



8 December 2020

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

**INVITATION TO COMMENT ON IASB DISCUSSION PAPER
DP/2020/2 *Business Combinations under Common Control***

Comments to be received by 5 July 2021

The Financial Reporting Standards Committee (FRSC) of the Hong Kong Institute of Certified Public Accountants (Institute) is seeking comments on the IASB Discussion Paper DP/2020/2 *Business Combinations under Common Control*. The Discussion Paper is available on the Institute's website:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>

IFRS 3 *Business Combinations* sets out requirements for mergers and acquisitions – referred to as business combinations in IFRS Standards. However, the scope of IFRS 3 explicitly excludes business combinations under common control – combinations in which all of the combining companies or businesses are ultimately controlled by the same party or parties, both before and after the combination. Such combinations are common in many jurisdictions, including Hong Kong.

In the absence of a specifically applicable IFRS Standard for such combinations, companies are required to develop their own accounting policy for these transactions. In some cases, they provide fair-value information about the acquired company and in other cases, they provide book-value information. Moreover, book-value information is provided in various ways and is often insufficient. This diversity in practice makes it difficult for users of financial statements to understand and compare the financial effects of such combinations.

The Discussion Paper sets out the International Accounting Standards Board (IASB)'s preliminary views on how to reduce the diversity in practice and improve the transparency and comparability in reporting business combinations under common control. The IASB's view is that companies should provide similar information about similar business combinations when the benefits of providing that information outweigh its costs. The IASB's preliminary suggestion is that fair-value information should be provided when a business combination under common control affects shareholders outside the group. In other cases, the IASB is suggesting that book-value information should be provided using a single specified approach.

Furthermore, the book-value approach suggested by the IASB is different from the approach under Accounting Guideline 5 *Merger Accounting for Common Control Combinations*. Accordingly, the IASB's preliminary views on when and how each approach should be applied may have a significant impact on the existing accounting practices in Hong Kong.

The FRSC invites your comments on the Discussion Paper by **5 July 2021** to allow your comments to be considered in developing its response to the IASB. Comments should be supported by specific reasoning and should be submitted in written form.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the respondent.