September 1st, 2021

International Accounting Standards Board
Columbus Building
7 Westferry Circus
London, E14 4HD United Kingdom

Subject: DP/2020/2 – *Business Combinations under Common Control*

The Canadian Securities Administrators Chief Accountants Committee appreciates the opportunity to comment on the International Accounting Standards Board (**IASB** or the **Board**) Discussion Paper on *Business Combinations under Common Control* (the **DP**). The Canadian Securities Administrators (**CSA**) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants Committee (**CAC**) is comprised of the Chief Accountants from the provinces of British Columbia, Alberta, Ontario and Québec.

We support the IASB's effort to explore possible reporting requirements for a receiving company that would reduce the diversity in practice in the accounting of business combinations under common control (**BCUCC**) transactions. We provide the following comments about a few key aspects of the preliminary views outlined in the DP.

I. Project Scope *(Question 1 of the DP)*

We agree that the scope should include all transfers of businesses in which all of the combining companies are ultimately controlled by the same party, irrespective of whether the transfer 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 is conditional on a sale of the combining companies to an external party, such as in an initial public offering. However, we are concerned that the preliminary views in the DP appear to allow opportunities for accounting arbitrage, whereby entities can achieve certain accounting outcomes based on the structure of the transaction(s) alone. While we agree that the DP should focus on the receiving company's reporting, we think that the Board should consider providing guidance pertaining to the accounting by the ultimate controlling party as part of a future project.

Further, we think that the IASB should re-examine the description of combination of entities or businesses under common control and the concept of transitory control as it currently exists in IFRS 3 *Business combinations* (**IFRS 3**). At present, the meaning of transitory control is not described in IFRS 3 and therefore, if the Board determines that the transitory control concept is to be retained, then we think the Board should develop more guidance and examples on how to apply the concept.

II. Selecting the measurement method *(Question 2 of the DP)*

General Comments

We agree with the Board's preliminary views that neither the acquisition method nor a book-value method should be applied to all BCUCC. However, as outlined below, we are concerned with the Board's preliminary view that the acquisition method should be applied if the BCUCC affects non-controlling shareholders of the receiving company (subject to an optional exemption for private companies where the non-controlling shareholders do not object to the use of the book-value method, and a required exception for private companies where the non-controlling shareholders are related parties).

Non-Controlling Shareholders

While we agree that effects on the non-controlling shareholders is relevant for determining whether the acquisition method is appropriate, in our view, it should not be the sole determinative factor. We think other factors are also relevant. For example, we have observed BCUCC transactions in our jurisdictions where the acquisition method has resulted in significant measurement uncertainty and the recognition of goodwill that is not evidenced by a transaction price between independent parties. In these cases, notwithstanding the existence of non-controlling shareholders, the "fair values" do not provide useful information for users.

We think that the following factors are relevant in concluding that a BCUCC transaction should be accounted for by the acquisition method (similar to a business combination not under common control):

- The transaction has a discernible overall commercial effect.
- There is a substantive change in the ownership or rights of non-controlling shareholders.[1]
- There is a substantive change[1] in the ultimate ownership structure of the acquiree.
- The receiving company ultimately controls the transferred company.
- There is reliable and independent evidence to support the determination of the transaction price.

The Board may identify additional factors that indicate a transaction is similar to a business combination not under common control, and thus should be accounted for by the acquisition method.

Notwithstanding our recommended multi-factor approach outlined above, we think that the DP lacks clarity regarding what is meant by 'affects' non-controlling shareholders of the receiving company. For example, when the shareholder group (controlling and non-controlling shareholders) is the same in both the transferring and receiving company, it is unclear if the simple existence of non-controlling shareholders in the receiving company is sufficient to conclude that the BCUCC affects the non-controlling shareholders. Also, it is unclear if the level of ownership percentage of a non-controlling shareholder could influence the transaction evaluation (i.e., where non-controlling shareholders only represent a small proportion of the entities' total shares outstanding). We recommend that the Board clearly

[1] *Note that the CAC did not contemplate a distinct benchmark of what we would generally consider to be a "substantive change" but think it would have to be a more than de minimis amount.*

define the meaning of "affects non-controlling shareholders," and consider developing qualitative or quantitative criteria to highlight those BCUCC transactions that affect non-controlling shareholders of the receiving company.

Shares traded in a public market
We think that the method to account for BCUCC transactions should not depend on whether the shares of the receiving entity are traded in a public market. Removing this proposed feature of the Board's approach would improve comparability between companies, which is valued by investors of both listed and unlisted companies. Consistency may also reduce costs for entities that are preparing to become listed.

III. Disclosure requirements

Pre-combination information (Question 10 of the DP)
We disagree with the Board's preliminary view that when applying a book-value method to a BCUCC, the receiving company be prohibited from restating pre-combination information of the transferred company. We are of the view that pre-combination information may be useful for users of financial statements. In addition, in many jurisdictions, including ours, pre-combination information may be required for initial public offerings. Therefore, at minimum, we recommend that the Board should give the receiving company a choice of restating pre-combination information.

Other disclosure requirements (Question 11 of the DP)
We agree with the Board's view that the book-value method differs from the acquisition method, and that the requirements of a description of factors that make up acquired goodwill and the amount of the gain recognized in a bargain purchase are not relevant. However, we are of the view that this information should be required when applying the book-value method for the amount recognized within equity.

The Board has reached the preliminary view that when a book-value method is used, companies should be required to disclose the information outlined in paragraph 5.19 of the DP. While we understand that the Board has not yet discussed all aspects of a book-value method and the related disclosure, we have identified the following IFRS 3 disclosure requirements to be considered when a book-value method is applied:

- Description and amount recognized for separate transactions (IFRS 3.B64(l) and (m)).
- Similar disclosure to what is required under IFRS 3.B64(n) or IFRS 3.B64(e), to provide a description of the difference between the consideration paid and the book value of the assets and liabilities received when recognized within equity under the book-value method.

If you have any questions about this letter, please do not hesitate to contact us.

Yours truly,

The CSA Chief Accountants Committee

Suzanne Poulin
Chief Accountant
Autorité des marchés financiers
(514) 395-0337 ext. 4411
suzanne.poulin@lautorite.qc.ca

Carla-Marie Hait
Chief Accountant
British Columbia Securities Commission
(604) 899-6726
chait@bcsc.bc.ca

Cameron McInnis
Chief Accountant
Ontario Securities Commission
(416) 593-3675
cmcinnis@osc.gov.on.ca

Cheryl McGillivray
Chief Accountant
Alberta Securities Commission
(403) 297-3307
cheryl.mcgillivray@asc.ca