Staff paper

Agenda reference: 4D

Accounting Standards Advisory Forum meeting

Date	**December 2022**
Project	**Business Combinations under Common Control**
Topic	**Additional matters from IASB meeting**
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Introduction and purpose

1. At its meeting in November 2022, the International Accounting Standard Board (IASB) continued its deliberations on selecting the measurement method(s) to apply to business combinations under common control (BCUCCs). In particular, the IASB discussed our analysis of feedback on this topic, including Agenda Papers 4B and 4C provided to you as part of this meeting. The November 2022 IASB discussion of BCUCCs was educational—we did not ask the IASB for any decisions.

2. This paper outlines additional matters we would like to make you aware of, as a result of comments at the IASB's November 2022 meeting.

3. A recording of the meeting is available on the IASB's November 2022 meeting page.

Structure of this paper

4. The paper is structured as follows:

    (a) additional matters on the principle—Agenda Paper 4B (paragraphs 5–7);

    (b) additional matters on the exceptions—Agenda Paper 4C (paragraphs 8–13); and

    (c) other additional matters (paragraph 14).

Additional matters on the principle—Agenda Paper 4B

5. Our initial view, for reasons explained in Agenda Paper 4B, is that in principle a receiving entity should apply the acquisition method to BCUCCs that affect NCS and a book-value method to BCUCCs that do not affect NCS. IASB members discussed whether a receiving entity should have an option to apply the acquisition method to BCUCCs that do not affect NCS. IASB members' comments included:

(a) the acquisition method provides useful information about business combinations, so an entity should always be allowed to apply the acquisition method—structuring opportunities were not a priority concern;

(b) concerns were expressed that such an option could result in entities applying the acquisition method to transactions that are not business combinations or that the option could allow entities to opportunistically step up asset values, for example, for tax purposes;[1] and

(c) an expectation that preparers would not regularly choose to apply the acquisition method to BCUCCs that do not affect NCS because of the costs of applying it.

6. One IASB member asked what proportion of BCUCCs affect NCS compared with BCUCCs that do not affect NCS.

7. We would welcome any observations you may have regarding the question in paragraph 6 and any comments or suggestions you may have on the idea of providing a receiving entity with an option to apply the acquisition method to BCUCCs that do not affect NCS, as discussed in paragraph 5.

Additional matters on the exceptions—Agenda Paper 4C

8. As indicated in question 1(a) of Agenda Paper 4A, we are seeking your feedback on the possible exceptions/exemptions which were not included in the Discussion Paper (that is, insignificant NCS, government-related entities and disregarding insignificant objections when applying the optional exemption).

9. During the IASB discussion, we clarified that we have not reached initial views on whether to proceed with the optional exemption package or the insignificant NCS package and on which specific exceptions/exemptions to include within a package—for example, whether any exceptions/exemptions should apply to entities with publicly traded shares. At this stage we are still considering the exceptions and how they could be combined into a package, including seeking your feedback, before developing our recommendation for the IASB.

10. IASB members asked us to explore a possible exception for insignificant NCS (see paragraphs 47–54 of Agenda Paper 4C) in more detail. As Agenda Paper 4C explains, the insignificant exception could require entities to apply a book-value method to BCUCCs that affect NCS in situations in which (a) NCS' ownership interest is quantitatively insignificant; and/or (b) NCS do not rely on general purpose financial statements to meet their information needs. We explained that respondents suggested various thresholds and we referred to 'insignificant NCS' for simplicity but we have not yet analysed

[1] The IASB has not yet deliberated whether the project scope should include group restructurings (transactions that involve a transfer of a business under common control but do not meet the definition of a business combination in Appendix A of IFRS 3 *Business Combinations*). The IASB's preliminary view in the Discussion Paper was to include group restructurings in the project scope. Agenda Paper 23A of the IASB's December 2021 meeting explains respondents' feedback.

whether an exception would use the word 'insignificant'. IASB members' comments on this exception included:

(a) to assess whether NCS' ownership interest is insignificant, whether to establish a quantitative threshold or a qualitative threshold based on existing requirements in IFRS Accounting Standards (for example, 'significant' influence); and

(b) whether such an exception would be operational.

11. IASB members discussed the potential exception for government-related entities (see paragraphs 41–46 of Agenda Paper 4C). IASB members' comments included:

(a) whether the exception would apply if the controlling party in a BCUCC is a government-controlled entity; and

(b) whether the exception would meet user information needs and why an exception would be needed for BCUCCs considering there is no exception for business combinations covered by IFRS 3 *Business Combinations* that are undertaken by government-related entities.

12. In the context of the related party exception (see paragraphs 18–25 of Agenda Paper 4C), one IASB member asked us to consider whether related parties which are not part of the common control group (for example, associates) rely on general purpose financial statements to meet their information needs.

13. Any views you may have on IASB members' comments in paragraphs 10–12 of this paper would be helpful.

Other additional matters

14. One IASB member asked whether Accounting Standards Advisory Forum (ASAF) members are aware of any conflicts between our initial views and regulations in their jurisdictions.

Question for ASAF members
Do you have any comments or suggestions on the matters discussed in this paper to the extent not already raised when discussing the questions in Agenda Paper 4A?