



STAFF PAPER

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Accounting Standards Advisory Forum

Project	Business Combinations under Common Control		
Paper topic	Cover paper		
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Purpose of this session

1. Agenda Papers 5A-5C discuss:
 - (a) the results of research and outreach performed by the staff on business combinations under common control (‘BCUCC’) since the Board made a tentative decision on the scope of the research project;
 - (b) the feedback received on BCUCC in the 2015 Agenda Consultation; and
 - (c) next steps.
2. The staff will present those papers to the International Accounting Standards Board® (‘the Board’) at the April 2016 meeting. The purpose of this session is to provide an update to the Accounting Standards Advisory Forum (‘ASAF’) on the feedback received on BCUCC and next steps. The staff invite comments from the ASAF on the results of the research and outreach and on the staff’s proposed direction for the project.
3. The staff will provide an oral summary of comments from ASAF members at the April 2016 Board meeting.

Previous ASAF discussions

4. At the June 2014 meeting, the ASAF discussed the scope of the research project on BCUCC. Most ASAF members believed that the project should focus on the most pervasive application questions—BCUCC and group restructurings—rather than consider broader new basis issues or measurement of related party transactions in general. Some ASAF members emphasised that particular attention should be given to transactions that affect third parties. The Board’s tentative decision on the scope of the project later in June 2014 was consistent with the general direction recommended by the ASAF.
5. At the March 2015 meeting, the ASAF discussed the staff’s preliminary view that the predecessor method should be applied to BCUCC that affect third parties. There was support from ASAF members for using the predecessor method as the default method of accounting for BCUCC. However, some ASAF members asked the Board to consider whether the acquisition method would be more appropriate in particular circumstances.
6. At the December 2015 meeting, the ASAF discussed application of the predecessor method and the staff’s preliminary view that:
 - (a) the Board should not prescribe where in equity any difference between consideration and transferred net assets should be recognised and should not prescribe how consideration in the form of shares should be measured in applying the predecessor method; and
 - (b) the combining entities should be treated as combined from the date on which BCUCC took place and comparative information should not be restated.
7. At that time, the staff did not express a preliminary view on which predecessor carrying amounts should be used in applying the predecessor method.
8. ASAF members agreed with the staff’s preliminary view that the Board should not prescribe where in equity any difference between consideration and transferred net assets should be recognised. Most ASAF members also agreed that the Board should not prescribe how consideration in the form of shares should be measured in applying the predecessor method. ASAF members

expressed mixed views on the date from which the combining entities should be combined and whether comparative information should be restated. Most ASAF members did not express a view on which predecessor carrying amounts should be used in applying the predecessor method.

9. Some ASAF members stated that it was important for the Board to establish a conceptual basis for accounting for BCUCC and that such a conceptual basis would determine both *which* method should be applied and *how* any particular method should be applied.

Update on the staff's preliminary view

Method(s) of accounting for BCUCC

10. In the light of the findings in the research and outreach to date, the staff think that the following broad approaches could be explored if the Board were to decide to proceed with a Discussion Paper on BCUCC:
 - (a) Approach 1—apply the predecessor method to *all* BCUCC and group restructurings; and
 - (b) Approach 2—apply the predecessor method as the default method to BCUCC and group restructurings *except* for transactions that exhibit particular characteristics (for example, those that exhibit characteristics of an arm's-length transaction); apply the acquisition method set out in IFRS 3 *Business Combinations* to transactions that exhibit those characteristics.
11. The staff think that the main advantages of Approach 1 are its simplicity and that it would provide consistent information about BCUCC and group restructurings. Approach 2 could arguably provide information that is most useful for a particular type of transaction and achieve better comparability for transactions with similar economic characteristics. That is, BCUCC that exhibit characteristics of business combinations that are *not* under common control would be accounted for in the same way as those transactions.

12. However, the staff do not think that it is possible to define in a meaningful way a subset of BCUCC to which the acquisition method should be applied. The staff think that any such distinction:
- (a) would either be arbitrary and would not achieve better comparability between like transactions compared to Approach 1; or
 - (b) would be imprecise, would require the exercise of judgement in practice and could result in inconsistent application.
13. However, the staff think that both approaches have merit and should be explored.
14. The staff do not think that applying the acquisition method set out in IFRS 3 to all BCUCC and group restructurings, or applying that method as the default method except for when specified conditions are met, would result in the most useful information. This is because BCUCC and group restructurings *could* exhibit economic characteristics that are very different compared to business combinations that are not under common control. Specifically, they could be undertaken for different reasons and on different terms compared to arm's length transactions between third parties. In those cases, the staff do not think that measuring consideration and transferred net assets at fair value and recognising goodwill or gain would provide the most useful information.
15. The staff acknowledge that fair value information about such transactions could also be useful. However, the staff think that fair value information could be provided via disclosure.

Application of the predecessor method

16. Arguably, there is a conceptual interaction between aspects of the predecessor method. Specifically:
- (a) using the predecessor carrying amounts reported by the controlling party and treating the combining entities as if they had always been

combined (including restating comparative information) provides information from the perspective of the controlling party;¹ and

- (b) using the predecessor carrying amounts reported by the transferred entity and treating the combining entities as combined from the date on which BCUCC took place (with no restatement of comparative information) provides information from the perspective of the combining entities.

17. The staff think that an entity's financial statements should reflect the perspective of that entity. Accordingly, the staff continue to think that in applying the predecessor method, the combining entities should be treated as combined from the date on which the BCUCC took place and that comparative information should not be restated. The staff also think that the carrying amounts used in applying the predecessor method should be those reported by the transferred entity. The staff do not think that the carrying amounts recognised by the controlling party, including any goodwill that might have arisen on past acquisition of the transferred entity by that controlling party, are relevant from the perspective of the combining entities.
18. The staff continue to think that, within the context of applying the predecessor method, the Board should not prescribe:
 - (a) where in equity to recognise any difference between consideration in BCUCC and transferred net assets; and
 - (b) how to measure consideration in the form of shares.

Next steps

19. The staff plan to use their preliminary view set out above as the basis for agenda papers for the Board in the coming months.

¹ To be internally consistent, such an approach should arguably require using the predecessor carrying amounts recognised by the controlling party for all combining entities (ie the transferee and the transferred entity).