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

SOCPA Comments on Discussion Paper: Business Combinations under Common Control

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the International Accounting Standards Board (Board) and welcomes the opportunity to comment on the Discussion Paper DP/2020/2: *Business Combinations under Common Control*.

Below are our comments on the questions raised in the discussion paper:

Response to Question 1: SOCPA agrees to paragraph (a). For paragraph (b), it is not clear whether combination has taken place or not. Accounting is all about historical transactions that materialized on the financial statements. Therefore, the Board is requested to clarify why it reached this preliminary view.

Another observation concerning section 1:

The Discussion Paper states in paragraph 1.23 that the project is not addressing how a receiving company should report in its separate financial statements an investment in a subsidiary received in a business combination under common control. That topic is addressed by IAS 27 *Separate Financial Statements*. SOCPA considers that the issue is still there, specifically determination of cost at initial recognition, i.e., whether the investment is accounted for at initial recognition using the fair value (according to IFRS 3) or book value (in the books of the transferred company or in the books of the parent company), and how the difference between the compensation and the investment fair value should be treated if the compensation is in form of transferring other assets or an equity interest in the receiving entity. IAS 27 does not deal with the initial recognition of the investment. In other words, business combination under common control is not about whether to consolidate or not, rather it is about how to initially recognize such combination.

Response to Question 2: SOCPA supports the use of a single method (book-value method) to all Business Combinations under Common Control for the following reasons:

- In all business combination under common control, there is no real acquirer and acquiree since the transaction is directed by the controlling party.
- The driver of the BCUCC is the controlling party's desire to restructure its business. The receiving company is only a vehicle to effect such restructuring.
- Since both the receiving and transferred companies are controlled by the same party, the controlling party is the one who decides which company is acquiring the other. Applying acquisition method will allow the controlling company to create a favourable outcome by deciding which company is acquiring the other.

- It is not clear how the Discussion Paper concludes that the ownership interest of the controlling party in those economic resources is reduced. Most business combinations under common control, if not all, are performed by issuing shares of the receiving company to the owners of the transferred company, usually the controlling company. Therefore, the opposite occurs, i.e., the ownership of the controlling party increases in the receiving company while the non-controlling shareholders interest decreases.

Other observations concerning section 2:

- The Discussion Paper states in paragraph 2.16 that the combinations under common control always have economic substance for the receiving company because the receiving company gains control of a business that it did not control before the combination, just as occurs in a business combination covered by IFRS 3. SOCPA disagrees with the Board's conclusion. In fact, the economic substance for the controlling company is exactly as the one resulting from restructuring. The fact that both receiving and transferred companies are under common control means that a benefit gained from the combination is decided by the controlling company. If fresh start or other methods that may allow for recognizing internally generated intangible assets at fair value including goodwill are accepted for restructuring, then business combination under common control may qualify for recognizing the economic substance of restructuring effected through business combinations under common control.
- The Discussion Paper states in paragraph 2.59 that requiring a book-value method for all business combinations under common control "would result in companies reporting transactions that are similar to transactions covered by IFRS 3 applying a method that is different from the method required by IFRS 3. Hence, if the Board pursued such an approach, users of the receiving company's financial statements would receive information that is less relevant and less comparable". SOCPA does not agree with the Board that some business combinations under common control are similar to transactions covered by IFRS 3. In fact, as all business combinations under common control are directed by the controlling party, there is no real acquirer and acquiree, and therefore, the application of acquisition method would not be appropriate in such circumstances. As stated above in the overall response to question 2, the driver of the combination is the controlling party's desire to restructure its business. The receiving company is only a vehicle to effect such restructuring.

Response to Question 3: SOCPA supports the use of a single method (book-value method) to all BCUCC for the reasons stated in the response to Question 2.

Response to Question 4: As stated before, SOCPA suggests that receiving company should be required to use book-value method in all business combinations under common control.

Response to Question 5: Although SOCPA suggests applying book-value to all business combinations under common control, it disagrees with the Board's view about overpaid/underpaid consideration when acquisition method is applied. If the acquisition method is to be applied, it should be applied as it is, i.e., according to IFRS 3 with no exceptions. That is because the reasons set out in the paper for requiring the acquisition method are the same as the ones for requiring acquisition method for other combinations.

Response to Question 6: SOCPA agrees with the Board's preliminary view. According to its earlier comments, SOCPA views all combinations under common control as a restructuring administered by the controlling party. Such restructuring should not result in any assets or

liabilities and should not change their carrying amounts unless another IFRS standard requires so when, for example, recognizing impairments, disposals or provisions.

Response to Question 7: SOCPA agrees with the Board's preliminary views. According to our earlier comments, we view all combinations under common control as a restructuring administered by the controlling party. Therefore, such combinations should be effected as if the two entities combine their financial statements.

Response to Question 8: SOCPA agrees with the Board's preliminary views for the same reasons stated in the response to Question 7.

Response to Question 9: SOCPA agrees with the Board's preliminary view. Such costs are part of the restructuring costs.

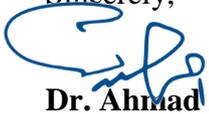
Response to Question 10: SOCPA agrees with the Board's preliminary view. Although we view all business combinations under common control as a restructuring administered by the controlling party, the cost of retrospective application may not justify the benefits and it may not be appropriate if non-controlling interest exists.

Response to Question 11: Although SOCPA suggests applying Book-value method to all business combinations under common control, if the Board proceeds with its proposal, the receiving company should be required to comply with the disclosure requirements in IFRS 3 together with the disclosure requirements in IAS 24 when providing information about these combinations, particularly information about the terms of the combination in light of the application guidance on how to apply those disclosure requirements as issued by the Board.

Response to Question 12: For (a) and (c) of this question, SOCPA agrees with the Board's preliminary views. The proposed requirements will enhance the usefulness of information provided to the users of financial statements of the receiving company. Regarding disclosure of pre-combination information (paragraph (c) of question 12), SOCPA suggests that the Board redeliberate this issue. Availability of this information may provide more insights to the reader about the future effect of the combination. Besides, such disclosure will not entail the same level of cost as retrospective application

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames

SOCPA Chief Executive Officer