STAFF PAPER

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IASB® meeting

Project	**Business Combinations under Common Control**
Paper topic	Similarity to IFRS 3 BCs
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Introduction and purpose

1. This paper analyses whether some or all business combinations under common control (BCUCCs) are similar to or differ from business combinations covered by IFRS 3 *Business Combinations* (IFRS 3 BCs). The acquisition method applies to IFRS 3 BCs and we think assessing whether some or all BCUCCs are similar to or differ from IFRS 3 BCs will help the International Accounting Standards Board (IASB) tentatively decide whether conceptually (before considering practical considerations such as, for example, the cost constraint) the acquisition method or a book-value method should apply to some or all BCUCCs.

2. As noted in Agenda Paper 23, this paper does not ask the IASB for decisions.

Structure of this paper

3. The paper is structured as follows:

   (a) background (paragraphs 4–12);

   (b) staff analysis (paragraphs 13–53);

   (c) question for the IASB;

   (d) Appendix A—Considerations on contributions and distributions; and

   (e) Appendix B—History of the BCUCC scope exclusion.

Background

Observations/conclusions in the Discussion Paper

4. In the Discussion Paper *Business Combinations under Common Control* (Discussion Paper), the IASB separately considered BCUCCs that affect non-controlling shareholders of the receiving entity (NCS) and BCUCCs that do not affect NCS.

5. The IASB concluded BCUCCs that affect NCS are similar to IFRS 3 BCs because in both scenarios:

   (a) the receiving entity gains control of a business it did not control before; and

   (b) there is a substantive change in the ownership interests in the economic resources of the transferred business.

6. For BCUCCs that do not affect NCS, as explained in paragraph 8 of Agenda Paper 23A, the IASB reached a preliminary view that book-value method should be applied after collectively considering various factors, including how similar such BCUCCs are to IFRS 3 BCs. The IASB did not conclude on how similar BCUCCs that do not affect NCS are to IFRS 3 BCs. Paragraph 2.24 of the Discussion Paper notes that questions arise about how similar BCUCCs that do not affect NCS are to IFRS 3 BCs because, unlike in an IFRS 3 BC, in a BCUCC there is no change in:

   (a) the ultimate control of the combining entities; and

   (b) the ultimate ownership interests in the economic resources transferred.[1]

Feedback

7. Respondents were not specifically asked to comment on the IASB's conclusions on the similarity of BCUCCs to IFRS 3 BCs. However, because the IASB specifically considered whether some or all BCUCCs are similar to or differ from IFRS 3 BCs in developing its preliminary views, many respondents provided feedback which is

[1] The Discussion Paper considered simple examples of BCUCCs. A BCUCC that does not affect NCS could result in a change in ultimate ownership interests in the transferred business if, for example, the transferring entity has non-controlling shareholders—this is considered in paragraphs 30–31.

included in the appropriate sections of this paper. For full details of feedback see Agenda Paper 23B of the IASB's December 2021 meeting.

General feedback

8. Many respondents (who agreed that neither the acquisition method nor a book-value method should apply to all BCUCCs) said not all BCUCCs are the same.

9. Some respondents (who said a book-value method should apply to all BCUCCs) said BCUCCs lack substance from the controlling party's perspective because ultimate control of the transferred business does not change.[2] Most of these respondents said in their experience the controlling party directs the transaction.

Assessing the substance of a BCUCC

10. Some respondents (who said not all BCUCCs are the same) suggested requiring a receiving entity to assess the substance of a BCUCC to determine which method to apply because:

    (a) doing so would remove opportunities for accounting arbitrage; and

    (b) unlike allowing a free choice, doing so would improve comparability.

11. Some of these respondents did not suggest how an entity would assess the substance of a BCUCC but most suggested different factors or combination of factors to consider, including:

    (a) the existence of NCS (many of these respondents);

    (b) the purpose of the combination—for example preparing for an initial public offering (IPO) or only for legal reasons (many of these respondents);

    (c) whether the transaction is priced at arm's length and the degree of measurement uncertainty and judgement required to determine whether the transaction is priced at arm's length (some of these respondents);

[2] Respondents often referred to the 'substance' of a BCUCC. We think feedback on the 'substance' of a BCUCC refers to the 'substance of the phenomena'—see paragraph 2.12 of the *Conceptual Framework for Financial Reporting (Conceptual Framework*). Accordingly, references to the 'substance' of a BCUCC in this agenda paper refer to the substance of the economic phenomenon and whether it is similar to or differs from IFRS 3 BCs.

(d) whether the transaction price has been independently reviewed (some of these respondents);

(e) the materiality of the transferred business (one respondent);[3] and

(f) the substance of the BCUCC from both the receiving entity's and controlling party's perspective (one respondent).

12. One national standard-setter acknowledged the subjectiveness of assessing the substance but nonetheless said it is important to do so.

Staff analysis

Structure of our analysis

13. Our analysis considers arguments suggesting some or all BCUCCs are similar to or differ from IFRS 3 BCs. These include arguments previously considered by the IASB and those suggested by respondents to the Discussion Paper. We grouped these arguments into the following categories:

(a) wider group perspective (paragraphs 17–25);

(b) composition of, and effect on, shareholders (paragraphs 26–33);

(c) decision-making process (paragraphs 34–37);

(d) purpose of the combination (paragraphs 38–44); and

(e) transaction pricing (paragraphs 45–52).

14. Within each of these categories we set out:

(a) the IASB's observations/conclusions in the Discussion Paper;

(b) reasons why some or all BCUCCs differ from IFRS 3 BCs;

(c) reasons why some or all BCUCCs are similar to IFRS 3 BCs; and

(d) our initial view.

[3] Appendix D of Agenda Paper 23A analyses this suggestion.

15. The sections detailing reasons why some or all BCUCCs are similar to or differ from IFRS 3 BCs list all reasons (including those previously considered by the IASB and those suggested by respondents) and do not include our analysis or views of those reasons. The staff initial view sections include our analysis and initial views.

16. We also reviewed the history of IFRS 3 to better understand why paragraph 2(c) of IFRS 3 excludes BCUCCs from IFRS 3's scope (the BCUCC scope exclusion)—for example, whether the IASB developed the BCUCC scope exclusion because BCUCCs differ from IFRS 3 BCs or for other reasons. This review did not identify why BCUCCs are excluded from IFRS 3's scope—Appendix B provides further details.

Wider group perspective

Observations/conclusions in the Discussion Paper

17. Paragraph 2.16 of the Discussion Paper says:

> The [IASB] does not agree with the view that all [BCUCCs] are different from [IFRS 3 BCs] and should be accounted for differently. In the [IASB]'s view, although ultimate control of the combining companies does not change in [BCUCCs], that does not mean that such combinations are simply reallocations of economic resources within the group. Instead, such combinations always have economic substance for the receiving [entity] because the receiving [entity] gains control of a business that it did not control before the combination, just as occurs in [an IFRS 3 BC].

Reasons why BCUCCs differ from IFRS 3 BCs

18. The BCUCC scope exclusion does not look at the receiving entity in isolation. In considering the applicability of the BCUCC scope exclusion, a reporting entity is required to consider whether the transaction is a common control transaction and therefore to look beyond itself and consider the transaction within the wider group context. In addition, most BCUCCs are directed by the controlling party (see paragraphs 34–37) for the benefit of the wider group (see paragraphs 38–44). Accordingly—and unlike an IFRS 3 BC—it is necessary to consider the perspective of the wider group, including the controlling party.

19. There is precedent for looking beyond the reporting entity and considering the wider group perspective when accounting for a transaction. For example, paragraph 3A(a) of IFRS 2 *Share-Based Payment* requires an entity which receives goods or services in a share-based payment arrangement to apply IFRS 2 in accounting for a transaction even when another entity in the same group has the obligation to settle the share-based payment transaction.

Reasons why BCUCCs are similar to IFRS 3 BCs

20. As confirmed by the IASB at its March 2022 meeting, the receiving entity in a BCUCC is the reporting entity.

21. Paragraph 1.2 of the *Conceptual Framework* says:

> The objective of general purpose financial reporting is to provide financial information *about the reporting entity* that is useful… [emphasis added]

22. Paragraph 3.8 of the Conceptual Framework says:

> Financial statements provide information about transactions and other events *viewed from the perspective of the reporting entity* as a whole, not from the perspective of any particular group of the entity's existing or potential investors, lenders or other creditors. [emphasis added]

23. Whether some or all BCUCCs are similar to or differ from IFRS 3 BCs should therefore be considered from only the reporting entity's perspective. The wider group and the controlling party's perspective is irrelevant when assessing a BCUCC from the receiving entity's perspective.

24. In a BCUCC—similar to an IFRS 3 BC—the receiving entity gains control of a business it did not control before and therefore the BCUCC always has substance from the receiving entity's perspective.

Staff initial view

25. For the reasons explained in paragraphs 20–24 and paragraph 2.16 of the Discussion Paper (reproduced in paragraph 17 of this paper), we think that whether some or all

BCUCCs are similar to or differ IFRS 3 BCs should be considered only from the reporting entity's perspective.

Composition of, and effect on, shareholders

Observations/conclusions in the Discussion Paper

26. As explained in paragraphs 4–6, the IASB:

(a) concluded that BCUCCs that affect NCS are similar to IFRS 3 BCs; and

(b) did not conclude on how similar BCUCCs that do not affect NCS are to IFRS 3 BCs.

Reasons why all BCUCCs differ from IFRS 3 BCs

27. The composition of, and effect on, shareholders means that all BCUCCs differ from IFRS 3 BCs. In particular:

(a) unlike an IFRS 3 BC, a BCUCC requires the existence of a controlling party which controls both the receiving entity and the transferred business before and after the BCUCC.

(b) even if the receiving entity has NCS, those NCS are aware of the controlling party's influence when they invest in a receiving entity. NCS are often protected by, for example, jurisdictional regulations or shareholder agreements from unfavourable transactions under common control. The existence of these legal protections distinguishes common control transactions such as BCUCCs from arm's length transactions such as IFRS 3 BCs.

Reasons why some BCUCCs are similar to and others differ from IFRS 3 BCs

28. Depending on shareholder composition, some BCUCCs are similar to IFRS 3 BCs while others differ from IFRS 3 BCs. We grouped separately reasons related to:

(a) existence of, and effect on, the receiving entity's non-controlling shareholders (paragraph 29); and

(b) existence of, and effect on, the transferring entity's non-controlling shareholders (paragraphs 30–31).

The receiving entity's non-controlling shareholders

29. For the reasons explained in paragraph 5, BCUCCs that affect NCS are similar to IFRS 3 BCs.[4] However, BCUCCs that do not affect NCS differ from IFRS 3 BCs because:

    (a) the controlling party controls the transferred business before and after the BCUCC. This is different from an IFRS 3 BC—in an IFRS 3 BC, the parent entity of the reporting entity acquires an ownership interest that it did not have before the IFRS 3 BC.[5]

    (b) in many cases local regulations require BCUCCs that affect NCS to be priced as if they were an arm's length transaction (see paragraph 27(b)) therefore such BCUCCs are similar to IFRS 3 BCs. However, BCUCCs that do not affect NCS might not be priced on an arm's length basis.

The transferring entity's non-controlling shareholders

30. A BCUCC in which the transferring entity has non-controlling shareholders is similar to an IFRS 3 BC.

31. One national standard-setter said the receiving entity should apply the acquisition method to BCUCCs that do not affect NCS of the receiving entity if the transferring entity has non-controlling shareholders. This respondent said the transferring entity's non-controlling shareholders would likely demand that the selling price is at fair value in order to not negatively impact their interests. Similar to non-controlling shareholders of the receiving entity, non-controlling shareholders of the transferring entity are often protected (see paragraph 27(b)) so such BCUCCs would be priced on an arm's length basis and therefore similar to an IFRS 3 BC.[6]

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[4] One respondent said if the receiving entity's parent entity has non-controlling shareholders, similar to non-controlling shareholders of the immediate receiving entity, those shareholders would acquire an ownership interest in the transferred business.

[5] The reporting entity could also be controlled by other parties, for example by an individual. For simplicity, this paper refers to a 'parent entity' as an example of a party that controls the reporting entity in an IFRS 3 BC.

[6] One respondent suggested that changes in the controlling party's ownership interest should be considered. We note that a change in the controlling party's ownership interest can only occur if there is also a change in interests for the receiving entity's non-controlling shareholders (analysed in paragraph 29) and/or the transferring entity's non-controlling shareholders (analysed in paragraph 30–31).

Reasons why all BCUCCs are similar to IFRS 3 BCs

32. While the composition of, and effect on, shareholders could affect who the users are and their information needs, it does not affect the BCUCC itself and whether that BCUCC is similar to or differs from an IFRS 3 BC. In particular:

    (a) IFRS Accounting Standards do not generally contain different requirements for:

        (i) transactions under common control—this indicates that the existence of a controlling party does not, in itself, affect whether a transaction under common control is similar to or differs from a transaction between unrelated parties.

        (ii) transactions based on whether the reporting entity has non-controlling shareholders—for example, IFRS 3 does not have different requirements for IFRS 3 BCs depending on whether the reporting entity has non-controlling shareholders. This indicates that the existence of non-controlling shareholders does not, in itself, distinguish the transaction.

    (b) compared to an IFRS 3 BC, the existence of a controlling party in a BCUCC might result in the consideration paid including an extra component, being a contribution to, or a distribution from, the receiving entity's equity. However, this extra component only affects a BCUCC's pricing—which paragraphs 45–52 consider—and does not affect whether the BCUCC is similar to or differs from an IFRS 3 BC.

Staff initial view

33. For the reasons explained in paragraph 32, we think the composition of, and effect on, shareholders is not a factor that distinguishes BCUCCs from IFRS 3 BCs.

Decision-making process

Observations/conclusions in the Discussion Paper

34. The IASB considered the process for deciding the terms of the combination when developing its preliminary views but did not conclude on its effect on whether a

BCUCC is similar to or differs from an IFRS 3 BC. Paragraph 2.19 of the Discussion Paper says:

> The [IASB] also considers that some of the indicators suggested by stakeholders—for example, the purpose of the combination or *the process for deciding the terms of the combination*— would not change the conclusion about what information would be most useful to users of the receiving [entity's] financial statements… [emphasis added]

Reasons why BCUCCs differ from IFRS 3 BCs

35. Most BCUCCs are initiated and directed by the controlling party—the combining entities do not generally have 'free will' to decide whether and on what terms a BCUCC occurs. Although IFRS 3 BCs might also be directed by a parent entity (see paragraph 36), it is more common for BCUCCs to be directed by a controlling party than for an IFRS 3 BC to be directed by a parent entity.

Reasons why BCUCCs are similar to IFRS 3 BCs

36. Some IFRS 3 BCs are directed by a parent entity so the reporting entity might not have 'free will' to decide whether and on what terms the transaction occurs. However, the accounting for an IFRS 3 BC is unaffected by whether the transaction is directed by a parent entity and whether the reporting entity has 'free will' in deciding whether and on what terms the transaction occurs. This indicates that direction by a parent entity and 'free will' of the reporting entity does not change the economic phenomenon from the reporting entity's perspective. Regardless of who directs an IFRS 3 BC or a BCUCC and the extent of 'free will' of the reporting entity, the reporting entity obtains control of a business it did not control before.

Staff initial view

37. For the reasons explained in paragraph 36, we think the decision-making process for a BCUCC is not a factor that distinguishes BCUCCs from IFRS 3 BCs.[7]

[7] The IASB has not yet deliberated whether the receiving entity should disclose information such as the decision-making process or the purpose of a BCUCC. The IASB's preliminary view was that it should provide application guidance on how to apply disclosure requirements including those in IAS 24 *Related Party*

Purpose of the combination

Observations/conclusions in the Discussion Paper

38. The IASB considered the purpose of the combination when developing its preliminary views but did not conclude on its effect on whether a BCUCC is similar to or differs from an IFRS 3 BC. Paragraph 2.19 of the Discussion Paper says:

> The [IASB] also considers that some of the indicators suggested by stakeholders—for example, *the purpose of the combination* or the process for deciding the terms of the combination— would not change the conclusion about what information would be most useful to users of the receiving [entity's] financial statements… [emphasis added]

Reasons why BCUCCs differ from IFRS 3 BCs

39. The purpose of a BCUCC is often to benefit the controlling party and the wider group, and not necessarily to benefit either or both of the combining entities. For example, a BCUCC may be driven by:

    (a) another transaction, for example preparing for an IPO; or

    (b) the wider group's reasons and not just the receiving entity's reasons—for example, tax reasons, to create synergies for the wider group or the cash flows from the transferred business may be diverted to the controlling party.

40. Considering the wider group perspective (see paragraphs 17–25), the purpose of a BCUCC is often a reallocation of resources within the group by the controlling party. This differs from an IFRS 3 BC, which always involves the acquisition of one or more businesses.

Reasons why BCUCCs are similar to IFRS 3 BCs

41. The reasons discussed in paragraph 39 are not unique to BCUCCs. A parent entity may direct a reporting entity to perform an IFRS 3 BC for similar reasons—for

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Disclosures. Paragraph 5.11 of the Discussion Paper says such application guidance could explain, for example, that the receiving entity should disclose information about the governance process over the terms of the combination. Agenda Paper 23D of the IASB's January 2022 meeting summarises respondents' feedback.

example, to prepare for an IPO or to create synergies for the wider group. The accounting for an IFRS 3 BC does not differ depending on the IFRS 3 BC's purpose.

42. A BCUCC might only be a resource reallocation from the controlling party's perspective. However, for the reasons explained in paragraphs 20–24, whether some or all BCUCCs are similar to or differ from IFRS 3 BCs should be considered from only the reporting entity's perspective—the wider group and the controlling party's perspective is irrelevant when assessing a BCUCC from the receiving entity's perspective.

43. When the IASB was developing IFRS 3, some stakeholders said the pooling method (a form of book-value method) should be applied to mergers—business combinations in which the predominant form of consideration is equity—for various reasons, including that the intention of the merger is to unite commercial strategies.[8] The IASB concluded that mergers are economically similar to acquisitions and therefore the acquisition method should be applied even to mergers, indicating that the purpose of a business combination does not change the economic phenomenon.

Staff initial view

44. For the reasons explained in paragraphs 41–43, we think the purpose of a BCUCC is not a factor that distinguishes BCUCCs from IFRS 3 BCs.

Transaction pricing

Observations/conclusions in the Discussion Paper

45. Paragraph 2.19 of the Discussion Paper says:

> … The [IASB] acknowledges that the pricing of some [BCUCCs] can differ from the pricing of [IFRS 3 BCs] (see paragraph 2.28) and that evidence of fair value may not always be readily available in a [BCUCC]. However, in the [IASB]'s view, those considerations relate to the mechanics of how the selected measurement method should be applied rather than to the selection of the measurement method…

[8] See paragraphs BC29–BC35 of the Basis for Conclusions on IFRS 3 for further information.

46. In developing the Discussion Paper, the IASB considered whether and how often the consideration paid in a BCUCC differs from the consideration that would have been paid in an arm's length transaction. Appendix A summaries the IASB's considerations.

Reasons why BCUCCs differ from IFRS 3 BCs

Consideration compared to an IFRS 3 BC

47. BCUCCs are ultimately transactions with owners (the controlling party) and in a BCUCC the receiving entity might knowingly pay more or less than the consideration that would have been paid in an arm's length transaction, for example, if the controlling party directs it to. While 'overpayments' or 'underpayments' could occur in an IFRS 3 BC, these would be part of the negotiation with an independent party. As paragraph BC382 of IFRS 3 explains, in an IFRS 3 BC overpayments are unlikely to be detectable or known at the acquisition date and the amount of any overpayment would be difficult, if not impossible, to quantify.

Measurement uncertainty

48. The consideration paid in a BCUCC might not always be evidenced by a transaction between independent parties. Measuring the consideration that would have been paid in an arm's length transaction (to assess whether the BCUCC is priced at arm's length) may involve significant measurement uncertainty.

Reasons why BCUCCs are similar to IFRS 3 BCs

Consideration compared to an IFRS 3 BC

49. Similar to a BCUCC, the consideration in an IFRS 3 BC could include overpayments or underpayments, for example, if the price is driven up in the course of bidding for the acquiree or a forced sale. BCUCCs might include overpayments or underpayments more often than would happen in an IFRS 3 BC. However, BCUCCs are ultimately transactions with owners and payments that differ from what would have been paid in an arm's length transaction represent a transaction with owners in their capacity as owners (that is, a distribution from or contribution to the receiving entity's equity). Any such contribution or distribution is separate from the BCUCC and does not affect whether the BCUCC itself is similar to or differs from an IFRS 3 BC.

Measurement uncertainty

50. While assessing whether the consideration paid in a BCUCC differs from the consideration that would have been paid in an arm's length IFRS 3 BC may involve measurement uncertainty:

    (a) in many cases local regulations require BCUCCs to be priced as if they were an arm's length transaction—for example, laws to protect minority interests (see Appendix A). Even in the absence of local regulation, the receiving entity might have evidence that a BCUCC is priced as if it were at arm's length, such as independent valuation reports obtained for tax transfer-pricing reasons.

    (b) any such measurement uncertainty might affect the accounting for a BCUCC (for example, whether to separately recognise and measure any overpayment or underpayment) but does not affect the economic phenomenon.

Staff initial view

51. For the reasons discussed in paragraphs 49–50, we think transaction pricing is not a factor that distinguishes BCUCCs from IFRS 3 BCs.

52. In particular we note paragraphs 6.80–6.82 of the *Conceptual Framework* say that assets may be acquired, and liabilities incurred, as a result of an event that is not a transaction on market terms, for example, if the transaction price is affected by relationships between the parties. In such cases it may be appropriate to measure the assets and liabilities received at deemed cost. Any difference between that deemed cost and the consideration paid would be analysed separately. For example, in a BCUCC, we think that difference ultimately represents a transaction with owners in their capacity as owners and, accordingly, be recognised in equity as a distribution to or contribution from owners in their capacity as owners. Such a contribution or distribution would be separate from, and therefore not affect, the BCUCC itself. We will consider how to account any difference between the consideration paid for a BCUCC and the consideration that would have been paid in an arm's length transaction, including assessing how any measurement uncertainty might affect that accounting, in the future.

Summary of staff initial views

53. In our initial view all BCUCCs are similar to IFRS 3 BCs because the receiving entity gains control of a business it did not control before. In particular, we think:

    (a) whether some or all BCUCCs are similar to or differ IFRS 3 BCs should be considered only from the reporting entity's perspective;

    (b) the following arguments do not result in some or all BCUCCs differing from IFRS 3 BCs:

        (i) composition of, and effect on, shareholders;

        (ii) decision-making process; and

        (iii) purpose of the BCUCC; and

    (c) compared to an IFRS 3 BC, a BCUCC can contain an extra component of a distribution from or contribution to the receiving entity's equity but any such contribution or distribution is separate from the BCUCC and does not affect whether the BCUCC itself is similar to or differs from an IFRS 3 BC.

Question for the IASB
Do IASB members have comments or questions on the analysis in this paper? Specifically: (a) is there any analysis that is unclear? (b) is there anything IASB members would like us to research or analyse further before the IASB makes tentative decisions on whether conceptually (that is, before considering practical reasons) the acquisition method or a book-value method should apply to some or all BCUCCs? (c) do IASB members have any other questions or comments on the analysis in this paper or the staff initial views summarised in paragraph 53?

Appendix A—Considerations on contributions and distributions

A1. Paragraphs 3.13 and 3.17 of the Discussion Paper note the IASB's view that a contribution to or distribution from the receiving entity's equity would be unlikely to occur in practice for a BCUCC that affects NCS.

A2. Paragraph 3.13 of the Discussion Paper says:

> The [IASB] also considered whether a distribution from equity would be likely to occur in practice in [BCUCCs] that affect [NCS]. In effect, any such distribution would transfer wealth from those [NCS] to the transferring [entity], and ultimately to the controlling party. Research for this project and stakeholder input suggest that distributions to the controlling party are unlikely to occur in such combinations. Such distributions are unlikely to occur because many jurisdictions have legal requirements and regulations that are designed to protect the interests of [NCS].

A3. Paragraph 3.17 of the Discussion Paper says:

> The [IASB] also considered whether the receiving [entity] should be required to recognise a contribution to equity when applying the acquisition method to a [BCUCC]. The [IASB] first considered whether such a contribution would be likely to occur if such a combination affects [NCS]. The legal protections discussed in paragraph 3.13 might not apply in this situation, because any such contribution would transfer wealth from the controlling party to the [NCS] and so would not adversely affect those shareholders. Nevertheless, the controlling party is unlikely to allow a transfer of wealth to [NCS]. Therefore, the [IASB] has reached the view that such contributions are also unlikely to occur in practice.

A4. Agenda Paper 23A of the IASB's December 2019 meeting includes further details about the IASB's prior considerations on this matter. That agenda paper includes feedback from members of the Capital Markets Advisory Committee, the Global Preparers Forum, the Accounting Standards Advisory Forum and the International Organization of Securities Commissions as well as the staff's review of a report published by The World Bank.

Appendix B—History of the BCUCC scope exclusion

B1. IFRS 3 excludes ‘a combination of entities or businesses under common control’ from its scope (the BCUCC scope exclusion). The Basis for Conclusions on IFRS 3 do not explain why these transactions are excluded (for example, whether the IASB developed the BCUCC scope exclusion because BCUCCs differ from IFRS 3 BCs or for other reasons). We reviewed the history of the BCUCC scope exclusion to better understand the rationale for the exclusion.

B2. The International Accounting Standards Committee (IASC) issued IAS 22 *Accounting for Business Combinations* in 1983. IAS 22 excluded from its scope ‘transfers or exchanges of assets among enterprises under common control’. There are no Basis for Conclusions on IAS 22 to explain the rationale for this exclusion.

B3. ‘Business combinations involving entities or businesses under common control’ were excluded from the scope of IFRS 3 issued in 2004. The IASB’s intention in developing IFRS 3 (2004) was to focus on specific areas and not to reconsider all the requirements in IAS 22. The IASB therefore decided to defer considering the accounting for BCUCCs until a later phase of the project (paragraph BC24 of the Basis for Conclusions on IFRS 3 (2004)). Paragraph BC26 of the Basis for Conclusions on IFRS 3 (2004) explains why the wording of the scope exclusion in IFRS 3 (2004) differs from the wording in IAS 22 but does not explain why such transactions were excluded from IFRS 3 (2004)’s scope.

B4. In revising IFRS 3 in 2008, the IASB decided to continue to exclude BCUCCs from IFRS 3’s scope. The IASB was aware of nothing that has happened since IFRS 3 (2004) was issued to suggest IFRS 3 should be delayed to address BCUCCs (see paragraph BC59 of the Basis for Conclusions on IFRS 3). However, the Basis for Conclusion on IFRS 3 does not further explain why such transactions are excluded from IFRS 3’s scope.