Business combinations involving newly formed entities: business combinations under common control

The Interpretations Committee received a request for guidance on accounting for common control transactions. More specifically, the submission describes a fact pattern that illustrates a type of common control transaction in which the parent company (Entity A), which is wholly owned by Shareholder A, transfers a business (Business A) to a new entity (referred to as ‘Newco’) also wholly owned by Shareholder A. The submission requests clarification on (a) the accounting at the time of the transfer of the business to Newco; and (b) whether an initial public offering (IPO) of Newco, which might occur after the transfer of Business A to Newco, is considered to be relevant in analysing the transaction under IFRS 3.

The Committee observed that the accounting for common control transactions is too broad to be addressed through an interpretation or through an annual improvement. The Committee also noted that the issues raised by the submitter have previously been brought to the Board’s attention. The Committee determined that the specific fact pattern submitted would be better considered within the context of a broader project on accounting for common control transactions, which the Board is planning to address at a later stage. Consequently, the Interpretations Committee decided not to add the issue to its agenda and recommended the Board to consider the fact pattern described in the submission as part of its project on common control transactions.