

Notes: This comment letter has been prepared only for the purpose of submission to the European Financial Reporting Advisory Group. The comments are views of a staff member in charge of the Business Combination project at the KASB. Note that this comment letter has not yet been finalized through the due process established at the KASB.

KASB staff's comment on EFRAG Discussion Paper: Accounting for business combinations under common control

<General comment on the DP>

We fully realize that IFRS does not address transactions under common control and the revised IFRS 3 also ruled out combinations under common control. Per IAS 8, IFRS preparers should look into other accounting standards to develop accounting policies to properly reflect the transactions on their F/S. This result in the accounting for the transactions diverges in practice, which may negatively affect comparability. Therefore, we are very thankful for your efforts to urge IASB to set BCUCC accounting standards.

As a result of analysis regarding DP, because there is no restrictions as to transactions of transferring a asset or a liability under common control, it is generally understood that such transaction is accounted for using transfer price(e.g. fair value). We believe that BCUCC needs an accounting treatment similar to this. If the accounting treatment is to be different, the rationale for the different treatment should be clearly stated.

Furthermore, if the entity subject to BCUCC is a listed company, the users of the financial statements of the transferee include not only controlling equity investors but also non-controlling equity investors and/or future potential investors. Thus, it is important to provide appropriate financial information to meet the needs of these users.

In addition, since the term UCC is based on the perspective of controlling equity investors, we also need to consider recognizing a BC transaction from the transferee(entity)'s point of view as well.

While Korea is slightly inclined to using fair value based on the above reasons, there exists a fundamental issue which is the lack of market forces in BCUCC transactions. Thus, further research should be conducted on the matters of determining the acquirer or recognizing goodwill.