apply, in our opinion initial measurement should be based on fair values. However for common control transactions where some or all of the prerequisites of a business combination are not present, other accounting methods may be appropriate (e.g., predecessor accounting).

Question 3.5 – Initial recognition and measurement

Do you agree that if the analogy to IFRS 3 does not apply, defining an appropriate measurement attribute should be guided by an analysis of the information needs of users? If not, why not?

See our answers to Questions 3.2 and 3.4.

Question 4.1 – The unique features of a BCUCC transaction

Do you agree with the main features of a BCUCC identified above? If not, what other features would you highlight?

We are not convinced that the features identified in the Discussion Paper are necessarily unique features, or that they are comprehensive. IFRS 3 provides a definition of BCUCC. The Discussion Paper does not appear to explore this concept comprehensively. Current definitions and principles in existing IFRSs should also be considered when identifying the main features of BCUCC (e.g., the prerequisite of commercial substance of an exchange transaction as outlined in IAS 16 paras. 24 and 25).

We acknowledge that identification of distinguishing features of a common control transaction is difficult, but we think that developing a series of indicators to determine whether a transaction under common control possesses such features will be critical for application in practice.

<u>**Question 4.2 – The unique features of a BCUCC transaction**</u>

It is noted above that BCUCC can be substantially different in nature from business combinations between unrelated parties. Do you agree that a BCUCC can be different to a business combination under IFRS 3? If so, describe examples you have encountered in practice that verifies this. If not, please explain why?

We believe that until a set of operational indicators for identifying transactions under common control is available, it is difficult to discuss meaningfully whether or not a BCUCC is different in nature to a business combination under IFRS 3.

<u>**Question 4.3 – Understanding the information needs of users about BCUCC transactions**</u>

Do you agree with the analysis that has been performed in relation to the information needs of users? If not, why not?

We accept that BCUCC represent a diverse group of transactions for which different accounting methods may need to be applied. However, the needs of the users discussed in the Discussion Paper should not override the needs of the primary users of financial reporting as clearly defined in the Conceptual Framework – there seems no basis for a different interpretation in respect of common control transactions. The needs of the users identified in the Discussion Paper should also not affect the definition of the nature and substance of a common control transaction.

<u>**Question 4.4 – Identification of an acquirer**</u>

Do you think that with BCUCC it may be difficult in some circumstances to identify an acquirer (View A) or do you believe that an acquirer can always be identified (View B)?

We believe that in some circumstances identification of an acquirer may be difficult and that an acquirer may not always be identified in a common control transaction.

<u>**Question 4.5 – Identification of an acquirer**</u>

If you believe that an acquirer can always be identified in a BCUCC, do you think that an analogy to IFRS 3 is not valid because the ultimate parent entity can direct the identification of an acquirer so that the accounting outcome is not a faithful representation of the underlying BCUCC transaction?

See our answer to Question 4.4.

Question 4.6 – Obtaining control over one or more businesses

Do you agree with the analysis above that under IFRS 10 'control' should be assessed from the perspective of the reporting entity and not from that of the ultimate parent entity? If not, why not?

While identification of an acquirer in a common control transaction may be arbitrary, the same holds true for a normal business combination when applying the concept of control under IAS 27 or IFRS 10. Therefore, we do not believe that the concept of control under IFRS 10 should be interpreted differently for BCUCC than for other business combinations.

Question 4.7 – Acquisition of a business

Do you agree that the definition of a 'business' in IFRS 3 raises no particular issues for BCUCC? If not, why not?

We believe that the definition of a business does not in itself raise any particular issues for common control transactions. However, as explained above, the scope of transactions covered by the Discussion Paper is limited, and we recommend extending the scope to include a wider range of transactions under common control.

Question 4.8 – Applying the 'mechanics' of IFRS 3 – the recognition and measurement principle

Do you think the absence of a market-based transaction can have consequences when applying the recognition principle in IFRS 3 because of a lack of measurement reliability? If so, do you agree with the analysis? If not, why not?

We think that the absence of a market-based transaction could have accounting impacts; however, the primary reason for such consequences would not necessarily be a lack of measurement reliability. Other factors might result in a variety of accounting impacts (e.g., a lack of commercial substance of the transaction, etc.). For example, if the consideration transferred in a common control transaction exceeds the net amount of the identifiable assets acquired and the liabilities assumed at acquisition date, measured in accordance with IFRS 3, the difference might not necessarily represent goodwill, but could represent a distribution to the owners. Conversely, if the consideration transferred is less than that net amount, the difference could represent a capital contribution and not a gain from a bargain purchase.

Question 4.9 – Applying the 'mechanics' of IFRS 3 – the recognition and measurement principle

Do you think it is appropriate to apply the measurement principle in IFRS 3 to BCUCC when the analogy to IFRS 3 is valid? If not, why not?

We think that it is – in general – appropriate to apply the measurement principle in IFRS 3 when the analogy to IFRS 3 is valid. There may however be common control transactions where drawing an analogy to IFRS 3 might not result in a faithful presentation.

Question 5.1 – View one: IFRS 3 can always be applied by analogy

Do you believe that the transaction price should be referenced against the fair value of the business acquired and bifurcated (when the transaction price exceeds the fair value of the

business acquired) if the transaction price does not reflect a proxy for fair value? This ensures the BCUCC transaction reflects two transactions: a) a contribution from (distribution to) the ultimate parent entity, and b) a business combination.

See our answer to Question 5.3.

Question 5.2 – View one: IFRS 3 can always be applied by analogy

Do you believe that goodwill and/or identifiable intangible assets should not be recognised in the balance sheet of the acquirer on the basis that they cannot be reliably measured?

See our answer to Question 5.3.

Question 5.3 – View one: IFRS 3 can always be applied by analogy

Do you believe that where the consideration transferred is lower than the fair value of the net assets acquired, the difference should reflect a contribution from the ultimate parent entity or recognised as income?

We do not support View one, as we do not believe that IFRS 3 can always be applied by analogy to common control transactions.

Question 5.4 – View two: It is not appropriate to apply IFRS 3 by analogy

Do you think that the BCUCC should be viewed as a 'transfer' of a business rather than an acquisition of a business when the analogy to IFRS 3 can never be applied?

See our answer to Question 5.5.

Question 5.5 – View two: It is not appropriate to apply IFRS 3 by analogy

Do you believe that all the arguments and views presented are valid when it is not appropriate to apply an analogy to IFRS 3?

We do not support View two, as we believe that IFRS 3 may be regarded as appropriate for numerous (but not all) BCUCC.

Question 5.6 – View three: The analogy to IFRS 3 may apply

Do you agree that the approaches outlined in Appendix 3 are unlikely to result in decision-useful information? If not, why not?

See our answer to Question 5.8.

Question 5.7 – View three: The analogy to IFRS 3 may apply

Do you believe that the diversity in the information needs of users when compared to a business combination and the cost constraint in financial reporting provide justification to consider whether or not the recognition and measurement principle in IFRS 3 are appropriate when accounting for BCUCC?

See our answer to Question 5.8.

Question 5.8 – View three: The analogy to IFRS 3 may apply

Do you believe that all the arguments presented in relation to view three are valid or are there others that you would consider?

Although IFRS 3 may apply by analogy to numerous transactions under common control, we do not agree that IFRS 3 can be presumed to be applicable under all circumstances. Where IFRS 3 applies, we do not understand why the issue of measurement reliability should be unique to common control transactions. Depending on the facts and circumstances, the recognition and measurement criteria used for BCUCC can be diverse.

In all events, however, discussion of the recognition and measurement principles involved should be based on the nature of common control transactions, with a series of indicators being developed to reflect the key features of such transactions.

We appreciate the attempt of the Discussion Paper to provide input for a harmonisation of accounting for BCUCC, but in our view there should be two alternative accounting treatments for BCUCC transactions. Where an analogy to IFRS 3 is considered to apply, the transactions should be accounted for using the acquisition method; where an analogy to IFRS 3 is inapplicable, we advocate the use of predecessor accounting.

Please do not hesitate to contact us if you wish to discuss any aspect of our comment letter in more detail.

Kind regards,

Romuald Bertl

Chairman