



Brussels, 1st September 2021

EACB Comments on the IASB's Discussion Paper DP/2020/2
"Business Combinations under Common Control"

The members of the EACB gladly take the opportunity to comment on the IASB's Discussion Paper (DP) on Business Combinations under Common Control.

The EACB welcomes the Board's efforts to set up reporting requirements for a receiving company that would provide users of its financial statements with transparent information about combinations that are outside the scope of IFRS 3 *Business Combinations*. In particular, we support the IASB's intention to reduce diversity in reporting practices in order to ensure more relevant and comparable information about business combinations under common control with a view to meeting "*the information needs of the receiving company's existing non-controlling shareholders, its potential shareholders and its existing and potential lenders and other creditors*".

However, the EACB disagrees with the Board's preliminary conclusions outlined in the paragraph 2.23 of current DP, which state that "*the acquisition method should be applied to business combinations under common control that affect non-controlling shareholders of the receiving company, subject to the cost-benefit trade-off and other practical considerations*". While we agree that non-controlling shareholders of the receiving company may be affected by the combinations as they acquire an ownership interest in the economic resources of the transferred company, we find it disproportionate to require the application of the acquisition method on this single criterion, even when the combinations affect lenders or other creditors of the receiving company or are undertaken in preparation for a sale of the combining companies. Legal mechanisms are already in place to protect non-controlling shareholders interests, and to regulate the information transmitted to them. Further to that, the EACB members are concerned that requiring the application of the acquisition method will impose the reporting costs on preparers which, we believe, will largely offset the benefits of applying the acquisition method.

The EACB members instead support the application of the book-value method in most cases of the business combinations under common control, including those that affect non-controlling shareholders of the receiving company. We are of the view that the book-value approach captures the substance of the combinations that are primarily considered as a pure group restructuring or reorganization. Most of the time, the operation does not lead to any substantial change in the economic substance of the respective businesses of the receiving company and the transferred one, which is simply a within-group reallocation of the economic resources. These transactions differ fundamentally from market transactions. Here the controlling party, which controls all combining companies before and after the combination, plans and instructs the combination and dictates the major decisions of the receiving company and the transferred company. At the consolidated level, those transactions between the receiving company and the transferred company are eliminated.



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Therefore, we object an application of the acquisition method and propose that the book-value method applies to all of the business combinations under common control. If nevertheless the dual measurement method applies, we recommend that the Board amend its decision tree by taking into account additional factors that capture the substance of these very specific transactions.

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