Exposure Draft: Proposed Amendments to Accounting Guideline 5 (Revised) Merger Accounting for Common Control Combinations

Q1) Do you agree with the amendments proposed in this ED? If not, please specify which parts of the proposals you disagree with, why, and what you propose instead.	
Reference for AG5	Details
(a) Scope of AG 5	
Amend AG 5.2 & AG 5.5	Add references to Appendix A of HKFRS 3 for the definitions of "business" and "business combination"
The banks agree with the amendment.	
(b) Controlling party and carrying values	
Amend AG 5.2	Add a reference to paragraphs B2-B4 of HKFRS 3 for guidance on the definition of common control combinations and the concept of "controlling party".
The banks agree with the amendment.	
Amend AG 5.9A	Highlight the use of judgement to determine which controlling parties' perspective should be used to recognise the existing book values of the assets, liabilities and equity of the combining businesses.
The banks agree with the amendment.	
Amend AG 5.19(c)	Add a disclosure requirement to specify the basis for determining the controlling parties' perspective in accordance with AG 5.9A and the identity of that controlling party if it differs from the ultimate controlling party disclosed in AG 5.19(b)
The banks agree with the amendment.	
(c) Measurement of shares issued as consideration	
Add AG 5.19(g)	Add a disclosure requirement on how shares issued as consideration are measured.
The banks agree with the amendment.	
(d) Restating comparatives	

<table>
<tr><td>Add AG 5.11A and amend AG 5.17</td><td>Introduce a practical expedient that allows entities to include the income, expenses, assets, liabilities and equity of the acquired entities or businesses prospectively from the date of the common control combination. Entities applying this expedient shall disclose that fact.</td></tr>
<tr><td colspan="2">The banks agree with the amendment.</td></tr>
<tr><td>Add AG 5.20A</td><td>Add a requirement on the calculation of weighted average number of shares when applying merger accounting using AG 5.11A.</td></tr>
<tr><td colspan="2">The banks agree with the amendment.</td></tr>
<tr><td>Appendix AG 5</td><td>Add examples to illustrate the use of the practical expedient not to restate comparatives under AG 5.11A compared to restating comparatives under Ag 5.10© and 11.</td></tr>
<tr><td colspan="2">The banks agree with the amendment.</td></tr>
<tr><td colspan="2">Q2) Do you agree with the effective date for the proposed amendments to AG 5? If not, please specify why, and what you propose instead.</td></tr>
<tr><td colspan="2">The banks agree with the effective date.</td></tr>
<tr><td colspan="2">Other comments.</td></tr>
<tr><td>1. Transitory common control</td><td>Paragraph 2 of AG5 (Revised) defines a common control combination, in part, as one where ultimate control by the same party or parties is “not transitory”. This wording is carried over from paragraph B1 of HKFRS3. However, neither HKFRS nor AG5 provides a definition or interpretive guidance on what constitutes “transitory” common control. Without clear criteria, some entities may inappropriately apply merger accounting to transactions that should be accounted for using acquisition method under HKFRS3.

The banks respectfully suggest that adding a descriptive paragraph or explicit interpretation of “transitory common control” within AG5 (Revised). The guidance could clarify that if “transitory” focuses on the period of time, substance of the transaction or any other indicators. In case arbitrary time limit should be applied, it shall also be specified.

In this regard, the banks note that the China Accounting Standards for Business Enterprises (CAS) No. 20 – Business Combinations and its application guidance provide a useful reference. Article 5 of the CAS No. 20 stipulate that, a business combination under common control is defined as one in which “the combining entities are ultimately controlled by the same party or parties both before and after the combination, and this control is not transitory”. Meanwhile, the application guidance of CAS No. 20 explicitly states, “Control is not transitory means that the combining entities are ultimately controlled by the same party or parties for a relatively long period before and after the combination. A relatively long period is generally one year or more (including one year).”

The banks understand that HKFRS or accounting guidelines generally avoid rigid dividing line, at a minimum, the banks believe that providing a similar rebuttable presumption in AG5, e.g. that a period of less than one year is presumed transitory unless clearly demonstrated otherwise, would significantly reduce diversity in practice and help entities determine whether a transaction should be accounted for as a common control combination.</td></tr>
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