30 Cannon Street, London EC4M 6XH, England
Phone: +44 (0)20 7246 6410, Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: http://www.iasb.org

International Accounting Standards Board

This document is provided as a convenience to observers at Standards Advisory Council meetings, to assist them in following the Council's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff paper prepared for the Council. Paragraph numbers correspond to paragraph numbers used in the Council paper.

INFORMATION FOR OBSERVERS

SAC Meeting: **November, London**

Project: **Common Control transactions**

(Agenda Paper 4C)

Cover Note

INTRODUCTION

1. The Board has received requests to add to its technical agenda a project on combinations between entities or businesses under common control (in the following referred to as 'common control transactions'). The staff plans to present an agenda proposal on common control transactions to the Board in December 2007. The draft agenda proposal is attached as appendix to this agenda paper.

2. The purpose of this paper is to seek the Standards Advisory Council's input on the agenda proposal. The staff asks the Standards Advisory Council to consider the following questions:

   (a) Does the Standards Advisory Council believe that the staff has defined the project scope appropriately? Does the Standards Advisory Council believe that the staff's assessment that the project scope should not be extended beyond the context of a group restructuring is correct?

(b) Does the Standards Advisory Council believe that the staff has appropriately analysed the IASB's standard setting criteria? Is the Standards Advisory Council aware of additional issues that should be included in the final agenda proposal?

INTRODUCTION

3. The Board has received requests to add to its technical agenda a project on common control transactions.

4. This agenda paper:

   (a) describes the issues to be addressed in a potential project on common control transactions;

   (b) considers whether such a project would meet the IASB's agenda criteria;

   (c) asks the Board whether it wishes to add a project on common control transactions to its agenda; and

   (d) sets out a draft project plan.

SUMMARY OF STAFF RECOMMENDATIONS AND QUESTIONS TO THE BOARD

5. The staff recommends that the scope of a potential project on common control transactions be limited to the accounting for combinations between entities or businesses under common control in the acquirer's consolidated and separate financial statements. In addition, we believe that a potential project should investigate whether the description of a combination between entities or businesses under common control can be clarified. The staff does not recommend to extend the project scope beyond the context of a group restructuring.

   Does the Board agree with the proposed project scope? Does the Board agree that the project scope should not be extended beyond the context of a group restructuring?

6. The staff believes that a project on common control transactions meets the Board's agenda criteria and recommends that the project be added to the Board's technical agenda.[1]

Does the Board agree to add a project on common control transactions to its technical agenda?

7. Finally, the staff recommends that the first due process document should be a discussion paper. We believe also that an advisory working group should be established to enable the Board and the staff to seek the input of interested parties during all stages of the project.

Does the Board agree that the first due process document should be a discussion paper?

Does the Board agree with the timetable presented in paragraph 79 and the staff recommendation to establish an advisory working group?

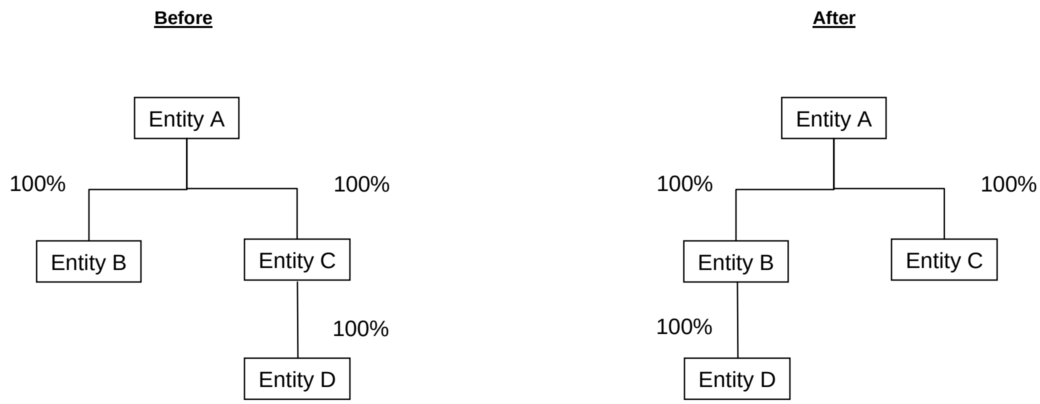
BACKGROUND

8. A combination between entities or businesses under common control is a business combination where the controlling party before and after the transaction is the same. Those transactions arise often in the context of group restructurings. The party having common control might want to restructure its group for legal, tax or economic reasons. For example, a group restructuring might be undertaken to achieve a change in the tax base of a subsidiary, because of regulatory requirements or in preparation for a sale.

---

[1] This recommendation is subject to available resources. A separate paper will be presented to the Board addressing resource issues.

9. For example, assume that entity A owns all of the voting interest of entities B and C. Entity C owns all of the voting interest in entity D. Entity B acquires all voting interests in entity D from entity C.



10. The transaction is a combination between entities under common control because entities B, C and D are controlled by entity A before and after the transaction. This type of restructuring might be used in preparation, for example, for the sale by initial public offering of entity B and its subsidiaries (including entity D), commonly referred to as a spin-off transaction.

11. A further example of a combination between entities under common control in the illustration would be the subsequent legal merger between entities B and D (ie in order to simplify entity A's group structure or to achieve a change in the tax base of entity D's assets and liabilities).

12. The staff notes that a combination between entities under common control does not require that the party having common control is a legal entity or prepares its own set of consolidated financial statements. If an individual restructures his/her corporate investments the guidance on combinations between entities or businesses under common control would apply. Thus, if, in the illustration, A was an individual, the acquisition of entity D by entity B or the subsequent legal merger between entities B and D would also be a combination between entities

under common control. However, a group of individuals would only be regarded as having common control over entities B, C and D when, as a result of contractual arrangements, the group of individuals has collectively the power to govern the financial and operating policies of those entities so as to obtain benefits from their activities.

ISSUES TO BE ADDRESSED

13. In the example in paragraphs 7 and 8, entity A's financial position remains unchanged before and after the transaction. Therefore, most constituents believe that if entity A prepares **consolidated financial statements** they should not be affected by a combination between entities or businesses under common control.

14. Furthermore, paragraph 37 of IAS 27 *Consolidated and Separate Financial Statements* requires that entity A records in its **separate financial statements** the investments in the subsidiaries entity B and C either at cost or in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. If entity B acquires entity D in an exchange of equal values entity A's investments in entities B and C should not be affected by the combination between entities under common control.

15. However, the staff notes that in a common control transaction it cannot always be presumed that equal values are exchanged. Paragraphs 30-32 of this agenda proposal address the question of whether a project on common control transactions should investigate further the accounting implications of transactions which do not represent an exchange of equal values.

16. The staff believes that an agenda proposal on common control transactions should not focus on the financial statements of the party that ultimately exercises control. Paragraphs 15–21 analyse whether a potential project should focus on the

accounting for a combination between entities or businesses under common control in the acquirer's consolidated or separate financial statements.

Entity B's consolidated financial statements

17. Entity B might be exempt from the presentation of **consolidated financial statements** in accordance with paragraph 10 of IAS 27. However, entity B would be required to present consolidated financial statements if:

    (a) entity B is not wholly-owned by entity A and entity B's non-controlling shareholders objected to entity B not presenting consolidated financial statements;

    (b) entity B's debt or equity instruments are traded in a public market;

    (c) entity B filed or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market;

    (d) entity A does not prepare for public use consolidated financial statements that comply with IFRSs; or

    (e) entity B chooses to present consolidated financial statements, for example in order to prepare an initial public offering.

18. If entity B is required to prepare consolidated financial statements, a question arises as to how the acquisition of entity D should be accounted for because paragraph 2(c) of IFRS 3 *Business Combinations* excludes combinations between entities or businesses under common control from the scope of the revised IFRS 3. The staff is aware of at least three accounting methods that are advocated in practice:

    (a) *Acquisition method*: The combination between entities or businesses under common control would be accounted for as if it were a business combination between unrelated parties. In the example, entity B would recognise entity D's assets and liabilities at their acquisition date fair values.

(b) *Fresh-start method*: According to this method, all assets and liabilities of the newly formed group would be measured at their fair values. In the example, both, entity B's and D's assets and liabilities would be measured at their acquisition date fair values.

(c) *Pooling-of-interests method*: According to this view, the assets and liabilities of the involved parties would not be remeasured and rather the acquiree's book values would be carried over in the acquirer's financial statements. However, it is not clear which amounts should be carried over into the acquirer's financial statements. In the example, entity B could recognise entity D's assets and liabilities at their carrying amounts in:

1. entity A's consolidated or separate financial statements;
2. entity C's consolidated or separate financial statements; or
3. entity D's individual financial statements.

19. The staff believes that a potential project on common control transactions should specify the appropriate accounting method for combinations between entities or businesses under common control in the acquirer's consolidated financial statements.

Entity B's separate financial statements

20. In addition to its consolidated financial statements, many jurisdictions require entity B to prepare **separate financial statements** in accordance with IAS 27. In contrast to IFRS 3, IAS 27 does not contain a scope exemption for combinations between entities or businesses under common control. Some constituents argue therefore that paragraph 37 of IAS 27 applies to those transactions and the

acquisition of entity D should be recorded in entity B's separate financial statements at either cost or in accordance with IAS 39. However, other constituents argue that the scope exemption in paragraph 2(c) of the revised IFRS 3 should be applied to the guidance on separate financial statements in IAS 27 by analogy.

21. The staff believes that a potential project on common control transactions should make it clear whether combinations between entities or businesses under common control are within the scope of IAS 27.

22. If combinations between entities or businesses under common control are exempt from the scope of paragraph 37 of IAS 27, an additional question arises as to how those transactions should be accounted for in entity B's separate financial statements. The staff is aware that the following measurement bases are advocated in practice:

  (a) entity D's carrying amount in:

    1. entity A's consolidated or separate financial statements;

    2. entity C's consolidated or separate financial statements; or

    3. entity D's individual financial statements.

  (b) entity D's fair value; or

  (c) the exchange amount (the actual consideration paid).

23. We believe that if the Board should decide that combinations between entities or businesses under common control are excluded from the scope of IAS 27, additional guidance should be provided on how those transactions are accounted for in the acquirer's separate financial statements.

Staff recommendation

24. The staff recommends that a project on common control transactions focus on the acquirer's consolidated and separate financial statements. We do not believe that additional guidance on the accounting in the financial statements of the party that has common control is needed, unless the entity that has common control is also the acquirer in the combination between entities under common control.

ADDITIONAL ISSUES

25. The staff has identified the following additional issues that could be addressed in a project on common control transactions:

    (a) the project could revise the description of a combination between entities or businesses under common control to provide clearer guidance on when a transaction falls within the scope of IFRS 3;

    (b) the project could undertake a comprehensive review of all new basis issues related to corporate restructurings; or

    (c) the project could analyse all transactions between entities under common control, regardless of whether they represent a corporate restructuring.

Description of a combination between entities or businesses under common control

26. The IASB revised the description of a combination between entities or businesses under common control as part of phase I of its project on business combinations. Paragraph B1 of IFRS 3 describes a combination between entities or businesses under common control as a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination and that control is not transitory.

27. Some constituents expressed concerns that this description might result in the inconsistent identification of combinations between entities or businesses under common control. The words ‘before and after’ do not give any indication of how long that time period would be and the meaning of ‘transitory’ is not explained, resulting in confusion as to whether common control only has to exist immediately before and after the transaction or if it must exist for a longer period of time.

28. In 2005, the IFRIC received a request for interpretation of the meaning of transitory common control when a new parent entity is formed to facilitate the sale of part of an organisation. It was suggested to the IFRIC that because control of the new entity was transitory, a combination involving that newly formed entity would not be a combination between entities or businesses under common control. The IFRIC decided in the light of the requirements in IFRS 3 not to add the topic to its agenda. Based on the wording of the rejection statement, some constituents have concluded that a group restructuring immediately preceding an initial public offering is outside the scope of IFRS 3 because common control is not transitory.

29. The staff believes that, even though this issue should not be the main focus of the project, there might be merit in reviewing the description of a combination between entities or businesses under common control in IFRS 3 in order to ensure a consistent application of the standard.

New basis accounting

30. Some constituents refer to FASB Discussion Memorandum No. 29 *New Basis Accounting* and recommend that the IASB conduct a more comprehensive review of new basis issues arising in corporate reorganisations. For example, questions arise on whether an entity’s assets and liabilities should be remeasured in a leveraged management buy-out transaction or in a capital restructuring. IFRSs currently do not contain guidance on the accounting for those new basis issues.

31. The staff acknowledges that there would be merit in conducting a comprehensive review of all new basis issues. However, we are concerned that a comprehensive review of those issues would require significant time and staff resources and might delay the issuance of guidance on combinations between entities or businesses under common control. We recommend therefore that new basis issues other than combinations between entities or businesses under common control be excluded from the project scope.

A review of all transactions between entities under common control

32. Some constituents believe that a potential agenda project on common control transactions should not be limited to corporate restructurings. They emphasise that entities under common control engage on a daily basis in numerous transactions other than group restructurings. For example, entities under common control might share the same intellectual capital, exchange employees or sell goods and services to each other. When all entities involved in such a transaction are under the common control of another party it cannot always be assumed that equal values are exchanged.

33. In 2002, the IFRIC discussed whether transactions between entities under common control that are not at arm's length should be accounted for as a capital contribution from and/or distribution to the party having common control. To illustrate, assume that entity A has two subsidiaries, entities B and C. If entity C sells goods to entity B at a price below fair value the difference between fair value and the sales price could be seen as a distribution by entity C to entity A and a simultaneous contribution by entity A to entity B. The IFRIC did not reach a conclusion on this matter.

34. The staff acknowledges that there would be conceptual merit in analysing all transactions between entities under common control. However, we are concerned that such a comprehensive review might be time consuming and significantly delay the issuance of guidance on combinations between entities or businesses under common control. We recommend therefore that a potential project be limited to common control transactions in the context of a group restructuring and not address any other transactions between entities under common control.

Staff recommendation

35. The staff recommends that, in addition to the issues described in paragraphs 11–21, a potential project clarifies the description of a combination between entities

or businesses under common control in IFRS 3. The staff does not recommend extending the project scope beyond the context of a group restructuring.

Does the Board agree with the proposed project scope? Does the Board agree that the project scope should not be extended beyond the context of a group restructuring?

IASB AGENDA CRITERIA

36. The due process handbook for the IASB sets out five criteria to be considered in deciding whether to add a potential item to the agenda:

    (a) the relevance to users of the information involved and the reliability of information that could be provided;

    (b) existing guidance available;

    (c) the possibility of increasing convergence;

    (d) the quality of the standards to be developed; and

    (e) resource constraints.

Criterion 1: The relevance to users of the information and the reliability of information that could be provided

37. Criterion 1 considers whether a project on common control would address the needs of users across different jurisdictions.

International relevance and pervasiveness

38. The staff believes that combinations between entities or businesses under common control occur frequently in many jurisdictions that apply IFRSs. The staff has also sought the input of the standard-setters of the USA, Canada, Australia, New Zealand, China, Japan, France and Germany on this issue. All of those standard-setters confirmed that those transactions occur frequently and are material in their respective countries. In addition, anecdotal evidence from all major accounting firms suggests that a significant share of national and international mergers and acquisitions activity relates to combinations between entities or businesses under common control.

39. Even though combinations between entities or businesses under common control are considered to be pervasive, IFRSs do not provide guidance on the accounting for those transactions. Combinations between entities or businesses under common control are excluded from the scope of IFRS 3. Other standards do not explicitly address the issue.

40. The lack of guidance on combinations between entities or businesses under common control under IFRSs and differing guidance of national standard-setters (see paragraphs 49–52) has created divergence in practice. Publications of the major accounting firms suggest that they would currently not object to preparers applying any of the accounting methods highlighted in paragraphs 16 and 20.

41. The staff is concerned that the lack of guidance on combinations between entities or businesses under common control has provided preparers with a de facto choice on which accounting method should be applied. Permitting alternative

accounting methods for the same transactions or other events is undesirable because to do so diminishes comparability and may diminish other desirable qualities as well, for example, faithful representation and understandability.

42. The Board concluded in phase I of its business combinations project that a single method of accounting is preferable for business combinations other than combinations between entities or businesses under common control because having more than one method would lead to higher costs associated with applying, auditing, enforcing and analysing the information produced by the different methods. The staff believes that a similar argument could be made for combinations between entities or businesses under common control.

Urgency

43. In September 2006, the European Roundtable on Consistent Application of IFRSs identified combinations between entities or businesses under common control as a problematic accounting issue where there is a general, widely shared sentiment that the risk of divergent application is both real and significant. In response to discussions at the roundtable the European Commission submitted a formal agenda request to the IASB in October 2006. The agenda request states:

> Roundtable participants believe that the boundaries of the scope exclusion in IFRS 3 Business Combinations need further clarification. Furthermore, the basis of accounting to be used for common control transactions is currently not resolved in IFRSs and therefore needs to be developed urgently.
>
> …
>
> In view of its scope and complexity the Roundtable further concluded that the issue should be dealt with by the IASB rather than IFRIC.
>
> IASB and IFRIC have made several attempts to deal with the issue in the past but none of them has resulted in the development of the principles urgently needed. The Roundtable participants took the view there remain compelling reasons for the IASB to take up this issue as it has widespread and practical relevance and divergent interpretations already exist.

> Therefore, the issue is of fundamental importance and quick resolution is required. In spite of IASB's constraints regarding staff resources and available Board time we believe that the issue should be taken on the IASB agenda as an active project as soon as possible in 2007.

44. The staff sought also the input of the standard-setters from China, Japan, Australia, New Zealand, Canada and USA on whether the IASB should add a project on common control to its technical agenda. Many standard-setters supported the agenda request by the European Commission. For example, the Australian Accounting Standards Board responded:

> In light of the issues identified with the accounting treatment of common control transactions, AASB considers that the IASB should take this project on their agenda. Concerns about this issue are not limited to the European jurisdiction.
>
> There is a need for the development of requirements and guidance on accounting for common control transactions to help ensure consistency in the reporting of like transactions under IFRSs.

Consequences of not taking this project on the agenda

45. The IASB did not receive requests from user groups to add a project on common control to its agenda. However, the staff believes that users of financial statements will benefit from guidance on the accounting for combinations between entities or businesses under common control.

46. The current lack of guidance impairs comparability between financial statements of entities under common control. Presently, an entity might apply a variety of methods, including the acquisition method, the fresh-start method and the pooling-of-interests method.

47. The acquisition method and the fresh-start method measure some or all of the assets and liabilities at their acquisition-date fair values. Application of those methods is likely to result in the recognition of previously unrecognised goodwill

and other intangible assets. In contrast, the pooling-of-interests method carries over the book values of the acquiree's assets and liabilities into the consolidated financial statements. Thus, the acquisition method is likely to result in the presentation of higher assets, liabilities and equity amounts than the pooling-of-interests method. After the business combination, the acquisition method is likely to cause higher depreciation and amortisation expenses.

48. The staff believes that the existence of more than one accounting method for combinations between entities or businesses under common control significantly complicates the analysis of financial statements for users and might cause users to make suboptimal investment decisions.

Staff conclusion

49. The staff believes that the issue of combinations between entities or businesses under common control has international relevance, is pervasive and urgent. In addition, the staff is concerned that the absence of guidance on those transactions might cause users to make suboptimal investment decisions. Thus, we believe that a project on common control transactions meets criterion 1.

Criterion 2: Existing guidance available

50. Criterion 2 considers whether the project will address an area on which existing guidance is insufficient.

51. Combinations between entities or businesses under common control are excluded from the scope of IFRS 3. No other IFRS or interpretation provides guidance on the accounting for those transactions. Thus, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* preparers consider the pronouncements of other standard-setting bodies and other accounting literature to find guidance on the accounting for combinations between entities or businesses under common control.

52. However, the accounting guidance under national GAAP varies between countries and causes divergence in practice. For example, the U.S. and the U.K. standard-setters have come to different conclusions on how combinations between entities or businesses under common control should be recorded in the acquirer's consolidated financial statements.

53. SFAS No. 141(R) *Business Combinations* excludes combinations between entities or businesses under common control from its scope. But, Appendix C of the standard contains limited guidance on the accounting for those transactions. Paragraph D9 requires that the acquirer in a combination between entities or businesses under common control recognises the assets acquired and liabilities assumed in the transaction at their carrying amounts in the accounts of the transferring entity at the date of the transfer.[2] Similarly, FRS 6 *Acquisitions and Mergers* permits merger accounting to group reconstructions when the relative rights of the ultimate shareholders are not altered by the combination between

[2] The previous version of SFAS No. 141 contained additional guidance according to which the acquisition method would have applied if the effect of a common control transaction was the acquisition of all or a part of the non-controlling equity interest in a subsidiary. This guidance has not been carried over into the revised standard.

entities or businesses under common control. However, when non-controlling interests exist, merger accounting is permitted only for those group reconstructions that do not change the interests of the non-controlling interests in the group. Where the non-controlling interests are affected the acquisition method would be required. As a consequence, IFRS preparers will account differently for combinations between entities or businesses under common control depending on whether they refer to the guidance under US GAAP or UK GAAP.

54. Other standard-setters and professional bodies acknowledge the existence of contradictory national accounting guidance on combinations between entities or businesses under common control. For example, the German Institut der Wirtschaftspruefer (IDW) states in standard RS HFA 2 that it will not object if such a transaction is recorded in accordance with either the acquisition method or in accordance with US GAAP (that is at carry-over amounts).

Staff Conclusion

55. The staff notes that IFRSs provide no accounting guidance on combinations between entities or businesses under common control and that there is diversity in national standards on how to account for those transactions. We believe therefore that a project on common control transactions meets criterion 2.

Criterion 3: The possibility of increasing convergence

56. Criterion 3 considers whether undertaking a project on common control would increase the possibility of achieving convergence of the accounting standards in different jurisdictions.

57. Some national standard-setters that have not adopted IFRSs, such as the FASB and the ASBJ, have developed guidance on combinations between entities or businesses under common control under their national GAAP. However, no standard-setter considers their common control guidance to be truly comprehensive.

58. For example, the FASB staff believes that once an entity has determined that a transaction qualifies as a combination between entities or businesses under common control, Statement 141(R) and the related interpretations provide sufficient guidance on the proper accounting for those transactions. However, under US GAAP it is not always clear whether a particular transaction would meet the definition of a combination between entities or businesses under common control. EITF Issue No. 02-5 states that the Task Force did not reach a consensus on the issue of how to determine whether common control of a separate entity exists. Therefore, some of the research to be undertaken by the Board might assist other standard setters in improving their existing guidance on combinations between entities or businesses under common control and foster international convergence on the accounting for those transactions.

59. The staff believes that a potential agenda project on common control should have an objective of increasing international convergence and not become a source of divergence in itself. Thus, we believe that it is important to closely cooperate with national standard-setters throughout the project. If the project should be added to the Board's technical agenda, the staff will contact the FASB and other national standard-setters and discuss the degree as to which those standard-setters wish to participate in the project.

Staff conclusion

60. The staff believes that a project on control provides the opportunity of increasing convergence of the accounting standards in different jurisdictions and therefore meets criterion 3.

Criterion 4: The quality of the standard to be developed

61. Criterion 4 considers the qualitative aspects of the standards that are proposed to be developed.

Availability of alternative solutions

62. In paragraphs 16 and 20 the staff has identified methods of accounting for a combination between entities or businesses under common control in the acquirer’s consolidated and separate financial statements. The acquisition method has been analysed thoroughly as part of the Board’s project on business combinations and is currently required for business combinations other than combinations between entities or businesses under common control. The Board has addressed many implementation issues associated with the acquisition method as part of phase II of its business combinations project.

63. The pooling-of-interests method is currently required by other standard-setters under their national GAAP. For example, the pooling-of-interests method is similar to the approach adopted for combinations between entities or businesses under common control by SFAS No. 141(R) under US GAAP. The staff notes that to a limited extent implementation issues persist in practice with respect to the methods adopted by other standard-setters. However, we do not expect that any of those remaining implementation issues will prove to be unsurmountable in the course of a potential project on common control transactions.

64. The fresh-start method is currently not used by the IASB or national standard-setters. The staff will need to conduct further research on the advantages and

disadvantages of that method and identify which implementation issues are associated with it.

65. The question of which accounting method provides the most relevant, reliable and understandable information would be the core of a project on common control transactions. The staff is not currently in the position to advocate the use of any one method over the others.

Cost/benefit considerations

66. An important aspect of the quality of a new standard is the balance between the benefits of the information produced in accordance with the standard and the costs to entities of providing such information.

67. Regardless of which accounting method the Board may decide to require, the staff believes that users of financial statements will benefit from having one single accounting method for combinations between entities or businesses under common control as this will improve comparability between financial statements.

68. Costs for preparers of financial statements will vary depending on which accounting method is required. Under the pooling-of-interests method the acquiree's book values are carried over into the acquirer's financial statements and no additional valuation exercises are required. On the other hand, the acquisition method and the fresh-start method require the acquirer to recognise formerly unrecognised assets and to measure some or all assets and liabilities at fair value. The staff believes that many preparers will need to consult external experts to fully comply with the requirements of the acquisition method or fresh-start method.

69. However, we think that the present lack of guidance on combinations between entities or businesses under common control also imposes costs for preparers. Preparers currently need to investigate together with their auditors and regulators on a case-by-case basis which accounting methods are acceptable according to

IFRSs and represent best the economics underpinning a combination between entities or businesses under common control. Furthermore, preparers need to undertake additional communication efforts to explain to users how a transaction was accounted for and why that method was chosen. The staff believes that if the Board provides clear guidance on combinations between entities or businesses under common control those costs could be reduced significantly.

70. The staff will provide a more detailed analysis of the cost/benefit implications of the alternative accounting methods as the project progresses.

Feasibility

71. Many of the issues that arise in the common control project are closely related to issues in other projects. Those projects are:

(a) *Conceptual framework*: Phase D of the Board's conceptual framework project seeks to define the reporting entity for which financial statements are prepared. The Board has finalised its initial deliberation of phase D of the conceptual framework project. The Board plans to issue a discussion paper by the end of 2007.

The Board's decision on the appropriate accounting method for a combination between entities or businesses under common control might differ depending on whether it identifies either the acquirer or the entire group as the reporting entity. The staff believes that the Board's analysis of the meaning of the term 'reporting entity' is sufficiently progressed to enable us to conduct research on combinations between entities or businesses under common control.

(b) *Consolidation*: The Board has on its agenda an active project on consolidation focusing on the definition of control. The Board plans to issue a discussion paper in the first half of 2008.

Even though the definition of common control is directly linked to control, the staff believes that a project on common control would be only indirectly affected by the consolidation project, as both projects have a different focus. While the consolidation project seeks to define 'control', a project on common control transactions would mainly analyse alternative accounting methods for combinations between entities or businesses under common control.

(c) *Related parties disclosures*: The project will result in amended guidance on related parties disclosures. The Board is currently deliberating responses to an exposure draft published in February 2007. The Board plans to issue a final standard in the first half of 2008.

In accordance with paragraph 9 of IAS 24 the parent, the acquirer and the acquiree in a combination between entities or businesses under common control are related parties. The staff believes that by the time the common control project is added to the agenda the related parties project will be sufficiently progressed for the common control project to profit from the research conducted in that project.

72. The project team will follow deliberations in the identified ongoing projects to ensure that the project develops in a way that is consistent with the conclusions drawn in those projects.

Staff conclusion

73. The staff believes that it will be feasible to develop accounting guidance on combinations between entities or businesses under common control and that this guidance will be cost-beneficial for users and preparers of financial statements. Thus, we believe that a project on common control transactions meets criterion 4.

Criterion 5: Resource constraints

74. Criterion 5 considers whether there are sufficient resources to undertake the common control project in the Board's agenda.[3]

Availability of expertise outside the IASB

75. The staff is not aware of any active research or standard-setting project on common control transactions by any national standard-setter or other representative body.

Amount of additional research required

76. The IASB deliberated the scope exemption for combinations between entities or businesses under common control in IFRS 3 as part of phase I of the business combinations project and the IFRIC discussed related issues on several occasions. However, the staff believes that a potential project on common control transactions will require substantive additional staff research on the accounting methods that might be used to record a combination between entities or businesses under common control in the acquirer's consolidated and separate financial statements.

77. We note that one of the advocated accounting methods is the fresh-start method. The Board has discussed on several occasions in the past whether there are business combinations for which the fresh-start method would produce more relevant information than the acquisition method. For example, the fresh-start method might be more representationally faithful for combinations between mutual entities. The Board postponed a decision on the preferability of the fresh-start method over the acquisition method in the aforementioned situation until it could review the fresh-start method more comprehensively. The staff believes that in order to evaluate fully all potential accounting methods for combinations between entities or businesses under common control the Board should also review the fresh-start method as part of this project.

[3] A separate paper will be presented to the Board addressing resource issues.

Staff recommendation and question to the Standards Advisory Council

78. The staff believes that a potential project on common control transactions meets all agenda-setting criteria and recommends that the project be added to the Board's technical agenda.

Does the Board agree to add a project on common control transactions to its technical agenda?

PROPOSED PROJECT PLAN

79. Given the potential impact a project on common control transactions might have on preparers and users of financial statements, we believe that the initial objective of the project should be to produce as a first due process document a discussion paper exploring the issues described in paragraphs 11–27 and setting out the preliminary views of the Board.

Working group

80. We recommend that the Board establish a working group to act in an advisory capacity. The group should include users, preparers, auditors, and regulators with practical experience and expertise. The purpose of the working group would not be to develop formal recommendations, but would be to act as a forum for the Board and staff to consult on important discussions and as a means of testing ideas and concepts developed by the Board and staff. It would meet as required. The staff believes that the establishment of a working group would provide the Board with early feedback and help ensure the practicability of the accounting methods to be considered for combinations between entities or businesses under common control.

Timetable

81. There are many complex issues for the Board to discuss before it can reach conclusions to be published as preliminary views in the discussion paper. At a minimum, the staff believes that publication will require the following time:

Month	**Topic**
January – May 2008	Preliminary research phase on combinations between entities or businesses under common control including an analysis of the fresh-start method
June 2008	Project Outline and Education Session
July 2008	The definition of a combination between entities under common control

Month	Topic
September 2008	Common control transactions in the acquirer's consolidated financial statements: - the acquisition method - the pooling-of-interests method
October 2008	- the fresh-start method
November 2008	Common control transactions in the acquirer's separate financial statements: - scope of IAS 27 - analysis of available accounting methods: (i) carrying amount (ii) fair value (iii) exchange amount
December 2008	Cost/benefit analysis
January – March 2009	Drafting of the discussion paper
April 2009	Publication

If the IASB and the FASB conclude that the project on common control transactions should be conducted as a joint project, the need of both Boards to consider the issues needs to be taken into account. In addition, if an advisory working group is established, time must be allowed for proposals to be discussed with the group and its comments summarised for the Board.

Does the Board agree that a discussion paper should be issued as the first due process document?

Does the Board agree with the time-table presented in paragraph 79 and the staff recommendation to establish an advisory working group?