IFRS

July 2018

STAFF PAPER

Accounting Standards Advisory Forum

Project	Business Combinations under Common Control		
Paper topic	Update on the June 2018 IASB meeting		
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Introduction

1. July 2018 ASAF Agenda Paper 6 *Business Combinations under Common Control* (Agenda Paper 6) explains that the staff are seeking feedback from ASAF members on the approaches being developed for transactions within the scope of the project. It further explains that, subject to the discussion at the June 2018 IASB meeting, the staff plan to explore further two current value approaches for transactions that affect non-controlling shareholders in the receiving entity in a business combination under common control and asks ASAF members which of those two approaches they prefer, and why (see page 24 of Agenda Paper 6).

2. At the June 2018 IASB meeting, the Board directed the staff to develop an approach based on the acquisition method set out in IFRS 3 *Business Combinations* and to consider whether and how that method should be modified to provide the most useful information about business combinations under common control that affect non-controlling shareholders. Possible modifications could include requirements for the receiving entity in a business combination under common control to do one or more of the following:

   (a) provide additional disclosures;

   (b) recognise any excess identifiable net assets acquired as a contribution to equity, instead of recognising that excess as a gain; or

(c) recognise any excess consideration as a distribution from equity instead of including it implicitly in the initial measurement of goodwill. That excess could be measured, for example, by comparison with the fair value of the acquired business (the so called ‘ceiling approach’ described in April 2018 IASB Agenda Paper 23) or by applying the mechanics of the impairment test in IAS 36 *Impairment of Assets* (the so called ‘revised ceiling approach’ described in May 2018 IASB Agenda Paper 23).

Questions for ASAF members

3. In the light of the direction taken by the Board at its June 2018 meeting, the staff would like to update the question on page 24 of Agenda Paper 6 so that it reads as set out below. Please note that all questions set out below only relate to business combinations under common control **that affect non-controlling shareholders**.

Questions for ASAF members
(a) The staff’s initial assessment is that any excess fair value of identifiable net assets acquired over the fair value of the consideration transferred should be recognised as a contribution to equity, instead of as a gain in the statement of profit or loss. Do you agree with the staff’s initial assessment? If not, why?
(b) In your view, should the Board modify the requirements of the acquisition method for business combinations under common control other than as discussed in (a) above? If so, do you prefer the ceiling approach, the revised ceiling approach (see paragraph 2(c)) or a different approach?
(c) In your view, what disclosures should be required about business combinations under common control (in addition to disclosures already required by existing IFRS Standards)?