



August 2021

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

Via email: commentletters@ifrs.org

Dear Sir/Madam,

Discussion Paper *Business Combinations under Common Control*

The Corporate Reporting Users' Forum (CRUF) welcomes the opportunity to provide the IASB with our comments.

The CRUF was established in December 2005 and we have been holding regular meetings since. CRUF Japan has prepared this comment letter based on discussions in CRUF meetings and has reflected input from other CRUFs globally. As always, we do not seek to reach a consensus within the CRUF but to reflect a broad spectrum of users' views.

Our comments are based on our professional experience. Our response below whilst not responding to specific questions, reflects the issues that concern CRUF participants which relate to the areas raised in the consultation.

Our response

We are concerned about divergence in practice regarding measurement approaches for business combinations under common control and call for development of an accounting standard for a uniform accounting treatment, taking the discussion paper as a starting point.

We believe that all business combinations should be subject to the acquisition method in principle. Therefore, we propose amending IFRS 3 *Business combinations* Paragraph 2 to make business combinations under common control subject to IFRS 3 as well. If the example transactions introduced in the discussion paper are deemed "business combinations in financial reporting where the reporting company is considered the top of a consolidated group", they are none other than business combinations falling under the scope of the current IFRS 3, meaning that a uniform accounting treatment irrespective of the shareholder composition of the reporting company (are there controlling and minority shareholders) will be possible. In addition, the complex accounting treatment of booking bargain purchase gains to equity proposed in the discussion paper would not be needed.

We view consolidated financial statements as financial reporting in which the reporting company stands at the top of a consolidated group. If a consolidated subsidiary is the reporting company, then users of the financial statements want financial reporting for the consolidated group headed by that consolidated subsidiary, not its parent company. However, the concept of "under common control" is based on the perspective of the parent company of the consolidated subsidiary that is the reporting company, and we do not think it should be taken into account in financial reporting for the consolidated subsidiary.



If the subsidiary applies IFRS 3 as we propose, the accounting treatment for business combinations would be consistent, enhancing the understandability and comparability of financial statements and meeting the needs of users.

Even if IFRS 3 is applied for combinations under common control, this transaction would be eliminated in the financial reporting for the parent company as an intra-group transaction.

Costs for the preparers of financial statements may be an issue for our proposal. We counter that this is a natural cost for fulfilling the accountability to non-controlling shareholders when taking in capital from sources other than controlling shareholders. However, in the event that the consolidated subsidiary that is the receiving company has no non-controlling shareholders or that all non-controlling shareholders agree to application of the book-value method, we think it would be acceptable to treat the business combination in question as an intragroup transaction and permit application of the book-value method as an exception out of consideration for costs to the preparer.



About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations depending on their area of interest or expertise. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer or other organisations they are a member of or associated with. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective employer or other organisations. The participants in the CRUF that have specifically endorsed this response are listed below.

Signatures

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