IFRS Accounting

Staff paper

Agenda reference: 5A

IFRS® Interpretations Committee meeting

Date	**November 2023**
Project	**Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)**
Topic	**Comment letters**
Contacts	Rashida Abdryashitova (rabdryashitova@ifrs.org)

Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)' published in June 2023.

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12 July 2023

Bruce Mackenzie
Chair
IFRS Interpretations Committee

Columbus Building
7 Westferry Circus
Canary Wharf
London, United Kingdom
E14 4HD

Dear Mr Mackenzie

Tentative agenda decision – Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the June 2023 IFRIC Update of the tentative agenda decision not to take onto the Committee's agenda the request about how a parent entity that prepares separate financial statements applying IAS 27 accounts for a merger with its subsidiary in its separate financial statements.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our response, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

Comments on Tentative Agenda Decision – Merger between a Parent and a Subsidiary in Separate Financial Statements

1. We agree that the transaction is not a business combination as the parent has already obtained control of the subsidiary before the merger.

2. The conclusion that the parent entity – in its separate financial statements – recognises the subsidiary's assets and liabilities at previous carrying amounts is obscuring as it does not clarify whether previous carrying amounts of the subsidiary's assets and liabilities are those recognised in consolidated financial statements of the group or those recognised in individual financial statements of the subsidiary.

There could be material difference between the two considering that fair values of assets and liabilities of the subsidiary would have been considered at the time of business combination and the same is carried forward while preparing and presenting consolidated financial statements. Also, consolidated financial statements may include goodwill and other intangible assets that is neither recognised in separate financial statements of the parent nor the individual financial statements of the subsidiary. If the parent has no other subsidiary, after the merger, the parent is no longer required to prepare and present consolidated financial statements. What happens to those intangible assets and goodwill recognised on acquiring control of the subsidiary before the merger. Are they recognised in separate financial statements of the parent after the merger. The parent has not lost control of the subsidiary's asset and liabilities and the synergies arising from the combination. Therefore, the parent still controls the goodwill and intangible assets recognised in consolidated financial statements. Accordingly, the IFRIC must clarify:

- whether the previous carrying amounts of subsidiary's assets and liabilities are:
  - those recognised in the consolidated financial statements of the group which includes the intangible assets and goodwill recognised on business combination; or
  - those recognised in the individual financial statements of the subsidiary. In this case, the IFRIC may also clarify whether the goodwill and intangible assets are to be recognised in separate financial statements and if yes, where the corresponding credit will be. If the goodwill and other intangible assets are not recognised in separate financial statements, the IFRIC may provide explanation to enhance the conceptual understanding on loss of control of synergies arising from business combination due to merger;
- whether consideration needs to be measured at fair value considering that the transaction is between related parties and that the consideration could be in other than cash such as equity shares;
- accounting for the consideration where consideration is given by another entity in the group; and
- accounting for the difference between the carrying amount of assets and liabilities of the subsidiary as per the conclusion above recognised in separate financial statements of the parent and the consideration given whether by the parent or by another entity in the group for such merger.

IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)

Ref. : 1840/DSAK/IAI/VIII/2023 Jakarta, 2 August 2023

Bruce Mackenzie
Chair - IFRS Interpretation Committee (IFRIC)
Columbus Building,
7 Westferry Circus
Canary Wharf
London, United Kingdom

Comment on Tentative Agenda Decision (TAD) – Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)

Dear Mr Mackenzie,

Dewan Standar Akuntansi Keuangan (DSAK) - The Indonesian Financial Accounting Standards Board, as part of Ikatan Akuntan Indonesia (IAI) - the Institute of Indonesia Chartered Accountants, is the national accounting standard-setter in Indonesia. On behalf of DSAK IAI, I am writing to respond to the TAD on Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27).

We agree with the view as described in the TAD that the merger transaction in the fact pattern does not constitute a business combination in the parent entity's separate financial statements, on the basis that the parent entity had obtained control of the subsidiary prior to the merger. We are also not aware of diversity in accounting for similar transactions, whereby in practice they are accounted for using the previous carrying amounts of the subsidiary's assets and liabilities. Accordingly, we also agree with IFRIC's conclusion that the differences in the accounting treatment (if any) are not widespread, and consequently the Committee should not to add a standard-setting project to the work plan.

In addition, should the IASB decides to continue the BCUCC project, we suggest the IASB to consider group restructuring in its BCUCC project.

Should you have further queries, please do not hesitate to contact us at dsak@iaiglobal.or.id.

Yours sincerely.

IKATAN AKUNTAN INDONESIA
(Institute of Indonesia Chartered Accountants)

Indra Wijaya
Chairman
The Indonesian Financial Accounting Standards Board
Institute of Indonesia Chartered Accountants

Organismo Italiano di Contabilità

Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
E-mail: presidenza@fondazioneoic.eu

IFRS Interpretations Committee
Columbus Building
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Canary Wharf
London E14 4HD
United Kingdom
ifric@ifrs.org

3 August 2023

Re: IFRS Interpretations Committee tentative agenda decision on Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27 Separate Financial Statements)

Dear Mr Mackenzie,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ("the Committee") tentative agenda decision (hereafter "TAD") included in the June 2023 IFRIC Update.

First of all, we would like to point out, as we have done several times in the past, that the fact pattern covered by the TAD is only one of the many problems concerning separate financial statements, and that, in the absence of a reference framework, it is difficult for preparers to apply IFRS Standards to separate financial statements. Indeed, the lack of clear provisions or guidance in this regard creates application issues which are solved through local accounting practices, which may differ from jurisdiction to jurisdiction. The fact pattern described in the submission is common in our jurisdiction and the prevalent practice is not to consider a merger between a parent and its subsidiary as a business combination, in line with the Committee's outreach findings.

In Italy, this issue has been debated for many years and we strongly recommend the Committee to reply to the question raised by the submitter. The TAD (and the staff paper) does not include any technical analysis of the issue, it merely reports the evidences gathered by the Committee, without specifying how these mergers should be accounted for according to IFRS Standards. In our view, the TAD may accidentally create divergence in practice, because it could lead to believe that both methods (ie acquisition method and book-value method) may be applied in accordance with IFRS Standards. We note that the merger does not meet the definition of a business combination, since the underlying business is controlled before and after the transaction, therefore there are no reasons to apply the acquisition method.

In addition, we suggest the Committee to address (or to ask the IASB to address) this matter in a comprehensive way, clarifying the following issues:

a) how the book-value method should be applied: in particular, which book values should be considered in the separate financial statements of the parent company: those of the consolidated financial statements or those of the subsidiary's individual financial statements. In our opinion, the more suitable technical solution is to use the book values of the parent's consolidated financial statements.

b) when recognising the assets, liabilities, income and expenses of the subsidiary in the parent separate financial statements. In other words, whether the parent separate financial statements should be prepared as if the subsidiary had always been merged, with pre-merger information restated to include the subsidiary's assets, liabilities, income and expenses or whether those items should be recognised prospectively, from the date of the merger;

c) whether and how the book-value method should be applied when there are minority shareholders in the subsidiary (eg the parent controls the 80% of the subsidiary before the merger). In these kinds of transactions, the presence of non-controlling interests can create issues when dealing with the identification of the accounting model that should be applied. These transactions are generally considered as acquisition of non-controlling interests and thus any difference between the consideration paid and the interests acquired is recognised in equity.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Michele Pizzo
(Chairman)

IFRIC Tentative Agenda Decision: merger between parent and its subsidiary in separate financial statements (IAS 27)

Comment letter to the IFRS Interpretations Committee

11 August 2023

an-kor-am, Latin

1. Anchor
2. *(figuratively)* Hope, support, refuge, shelter

We are a boutique practice helping mid-sized enterprises and their professional advisors in the United Kingdom and Ireland who are grappling with new sustainability and accounting requirements. We create clarity out of chaos by providing simple, sustainable solutions that scale with the SMEs we serve. We're an ACCA practice and have started our B Corp journey.

Our planet is at the precipice. Humanity needs hope. We believe that every business should be empowered not only to measure its impact but also tell its story—in financial, environmental and social terms as well as governance—to stakeholders everywhere.

Please contact us if you have any questions or wish to discuss our responses further.

Tim Dee-McCullough FCCA FRSA
Director, Ancoram Limited

tim@ancoram.com

Registered office: 71-75 Shelton Street, Covent Garden, London WC2H 9JQ United Kingdom
Windsor office: 59-60 Thames Street, Windsor SL4 1TX United Kingdom

A straightforward scenario that does not require an interpretation

Ancoram agrees with the IFRS Interpretation Committee's tentative agenda decision *not* to add the scenario proposed to its agenda.

The issue of accounting for transactions and business combinations between entities under common control has been an issue of considerable debate ever since IFRS 3 *Business Combinations* was revised in 2003 and excluded such transactions from its scope (IFRS 3.2(c)).

Having accounted for well over a hundred business combinations and group restructuring transactions across the FTSE 100 and S&P 500, we have yet to encounter a corporate group that would apply the full IFRS 3 acquisition accounting approach to an internal reorganisation.

While the question posed to the Committee references IAS 27 and separate financial statements, we believe there is sufficient ground for this accounting policy choice to apply to mergers between a parent and a subsidiary. We would expect the parent entity to apply its prior book values in accounting for the subsidiary as there should be no goodwill or uplift in net assets arising from what is essentially an internal transaction; the underlying operations of the merged entity are essentially the same. Our one exception to this rule would be where the merger is in substance a reverse takeover of the parent entity.

While we appreciate that, in some groups, material differences may arise between the assets of the subsidiary reflected in the parent entity's book values compared to those reflected in the subsidiary's separate financial statements, the parent entity would naturally retain control over those inputs, and activities of the business under the merger.

We do not believe a specific interpretation would add any value and encourage the Committee to prioritise other matters. We support the IASB's ongoing project in relation to business combinations under common control and will respond separately when the exposure draft is published.

We do not believe an interpretation is necessary for such transactions, which are essentially an internal reorganisation.

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Above all, we act with integrity. We say what we mean, and we do what we say. We own our mistakes, learn from them, fix them, and celebrate them.

Registered office: *71-75 Shelton Street, Covent Garden, London WC2H 9JQ United Kingdom*

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@helloAncoram

hello@ancoram.com

ancoram.com

Rio de Janeiro, August 10, 2023

CONTABILIDADE 6/2023

Mr. Mackenzie, Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, United Kingdom

Subject: Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)

Reference: Tentative Agenda Decision (TAD)

Dear Mr. Mackenzie,

Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's Tentative Agenda Decision – Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27). We congratulate the Committee for the efforts to analyze a request about how a parent entity that prepares separate financial statements applying IAS 27 accounts for a merger with its subsidiary in its separate financial statements.

In accordance with the TAD, "evidence gathered by the Committee [to date] indicates little, if any, diversity in accounting for the merger transaction described in the request. In accounting for the merger transaction described in the request in their separate financial statements, parent entities generally do not apply the requirements in IFRS 3 that apply to the accounting for a business combination."

We note that Staff Paper Agenda ref. 3 from June 2023 (Paper) states that findings and additional research conducted showed no evidence of diversity in accounting for the fact pattern while also informing the outcomes from such findings/research.

We agree with the Committee tentative decision not to add a standard-setting project to the work plan about how a parent entity that prepares separate financial statements applying IAS 27 accounts for a merger with its subsidiary in its separate financial statement. However, we respectfully suggest excluding the following text in brackets from the final Agenda Decision [In accounting for the merger transaction described in the request in their separate financial statements, parent entities generally do not apply the requirements in IFRS 3 that apply to the accounting for a business combination.]

We believe the exclusion of the prevalent practice from the final agenda decision may avoid potential for confusion. The proposed wording may be viewed as a material that explains how to apply IFRS Standards to the fact pattern described in the agenda decision.

We further noted that the agenda decision Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 Events after the Reporting Period) published by the Committee in June 2021 did not include the prevalent practice when answering Question II at that document.

If you have any questions in relation to the content of this letter, please do not hesitate to contact us (cc-contabilidade@petrobras.com.br).

Respectfully,

/s/Carlos Henrique Vieira Candido da Silva
Carlos Henrique Vieira Candido da Silva
Chief Accountant

August 11, 2023

Mr. Bruce Mackenzie,
Chair, IFRS Interpretations Committee,
IFRS Foundation
Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD,
United Kingdom

Dear Bruce,

Subject: Comments of the Institute of Chartered Accountants of India on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee on *Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)*

We welcome the opportunity to comment on the above referred Tentative Agenda Decision of IFRS Interpretations Committee (IFRS IC).

We have noted the findings of the IFRS IC that there is little, if any, diversity in accounting for the merger transaction described in the request. In accounting for the merger transaction described in the request in their separate financial statements, parent entities generally do not apply the requirements in IFRS 3 that apply to the accounting for a business combination.

We have also noted the conclusion of IFRS IC that the matter described in the request does not have widespread effect and, therefore, decided not to add a standard-setting project to the work plan. In this regard, we wish to inform you that the merger transaction described in the request viz. merger of a subsidiary with its parent is widely prevalent in India. Although such transactions are not accounted for using acquisition method prescribed in IFRS 3 and are accounted for using book values but, there is diversity in practice with regard to the application of the book value method, viz., which book values to be used (i.e. book values appearing in the parent's consolidated financial statements or subsidiary's separate financial statements before merger). The implication of this is that if assets and liabilities of the acquired subsidiary as appearing in the consolidated financial statements are to be taken then the pre-merger goodwill pertaining to the acquired subsidiary and value of assets and liabilities at acquisition date fair values as appearing in the parent's consolidated financial statement will also be carried forward. However, if carrying values in separate financial statements of the acquired subsidiary are taken, then pre-merger goodwill appearing in parent's consolidated financial statements would not be carried forward and assets and liabilities will be taken at their carrying amounts in the separate financial statements of the subsidiary.

Therefore, we feel that there is an urgent need of guidance on accounting of such transactions and the same should be taken up as a standard-setting project. This issue needs to be considered from a broader perspective as to whether such merger transaction should be recorded at fair values or at book values and if, book values are to be taken then which book values to be used also needs consideration.

Furthermore, if IFRS IC believes that the said matter will require detailed research then it must recommend the IASB to consider the accounting of such transactions as ‘group restructurings’ as part of its project of ‘Business Combinations under Common Control’ (BCUCC project), on priority basis.

Providing guidance will address the issue of diversity and achieve consistency in accounting of such transactions across the globe.

Please feel free to contact us for any clarification on the above comments.

Yours sincerely,

CA. Pramod Jain
Chairman,
Accounting Standards Board

SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
http://www.cpc.org.br

August 7, 2023

Bruce Mackenzie
Chair IFRS Interpretations Committee

IFRS Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London

Reference: Tentative Agenda Decision – Merger between a Parent and its Subsidiary in Separate Financial Statements (IAS 27)

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the IFRS Interpretations Committee's publication in the June 2023 IFRIC Update of the tentative agenda decision regarding Merger between a Parent and its Subsidiary in Separate Financial Statements (IAS 27).

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda given that in our experience such transactions are consistently treated in Brazil, and we also agree with the rationale exposed in the tentative agenda decision.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

Comments on Tentative Agenda Decision (TAD) – Merger between a Parent and it's Subsidiary in Separate Financial Statements (IAS 27)

From
CA Vidhyadhar Kulkarni
New Delhi India
12th August 2023

To,	To,	To,	To,
Bruce Mackenzie Chair - IFRS Interpretation Committee London, United Kingdom	Dr Andreas Barckow Chair – International Accounting Standards Board London, United Kingdom	Erkki Liikanen Chair – Trustees of IFRS Foundation London, United Kingdom	Vinod Rai Trustee- IFRS Foundation London, United Kingdom

(Views herein below are strictly my personal views and do not represent the views of the organisations associated by me presently or in the past)

Dear Mr Mackenzie,

I am very pleased to note that Interpretation Committee (IFRS IC) took up for consideration an important area affecting the Separate Financial Statements (SFS), which are considered on as important as the Consolidated Financial Statements (CFS) in our jurisdiction, India, which is the 5th largest economy by GDP. However, IFRS Standards are not clear in some areas as to how to apply the IFRS Standards to SFS or Individual Financial Statement. I am an accounting professional with 3 decades of experience in Financial Reporting, Audit & Risk Management in India/Overseas, including experience in the Accounting Standard-setting Body and Independent Regulator in India.

As per India's Corporate Legal Framework, SFS (called Standalone Financial Statements in India) are mandatorily to be prepared, presented and published in accordance with Accounting Standards prescribed by the Central Government based on recommendation of National Financial Reporting Authority and the Institute of Chartered Accountants of India. Accounting Standards applicable for Listed Companies and certain other large companies are called as Indian Accounting Standards (Ind AS Framework), which are derived from and substantially converged with IFRS Standards issued by the International Accounting Standards Board.

My views and suggestions in respect of above mentioned TAD are as follows.

1) I do not agree with the reason given by IFRS IC's for its decision not to add a standard-setting project to the work plan i.e., the matter ***does not have widespread effect***. In fact, the matter has widespread effect in a large emerging economy like India where such transactions are quite common and referred to as business combinations under common control for financial reporting purposes and Scheme of Compromises, Arrangements, Amalgamations, Mergers etc. for Corporate Law purposes. There might be at least c.25,000 Indian companies preparing their SFS based on Ind AS Framework. Based on the contents of Staff Paper and the discussion at June 6th 2023 IFRS IC meeting, I see very little analysis has been done on the most critical aspect of ***whether or not SFSs shall be prepared as if it is a Separate Reporting Entity?*** If yes, why View 1 is not appropriate then? One of the Staff Members did say in the June 6th 2023 IFRS IC meeting that there is no technical analysis performed from that angle. Due to the absence of 'Sufficient And Appropriate Analysis (SAAA)' in the Staff Paper of June 6th 2023

IFRS IC meeting, I did look at the video recording of that meeting. It was very disappointing to note that very little discussion took place on the 'Technical Basis' of the TAD in a brief 30 minute meeting, the discussion was more on semantics of the text of TAD. Please note, TADs are a very important source of application guidance of IFRS Standards or the Standards derived from those, and do have a high persuasive impact across the globe. Therefore, do not rush to issue TADs without performing SAAA. Further, it is inappropriate to conclude that there is no widespread effect and to be unduly influenced by prevailing practices if those are not supported by sound technical analysis. If IFRS IC and its staff are not able to devote time for technical analysis, you may refer the matter to IASB's Business Combinations under Common Control (BCUCC) project and do not go ahead with issuing guidance on a critical aspect of SFSs.

I also do not agree with the view (para 15 of Staff Paper of IFRS IC Meeting of June 6th, 2023) that the transaction given in the submission of the querist is not a Business Combination. In my view it is a Business Combination as defined in Appendix a of IFRS 3, Business Combinations but it is not within the scope of IFRS 3 as it is a Business Combination under Common Control (BCUCC) which are specifically scoped out from IFRS 3. Effectively, there is a big vacuum in IFRS Standards for BCUCC and I understand a separate project is underway since December 2007.

2) I DO NOT agree with the following findings:
"In accounting for the merger transaction described in the request in their separate financial statements, parent entities generally do not apply the requirements in IFRS 3 that apply to the accounting for a business combination."

In fact, due to the statutory background given in beginning of this comment letter, in India Companies that are required to apply Ind AS Framework for SFS have to ensure that all Ind ASs are followed as if Parent or Subsidiary is a 'Separate Reporting Entity'. This is exactly in line with View 1 given in para 8(a) of Staff Paper of IFRS IC Meeting of June 6th, 2023 and reproduced below.

"*View 1*—the merger should be accounted for as a business combination applying IFRS 3. Proponents of this view say from the perspective of a parent entity's separate financial statements, the subsidiary's business is deemed to be independent of the parent entity. Consequently, the existing parent-subsidiary relationship should be ignored, and the parent entity does not control the subsidiary's business until the parent entity and its subsidiary are legally merged."

Fundamental principle adopted in SFSs for all Intra-group transactions between the Parent and the Subsidiary is that all relevant Ind ASs are applied to those transactions e.g. Intra-group Lending and Borrowings, Financial Guarantees are accounted in SFS as per recognition and measurement principles of applicable Ind AS i.e. Ind AS 109 (corresponding to IFRS 9). As a result, interest free (or below market rate) Loans or Borrowings between Parent to Subsidiary and vice versa are initially measured at fair value as required by Ind AS 109 (corresponding to IFRS 9)and subsequently measured as per classification norms of that Ind AS for those financial assets and liabilities. Similarly, impairment losses are recognised in SFS of Parent for Investments in Subsidiaries, Loans to Subsidiaries. In the absence of such an accounting approach, the SFSs will not be in compliance with the applicable financial reporting standards in all respects and do not reflect True and Fair View, an overarching requirement of the Law in India and perhaps in many other jurisdictions for General Purpose Financial Statements.

Therefore, the Findings stated in TAD are against the fundamental concept and objectives of SFSs and vitiate the True and Fair View of such Separate Financial Statements.
However, in the CFS of the Group, such intra-group transactions are eliminated.
IFRS 3 is not relevant for such transactions between entities under common control in view of scope exceptions in IFRS 3 and, hence the carrying amount method or the Pooling of Interest method of erstwhile IAS 22 may be appropriate. But, TAD is imposing the concept and principles of CFS into the SFS without any convincing rationale.

Therefore, I humbly request for the amendment to the text of the Findings and Conclusions section of TAD to explicitly state that SFSs, where prepared and presented as per IFRS Standards, shall be prepared as if it is a Separate Reporting Entity by applying all the IFRS Standards. Therefore, intra-group transactions including business combinations under common control shall be accounted as per the relevant IFRS Standards in the SFSs. Otherwise it will lead to endorsement of erroneous, inconsistent and ambiguous accounting approach for the preparation of SFSs which are presented as General Purpose Financial Statements.

3) It is surprising to note the absence of any reference in the TAD or the Staff Papers to paragraphs B1-B4 which scope out BCUCC transactions from IFRS 3. I believe it should be clarified that IFRS 3 applies to BCUCC transactions for SFSs of the acquirer also when the acquirer and acquiree continue to be separate entities even after the business combination and prepares their own SFSs.

I hope you will find comments and suggestions useful. Please free to contact me for any further clarifications on my email at vkulkar@gmail.com.

Thanking You,

Vidhyadhar Kulkarni

SOCPA
الهيئة السعودية
للمراجعين والمحاسبين

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

August 13, 2023

IFRS Foundation
7 Westferry Circus,
Canary Wharf
London E14 4HD,
United Kingdom

RE: SOCPA Comments on *Tentative Agenda Decision – Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)*

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision – Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)*.

Overall, we support the IFRS IC's conclusion that the Committee should not add a standard-setting project to the work plan and instead publish a tentative agenda decision that explains its reasons for not adding a standard-setting project. SOCPA agrees that the parent entity controlled the subsidiary before the merger and, consequently, the merger is not a business combination in accordance with IFRS 3. Therefore, IFRS 3 should not be applied. Instead, a parent entity—in its separate financial statements should recognise the assets and liabilities of the subsidiary at their previously recognised carrying amounts.

SOCPA however urges the IASB to add this fact pattern to the project on Business Combinations under Common Control in order to provide specific guidance for preparers in the future.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames
Chief Executive Officer

14 August 2023

Mr. Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Mackenzie,

IFRS Interpretations Committee Tentative Agenda Decision

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the Tentative Agenda Decision on Merger between a Parent and its Subsidiary in Separate Financial Statements (IAS 27).

We agree with the IFRS Interpretations Committee's conclusion for not adding a standard-setting project to its work plan based on the specific fact pattern described in the Tentative Agenda Decision.

If you need further clarification or have any queries regarding this letter, 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

PO Box 1411
Beenleigh QLD 4207
14 August 2023

Mr Bruce Mackenzie
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: https://www.ifrs.org/projects/work-plan/merger-parent-subsidiary-separate-financial-statements/tad-and-cls-merger-parent-subsidiary/

Dear Bruce

Tentative agenda decision - Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS27)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS27).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

I agree with the TAD that parent entities generally do not apply the requirements in IFRS 3. However, there is diversity in practice, often arising from the underlying choice of accounting, that I discuss further below.

In my experience, transfers have been at book value, similar to business combinations under common control (BCUCC).

I cover the following issues:

1. Applicability of using the IFRS 3 / fair value approach
2. Diversity when using carrying amounts – take-on values
3. Diversity when using carrying amounts – difference in carrying amounts
4. Comparatives for parent only financial statements

1. Applicability of using the IFRS 3 / fair value approach

EY, in their IGAAP book, permits the (i) Distribution approach (recognise the distribution of assets and liabilities from the subsidiary at fair value), or the (ii) Exchange of investment for net assets approach.

Indeed, EY requires the distribution / fair value approach when the parent carries its investment in shares of the subsidiary at fair value applying IFRS 9.

2. Diversity when using carrying amounts – take-on values

There is diversity in recognising the carrying value amounts of assets and liabilities transferred from the subsidiary, similar to accounting for BCUCC. Specifically, whether the carrying values are recognised at (a) consolidated carrying value, or subsidiary book value.

3. Diversity when using carrying amounts – difference in carrying amounts

There is also diversity in recognising the difference between the carrying value of the investment in the subsidiary, and the carrying value of the net assets transferred from the subsidiary.

Sometimes the difference is recognised as income, and sometimes as equity.

4. Comparatives for parent only financial statements

There are also some practical issues for comparatives when the sole subsidiary transfers all its assets and liabilities to the parent, and the parent is no longer a parent of a consolidated group.

In this situation, the comparatives of the now single legal entity (now containing the previous parent and subsidiary) may be argued as being the separate financial statements of the parent. It can also be argued that the legal entity is a continuation of the previous consolidated entity (previous parent and subsidiary).

In practice, I require the comparatives of the now single entity (containing the previous parent and subsidiary) to be the previous consolidated financial statements. I also include the comparative of the separate financial statements of the parent if separate financial statements are required to be prepared.

Yours sincerely,

David Hardidge
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mazars

Mr Bruce Mackenzie
IFRS Interpretations Committee Chair
Columbus Building,
7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Paris, 14 August 2023

June 2023 IFRS IC Tentative Agenda Decision – Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)

Dear Bruce,

Mazars is pleased to comment on the above mentioned IFRS Interpretations Committee Tentative Agenda Decision, published in the June 2023 IFRIC Update.

We agree with the IFRS Interpretations Committee's decision not to add a standard-setting project onto its work plan for the reasons set out in the tentative agenda decision.

That being said, we believe that the Tentative agenda decision is not as helpful as it could be. Indeed, the Committee has observed that there is little, if any, diversity in accounting for the merger described in the request. The Committee reports that the parent entity does not apply IFRS 3 Business combinations in its separate financial statements.

We understand from that statement that the parent entity recognises the subsidiary's assets and liabilities at previous carrying amount, since it is the only alternative presented in the Tentative agenda decision. We believe that the drafting of the Tentative agenda decision does not describe with sufficient precision what is the accounting treatment applied by most parent entities. Indeed, previous carrying amounts might have several interpretations:

- Carrying amounts in the consolidated financial statements of the parent entity;
- Carrying amounts in the consolidated financial statements of the ultimate parent entity;
- Carrying amounts in the separate financial statements of the subsidiary.

If the Committee has observed that there is little diversity in practice, it should be able to precise on which of the interpretations of previous carrying amounts above most of the parent entities apply in practice.

We therefore suggest the final agenda decision makes clear which of the "previous carrying amounts" most parent entities use in accounting for a merger with a subsidiary in their separate financial statements.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Edouard Fossat

Financial Reporting Technical Support

Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

Brasilia, August 14, 2023

IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: Tentative IFRS IC agenda decisions for the June 05-06, 2023 meetings

Dear Committee Members,

The " Group of Latin American Accounting Standard Setters"[1] (GLASS) appreciates the opportunity to comment on the following Tentative Agenda Decision (TAD) reached by IFRS IC during its meetings on June 05 and 06, 2023, which included the following topic:

- ***Merger between a parent company and its subsidiary in separate financial statements (IAS 27, Separate Financial Statements)***

This response summarizes the views of the members of the countries that make up GLASS, in accordance with the following due process.

Due process

Discussions regarding the aforementioned IFRS IC Tentative Agenda Decision (TAD) were held within a Permanent Technical Commission (PTC) created in December 2020. All GLASS member countries had the opportunity to nominate at least one member to the PTC and carried out different tasks in their respective countries (e.g., surveys or internal working groups). All results were summarized, and the summary served as the platform for the discussion process within GLASS.

GLASS discussed the different views included in the summary through email exchanges. Based on these exchanges of views, GLASS developed a final document of the consensus responses and technical views of its members. Finally, the document was analyzed and approved by the GLASS Board of Directors.

Feedback

In relation to the request received by the Committee on the standard(s) (IAS 27 or IFRS 3) that should apply in the case at hand, i.e. a controlling entity that prepares its separate financial statements by applying IAS 27 and recognizes an investment in a subsidiary that contains a business; the parent entity merges with the subsidiary, resulting in the subsidiary's business becoming part of the parent entity (merger transaction).

GLASS agrees with the conclusions reached by the Committee in relation to its proposal not to include the issue in its work agenda, but we believe that an answer should be given through an Agenda Decision (AD) that contemplates the vision that is considered adequate.

The fact pattern

In the fact pattern described in the request, a parent entity prepares its separate financial statements by applying IAS 27 and recognizes an investment in a subsidiary by applying IAS 27.10; the subsidiary contains a business (as defined in IFRS 3 *Business Combinations*), and the

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[1] The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in reference to all the Draft Standards, Requests for Information and Discussion Papers published by the IASB and the ISSB, in addition to generating proposals based on initiatives for the Region. GLASS therefore intends to have a single regional voice before the IASB and ISSB. GLASS is made up of: Argentina (Board), Bolivia, Brazil (President), Chile (Board), Colombia (Vice President), Costa Rica (Board), Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Dominican Republic, Uruguay (Board) and Venezuela (Board).

parent entity merges with the subsidiary, resulting in the subsidiary's business becoming part of the parent entity (merger transaction).

The request asked how the parent entity should account for the merger transaction in its separate financial statements. In particular, the request asked whether, in the context of the parent entity's separate financial statements, the merger transaction constitutes a business combination as defined in IFRS 3 and, accordingly, whether an entity should apply all IFRS 3 requirements that apply to accounting for a business combination; or conversely the merger should not be accounted for as a business combination. Applying the second view, the controlling entity—in its separate financial statements—recognizes the assets and liabilities of the subsidiary at previous carrying amounts.

GLASS Opinion

GLASS agrees with the Committee's analysis that it is not appropriate to include the issue in the work plan, but we believe that, due to some information collected during the auscultation process in our region, there may be some diversity in the application of the regulations, as well as that these types of operations are very frequent and of relative importance for both consolidated and separate financial statements.

GLASS is also of the opinion that vision 2 in the Staff Paper, attached to the TAD (AP3), is the one that provides the appropriate treatment in the case presented, as a result of which we suggest that the AD explicitly state which is the applicable treatment under IFRS, thereby also fulfilling the educational aspect of ADs.

In GLASS's view, the AD must clearly state that, in the fact pattern presented, the transaction does not meet the definition of "business combination" and therefore the application of IFRS 3 is inappropriate.

Also, in GLASS's opinion, the treatment of any differences that may arise between the amount of the net assets that are incorporated (figures that must be consistent with those that are included in the consolidated statements in accordance with IFRS 10) and the carrying amounts that were previously recognized for the investment be measured in accordance with paragraph 10 of IAS 27.

In GLASS's opinion, any difference that arises due to the situation described above should be recognized in equity because the transaction corresponds to an operation among owners in their capacity as such and therefore should not generate any result for the entity. If the committee agrees with the reasoning of GLASS, which in our opinion is derived from the analysis of the information gathered and the opinions of the staff of the included in the AP3, publication of such would be very useful for the users and preparers of the information in which the appropriate treatment is explicit, thereby reinforcing the usefulness of ADs in the context of IFRS standards.

Contact

If you need to ask any questions about our comments, please contact glenif@glenif.org

Sincerely,

José Luiz Ribeiro de Carvalho
President
Group of Latin American Accounting Standards Setters (GLASS)