August 31, 2021

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

Dear Mr.Barchow,

Discussion Paper DP/2020/2 Business Combination under Common Control

The Financial Accounting Issues Task Force of the Taiwan Financial Reporting Standards Committee (TFRSC) of Accounting Research and Development Foundation in Taiwan appreciates the opportunity to respond to the above discussion paper.

The attachments (Attachment 1) are our comments to this discussion paper. The comments are those of the Financial Accounting Issues Task Force and do not necessarily represent official opinions of the TFRSC.

If you have any question about our comments, please contact me (via my email: ccliu@management.ntu.edu.tw) or Ms. Margaret Tsui (via her email:margaret@ardf.org.tw).

Sincerely Yours,

Chi-Chun Liu, Ph.D.
Chairman,
Taiwan Financial Reporting Standards Committee,
Accounting Research and Development Foundation, Taiwan

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Attachment 1
Discussion Paper DP/2020/2 Business Combination under Common Control

Business Combination under Common Control

Question 2
Paragraphs 2.15–2.34 discuss the Board'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?

In Taiwan, business combination under common control is common and the transaction types of business combination under common control are various and complex. All entities (including the transferring entity and the receiving entity) in Taiwan have been required to apply book-value method to all the business combination under common control. After reviewing the implementation of book-value method during the past decades in Taiwan, we observe that the book-value method has increased the comparability of financial statements, and has also significantly reduced incentives to structure transactions. Under the book-value method, the controlling party cannot manipulate the amounts of assets and liabilities recognized in the financial statements through business combinations under common control. In addition, the book-value method is apparently less costly to apply than the acquisition method.

Therefore, we suggest that book-value method should be applied to all business combinations under common control in principle. While admitting that under some

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circumstances when economic substance of a business combination under common control may be similar to a business combination within the scope of IFRS 3, acquisition method could be applied. We also recognize that existence of non-controlling interests may be one of the factors to be considered in determining the accounting model of a business combination under common control. However, we don't regard the currently proposed approach as a significant improvement to the accounting for business combination under common control. Firstly, the non-controlling interests can be artificially created. The controlling party may arrange for a third party outside the group to hold equity in order to apply acquisition method. Secondly, even the business combination under common control could affect the non-controlling interests, it still may be in substance significantly different from a business combination under IFRS 3. Besides considering non-controlling interests, many other factors such as the purpose and fairness of the transaction should also be considered. Consequently, using only the existence of the non-controlling interests as the dominant determinant of accounting model is not appropriate.

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