

STAFF PAPER

July 2019

IASB® Meeting

Project	Business Combinations under Common Control		
Paper topic	Cover paper		
CONTACT(S)	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743
	Jan Carlo T. Pereras	cpereras@ifrs.org	+44 (0)20 7246 6487
	Simone Villa	svilla@ifrs.org	+44 (0)20 7246 6498

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Purpose of this paper

1. This paper:
 - (a) introduces the Agenda Papers to be discussed at this month's meeting (paragraphs 2–5);
 - (b) sets out next steps in the Business Combinations under Common Control research project (paragraph 6); and
 - (c) provides a summary of previous discussions of the measurement approaches to transactions within the scope of the Business Combinations under Common Control research project by the International Accounting Standards Board (Board) (paragraphs 7–13).

Papers for this meeting

2. At this month's meeting, the staff will present the following Agenda Papers:
 - (a) Agenda Paper 23A *Potential equity investors in BCUCC* (paragraphs 3–4);
and
 - (b) Agenda Paper 23B *How measurement approaches could apply* (paragraph 5).

Agenda Paper 23A Potential equity investors in BCUCC

3. Agenda Paper 23A considers information needs of potential equity investors of the combining entities about transactions that affect non-controlling shareholders of the receiving entity and about transactions that do not affect such shareholders.
4. The paper is for information only. The staff expect that this paper will largely complete the analysis of information needs of different types of primary users of the receiving entity's financial statements about business combinations under common control. The staff plan to ask the Board at a future meeting for a decision on *when* each alternative measurement approach should apply.

Agenda Paper 23B How measurement approaches could apply

5. Agenda Paper 23B provides the Board with an overview of *how* alternative measurement approaches could apply, and of the questions the Board will need to consider in developing those approaches. The paper is for information only and is intended to provide context for the Board's decision at a future meeting on *when* alternative measurement approaches should apply.

Next steps

6. At future meetings, the staff plan to:
 - (a) present to the Board an updated analysis of transactions that affect non-controlling shareholders of the receiving entity and ask the Board for decisions on:
 - (i) whether a current value approach should be applied to all transactions that affect non-controlling shareholders of the receiving entity, and if not all, how that distinction should be made; and
 - (ii) whether a form of a predecessor approach should be applied to all remaining transactions within the scope of the project, including those that affect lenders and other creditors of the receiving entity; and
 - (b) present to the Board an analysis of *how* a current value approach based on the acquisition method set out in IFRS 3 *Business Combinations* could apply and ask the Board for decisions;

- (c) present to the Board an analysis of *how* a form of predecessor approach could apply and ask the Board for decisions; and
- (d) present to the Board an analysis of what disclosures should be provided about business combinations under common control and ask the Board for decisions.

Summary of previous discussions of the measurement approaches

7. In February 2018, the Board tentatively decided to use the acquisition method set out in IFRS 3 as the starting point in the analysis of transactions within the scope of the project. In making that tentative decision, the Board noted that using the acquisition method as a starting point would not determine whether the Board would ultimately propose applying that method to all, or even to many, transactions within the scope of the project.
8. In June 2018, the Board directed the staff to develop an approach based on the acquisition method set out in IFRS 3 and to consider whether and how that method should be modified to provide the most useful information about transactions that affect non-controlling shareholders.
9. In December 2018, the Board discussed whether a current value approach based on the acquisition method should be applied to all or only some transactions that affect non-controlling shareholders of the receiving entity. The Board also discussed how any such distinction should be made. The meeting was educational and the staff did not ask the Board for decisions.
10. In March 2019, the Board discussed an overview of the staff's approach, including how information needs of different types of primary users of the receiving entity's financial statements are considered in developing measurement approaches for transactions within the scope of the project. The Board also discussed whether a form of predecessor approach could be applied for transactions between wholly owned entities, including transactions that affect lenders and other creditors of the receiving entity or potential equity investors in an initial public offering. The meeting was educational and the staff did not ask the Board for decisions.

11. In April 2019, the Board tentatively decided that it need not pursue a single measurement approach for all transactions within the scope of the project. Specifically, the Board could pursue:
- (a) a current value approach for all or some transactions that affect non-controlling shareholders of the receiving entity; and
 - (b) a different approach, such as a form of a predecessor approach, for transactions that affect lenders and other creditors of the receiving entity but do not affect non-controlling shareholders.
12. The Board also directed the staff to continue developing measurement approaches for transactions within the scope of the project by considering:
- (a) whether and how transactions within the scope of the project can be different from business combinations that are not under common control;
 - (b) what information would be useful to various primary users of the receiving entity's financial statements;
 - (c) whether the benefits of providing particular information would justify the costs of providing that information; and
 - (d) complexity and structuring opportunities that could arise under various approaches.
13. In June 2019, the Board discussed:
- whether transactions that do not affect non-controlling shareholders of a receiving entity are different both from transactions that do affect such shareholders and from business combinations that are not under common control; and
 - if so, whether the Board could pursue an approach that is not based on the acquisition method for transactions that do not affect non-controlling shareholders, such as a form of predecessor approach.