THE 100 GROUP

Stakeholder Reporting and Communication Committee

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

1 September 2021

Dear Mr Barckow,

Please find enclosed our response to the Discussion Paper: Business Combinations under Common Control.

This response has been prepared by the 100 Group Stakeholder Reporting and Communication Committee and is intended to speak on behalf of the Group as a whole. The 100 Group membership represents around 90% of the FTSE100 market capitalisation as well as a number of equally significant sized unlisted businesses. We note that whilst this letter expresses the views of the 100 Group as a whole, these views are not necessarily those of individual members nor their respective employers. We thank you for the opportunity to comment on your proposal and would invite any further dialogue which you would deem of value.

We are largely supportive of the proposals contained within the discussion paper but have a handful of application comments.

In particular, we have concerns about the proposed volume of disclosures when this paper is considered alongside the recent Discussion Paper on Business Combinations – Disclosures, Goodwill and Impairment (DP2020/1). In our view, lengthy disclosures do not necessarily enhance the transparency and comparability of the financial statements taken as a whole. This is particularly true for business restructures, which are often driven by different commercial rational than external acquisitions.

There will also need to be increased optionality, permitted in specific circumstances. For example, to allow companies to select using the acquisition method or to allow retrospective restatement of comparative figures when a new "Top Co" is created to support a restructure or floatation.

Whilst the discussion paper focusses on the receiving company's consolidated accounts, it will be important for any future standard to cross reference to IAS 27 Consolidated and Separate Financial Statements, which provides guidance on how the transaction should be treated in the acquiring company's individual accounts and IAS16 Property Plant and Equipment, which provides guidance on the transfer of assets under common control. This will support the usability of any future standard. We also encourage the IASB to consider grey areas within this standard as part of the wider Business Combinations under Common Control project, for example impairment of the cost of an investment when trade and assets are sold up the group ownership structure at book value.

Given that our comments are limited in nature we have chosen to elaborate on these within the Appendix to this letter, as opposed to providing responses to all the detailed questions included in the discussion paper. We have sought to be clear and constructive in our feedback. We hope you find that they provide helpful insight as you move to the next stage of the project.

Please do contact our secretariat Hannah Maughan at secretariat@the100group.co.uk should you wish to discuss any of our comments in further detail and she will be very happy to put you in touch with us.

Yours sincerely,

Iain J Mackay,
Chair of the 100 Group Stakeholder Reporting and Communication Committee

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

Appendix – 100 Group comments on the Business Combinations under Common Control discussion paper.

Section 2 - Selecting the measurement method

The majority of our members are largely supportive of the proposed selection methodology, which would drive consistent application across companies. However, we believe that it would be beneficial to allow companies optionality to deviate from the prescribed selection method in rare and specific circumstances. For example, some of our members have had to restructure their groups to comply with local regulations to restore net assets in those jurisdictions due to the impact of the Covid-19 pandemic. Retaining the optionality to apply the acquisition method for such business combinations would be more reflective of the substance of these transactions.

Furthermore, a lack of optionality to apply the acquisition method may have unintended consequences in how transactions under common control are undertaken. For instance, the receiving company could structure a transaction such that the individual assets and liabilities of an entity are sold at fair value, circumventing the proposed accounting requirements under IFRS 3. Accounting standards should not drive the structure or commercial rationale of a restructuring event.

Some of our members, however, would prefer book value methods to be available in all circumstances where the business combination does not result in a change in the ultimate control of the acquired business. They believe that the benefits to minority shareholders in a group reorganisation are outweighed by the additional cost and administrative burdens of applying the acquisition method.

Section 3 - Applying the acquisition method

We disagree with the Board's preliminary view that any excess fair value of the identifiable acquired assets and liabilities over the consideration paid should be recognised as a contribution to equity, as opposed to a bargain purchase gain in the statement of profit or loss. In our view, when the acquisition method is being applied it should be aligned, as far as possible, with the existing IFRS 3 methodology.

In practice, a gain on bargain purchase would be uncommon when there are non-controlling interests, thus when the acquisition method is required. The controlling party is unlikely to allow a transfer of wealth to non-controlling investors, so when these transactions do occur the terms are likely to be at, or close to, arm's length commercial terms, and as such the existing requirements of IFRS 3 would be appropriate to apply.

Whether the excess of the fair value of the assets and liabilities of the acquiree over the fair value of consideration paid is reflected as a contribution to equity or as a bargain purchase in the income statement, consistency should be applied with the accounting treatment for business combinations achieved in stages (IFRS 3 paragraphs 41-42), where the previously held equity interest in the acquiree is remeasured resulting in a gain or loss in the income statement. The rationale given for such equity accounting in section 3.6 of the discussion paper would equally apply to business combinations achieved in stages, and we would not expect a mixture of equity and income statement accounting to be useful to users of the financial statements.

Section 4 - Applying a book-value method

While we agree with prospective application from the acquisition date as a general rule we encourage the IASB to allow retrospective restatement of comparative figures, supported by explanatory disclosures, in rare and specific circumstances to ensure usefulness of the financial statements. For example, when a new "Top Co" is created to support a restructure or floatation (and in certain instances is required under local corporate law), not allowing the restating of prior year comparatives would result in the receiving company's financial statements effectively not containing any data, which would not be reflective of the substance of the transaction.

Guidance on which component of equity a receiving company should present differences, arising as a result of applying the book value method, would be beneficial to ensure consistency of application across companies.

Section 5 - Disclosure requirements

In our response to the IASB Discussion Paper on Business Combinations – Disclosures, Goodwill and Impairment (DP2020/1) dated 9 December 2020 we highlighted that we had significant concerns in relation to the proposed disclosure requirements.

In our view, lengthy disclosures do not necessarily enhance the transparency and comparability of the financial statements taken as a whole. This is particularly true for business restructures, which are often driven by different commercial rationale than

external acquisitions. Clear and concise narrative on the rationale for the business combination(s) under common control and whether it is expected to generate greater returns for the group, and ultimately shareholders of the group, would be more beneficial than detailed disclosures on the performance and internally monitored key performance indicators.

For example, if a business combination under common control is undertaken to align a group's legal structure and operating structure, with a view to future floatation of that component of the group, then an understanding of the substance and purpose of the business combination would provide more relevant information to users of the financial statements than lengthy disclosures in line with the aforementioned Discussion Paper.

Given that the proposed disclosure requirements will only be required within the receiving company's consolidated accounts, it will also be important to ensure that overly onerous disclosure requirements do not result in transactions being structured in order to circumvent consolidated accounts. This would defeat the purpose of the proposals and result in unnecessary cost inefficiencies for businesses.

As a minimum we recommend an exemption is provided to allow the aggregation of disclosures where a group restructure includes multiple homogenous transactions and disclosure of each individual transaction would be duplicative, potentially diluting the understandability of the restructuring activity to users of the financial statements. For example, where a group simultaneously transfers multiple individual entities to a single receiving company.