MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

1 September 2021

Mr. Andreas Barckow
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Barckow,

IASB Discussion Paper DP/2020/2
Business Combinations under Common Control

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the Discussion Paper DP/2020/2.

We have considered the preliminary views in the Discussion Paper and our responses to the respective questions are detailed in the Appendix to this letter.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

Unit 13A-1, Menara MBMR, No. 1, Jalan Syed Putra, 58000 Kuala Lumpur
Tel : (603) 2273-3100 Fax: (603) 2273-9400 Email : masb@masb.org.my Website : www.masb.org.my

Appendix

PROJECT SCOPE

Question 1

Paragraphs 1.10–1.23 discuss the IASB's preliminary view that it should develop proposals that cover reporting by the receiving company for all transfers of a business under common control (in the Discussion Paper, collectively called business combinations under common control) even if the transfer:

(a) 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

(b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering.

Do you agree with the IASB's preliminary view on the scope of the proposals it should develop? Why or why not? If you disagree, what transactions do you suggest that the IASB consider and why?

Response

We agree with the IASB's preliminary view.

SELECTING THE MEASUREMENT METHOD

Question 2

Paragraphs 2.15–2.34 discuss the IASB's preliminary views that:

(a) neither the acquisition method nor a book-value method should be applied to all business combinations under common control.

    Do you agree? Why or why not? If you disagree, which method do you think should be applied to all such combinations and why?

(b) in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company, subject to the cost–benefit trade-off and other practical considerations discussed in paragraphs 2.35–2.47 (see Question 3).

    Do you agree? Why or why not? If you disagree, in your view, when should the acquisition method be applied and why?

(c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly-owned companies.

    Do you agree? Why or why not? If you disagree, in your view, when should a book-value method be applied and why?

Unit 13A-1, Menara MBMR, No. 1, Jalan Syed Putra, 58000 Kuala Lumpur
Tel: (603) 2273-3100 Fax: (603) 2273-9400 Email: masb@masb.org.my Website: www.masb.org.my

Response

We agree with the IASB's preliminary views.

Question 3

Paragraphs 2.35–2.47 discuss the cost–benefit trade-off and other practical considerations for business combinations under common control that affect non-controlling shareholders of the receiving company.

(a) In the IASB's preliminary view, the acquisition method should be *required* if the receiving company's shares are traded in a public market.

Do you agree? Why or why not?

(b) In the IASB's preliminary view, if the receiving company's shares are privately held:

(i) the receiving company should be *permitted* to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected (the optional exemption from the acquisition method).

Do you agree with this exemption? Why or why not? Do you believe that the exemption will be workable in practice? If not, in your view, how should such an exemption be designed so that it is workable in practice?

(ii) the receiving company should be *required* to use a book-value method if all of its non-controlling shareholders are related parties of the company (the related-party exception to the acquisition method).

Do you agree with this exception? Why or why not?

(c) If you disagree with the optional exemption (Question 3(b)(i)) or the related-party exception (Question 3(b)(ii)), in your view, how should the benefits of applying the acquisition method be balanced against the costs of applying that method for privately held companies?

Response

We agree with the IASB's preliminary views.

However, one of our stakeholders expressed concerns that permitting the receiving company to use an optional exemption from the acquisition method based on the agreement of the non-controlling shareholders might allow structuring opportunities for entities. For example, the non-controlling shareholders could decide to agree or disagree in order to achieve a certain favourable accounting outcome and possibly cause undesirable effects on the organisation.

Unit 13A-1, Menara MBMR, No. 1, Jalan Syed Putra, 58000 Kuala Lumpur
Tel: (603) 2273-3100 Fax: (603) 2273-9400 Email: masb@masb.org.my Website: www.masb.org.my

On the related-party exception to the acquisition method, some stakeholders suggested that the receiving company be given an option to use the acquisition method. These stakeholders believed that the significance of information in relation to the fair value of net assets acquired from applying the acquisition method would be useful to other users of the company's financial statements.

Question 4

Paragraphs 2.48–2.54 discuss suggestions from some stakeholders that the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies. However, in the IASB's preliminary view, publicly traded receiving companies should always apply the acquisition method.

(a) Do you agree that the optional exemption from the acquisition method should *not* be available for publicly traded receiving companies? Why or why not? If you disagree, in your view, how should such an exemption be designed so that it is workable in practice?

(b) Do you agree that the related-party exception to the acquisition method should *not* apply to publicly traded receiving companies? Why or why not?

Response

We agree with the IASB's preliminary view.

APPLYING THE ACQUISITION METHOD

Question 5

Paragraphs 3.11–3.20 discuss how to apply the acquisition method to business combinations under common control.

(a) In the IASB's preliminary view, it should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach for identifying and measuring a distribution from equity do you recommend and why? In particular, do you recommend either of the two approaches discussed in Appendix C or do you have a different recommendation?

(b) In the IASB's preliminary view, it should develop a requirement for the receiving company to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, not as a bargain purchase gain in the statement of profit or loss, when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach do you recommend and why?

Unit 13A-1, Menara MBMR, No. 1, Jalan Syed Putra, 58000 Kuala Lumpur
Tel: (603) 2273-3100 Fax: (603) 2273-9400 Email: masb@masb.org.my Website: www.masb.org.my

(c) Do you recommend that the IASB develop any other special requirements for the receiving company on how to apply the acquisition method to business combinations under common control? If so, what requirements should be developed and why are any such requirements needed?

Response

(a) We note the IASB's preliminary view on the basis that difficulties faced in accounting for distribution from equity were similar to those considered in developing IFRS 3, whereby the IASB had concluded that in the unlikely event an overpayment occurs, it would be initially included in goodwill and addressed through subsequent impairment testing.

However, in the context of a business combination under common control (BCUCC) where there is no change to the controlling party before and after the combination, recognising goodwill when applying the acquisition method might be akin to recognising internally generated goodwill, which is prohibited under paragraph 48 of IAS 38 *Intangible Assets*. In this regard, we wish to seek clarification as to whether the IASB has considered the interaction and possible inconsistency of its earlier conclusion with IAS 38.

(b) We agree with the IASB's preliminary view that the receiving company should recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, when applying the acquisition method to a BCUCC for the reason as specified in paragraph 3.6 of the Discussion Paper, whereby there is a high possibility of the controlling party determining the amount of consideration. In this circumstance, it is also consistent with requirements of IAS 1 *Presentation of Financial Statements*, that transactions with owners in their capacity as owners should be reported in the statement of changes in equity.

Having said that, we suggest additional explanation to be provided on the rationale for the classification differences accorded in IFRS 3 whereby under the acquisition method, a bargain purchase shall be recognised in the statement of profit or loss. This will provide better clarity and understanding of this Standard and IFRS 3.

(c) We have no further comments.

APPLYING A BOOK-VALUE METHOD

Question 6

Paragraphs 4.10–4.19 discuss the IASB's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should measure the assets and liabilities received using the transferred company's book values.

Do you agree with the IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Unit 13A-1, Menara MBMR, No. 1, Jalan Syed Putra, 58000 Kuala Lumpur
Tel: (603) 2273-3100 Fax: (603) 2273-9400 Email: masb@masb.org.my Website: www.masb.org.my

Response

We agree with the IASB's preliminary view, provided that the transferred company's book values were prepared applying the IFRS Standards and accounting policies adopted by the receiving company.

One of our stakeholders observed that the Discussion Paper does not discuss whether the IASB would provide guidance on how to adjust the book values of the assets and liabilities received to align them with the receiving company's accounting policies when applying the book-value method (refer to footnote to paragraph 4.10 in the Discussion Paper). This stakeholder thinks that guidance on how to adjust the book values and account for differences that arise would be helpful for consistent application of the requirements, for example, if the transferred company is applying the IFRS for SMEs Standard and the receiving company is applying IFRS Standards.

Question 7

Paragraphs 4.20–4.43 discuss the IASB's preliminary views that:

(a) the IASB should not prescribe how the receiving company should measure the consideration paid in its own shares when applying a book-value method to a business combination under common control; and

(b) when applying that method, the receiving company should measure the consideration paid as follows:

   (i) consideration paid in assets—at the receiving company's book values of those assets at the combination date; and

   (ii) consideration paid by incurring or assuming liabilities—at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards.

Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Response

We agree with the IASB's preliminary views.

Question 8

Paragraphs 4.44–4.50 discuss the IASB's preliminary views that:

(a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and

(b) the IASB should not prescribe in which component, or components, of equity the receiving company should present that difference.

Unit 13A-1, Menara MBMR, No. 1, Jalan Syed Putra, 58000 Kuala Lumpur
Tel: (603) 2273-3100 Fax: (603) 2273-9400 Email: masb@masb.org.my Website: www.masb.org.my

Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Response

We agree with the IASB's preliminary views.

Question 9

Paragraphs 4.51–4.56 discuss the IASB's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.

Do you agree with the IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Response

We agree with the IASB's preliminary view.

Question 10

Paragraphs 4.57–4.65 discuss the IASB's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information.

Do you agree with the IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Response

We have no objection to the IASB's preliminary view that the receiving company should apply a book-value method to a BCUCC prospectively from the combination date, without restating pre-combination information, as this is premised on cost–benefit considerations.

We further note paragraphs 4.9(b)(i) and 4.60–4.62 of the Discussion Paper which explain that while pre-combination information could be useful, there is concern that a retrospective approach would provide a picture of a group in a period when that group did not exist.

Unit 13A-1, Menara MBMR, No. 1, Jalan Syed Putra, 58000 Kuala Lumpur
Tel: (603) 2273-3100 Fax: (603) 2273-9400 Email: masb@masb.org.my Website: www.masb.org.my

DISCLOSURE REQUIREMENTS

Question 11

Paragraphs 5.5–5.12 discuss the IASB's preliminary views that for business combinations under common control to which the acquisition method applies:

(a) the receiving company should be required to comply with the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*; and

(b) the IASB should provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 *Related Party Disclosures* when providing information about these combinations, particularly information about the terms of the combination.

Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Response

We agree with the IASB's preliminary views.

Question 12

Paragraphs 5.13–5.28 discuss the IASB's preliminary views that for business combinations under common control to which a book-value method applies:

(a) some, but not all, of the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*, are appropriate (as summarised in paragraphs 5.17 and 5.19);

(b) the IASB should not require the disclosure of pre-combination information; and

(c) the receiving company should disclose:

   (i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and

   (ii) the component, or components, of equity that includes this difference.

Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Response

We agree with the IASB's preliminary views.

Unit 13A-1, Menara MBMR, No. 1, Jalan Syed Putra, 58000 Kuala Lumpur
Tel: (603) 2273-3100 Fax: (603) 2273-9400 Email: masb@masb.org.my Website: www.masb.org.my