STAFF PAPER

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IASB® meeting

Project	**Business Combinations under Common Control**
Paper topic	Cover paper

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Introduction and purpose

1. At its December 2021 meeting the International Accounting Standards Board (IASB) started to discuss the feedback it has received on the Discussion Paper *Business Combinations under Common Control* (Discussion Paper). The IASB discussed feedback on project scope and selecting the measurement method.

2. The purpose of this meeting is:

   (a) to provide the IASB with detailed summaries of feedback on the remaining topics from the Discussion Paper—how to apply each measurement method (that is, the acquisition method and a book-value method) and disclosure; and

   (b) to discuss the plan for deliberating the preliminary views in the Discussion Paper.

3. We will discuss the following papers:

   (a) Agenda Paper 23A—Feedback on applying the acquisition method;

   (b) Agenda Paper 23B— Feedback on applying a book-value method;

   (c) Agenda Paper 23C—Feedback on pre-combination information;

   (d) Agenda Paper 23D—Feedback on disclosure requirements; and

   (e) Agenda Paper 23E—Deliberation plan

4. During the meeting, we will discuss each Agenda Paper in turn. Agenda Papers 23A–23D do not ask the IASB to make decisions. However, in each of these papers, we ask IASB members to comment on any feedback that was unclear, that provides new information that should be considered in deliberations, or that needs further research. Agenda Paper 23E asks whether you agree with our proposed plan for deliberations.

5. Appendix A summarises the preliminary views in the Discussion Paper and includes key messages from feedback.

6. The appendices to Agenda Paper 23 of the IASB's December 2021 meeting include information about the sources of feedback and how we quantified the feedback.

Appendix A—Summary of preliminary views and feedback

A1. This table summarises the IASB's preliminary views in the Discussion Paper and the feedback from respondents.

Topic	Preliminary views	Feedback summary
Objective and scope	The objective of the project is to explore possible reporting requirements for a receiving entity that would reduce diversity in practice and improve the transparency of reporting business combinations under common control (BCUCCs). More specifically, the IASB aims to provide users of financial statements with better information that is both: • more relevant—by setting up reporting requirements based on user information needs; and • more comparable—by requiring similar transactions to be reported in a similar way. The proposals would cover:	(a) All respondents agree the project should cover the receiving entity's reporting but: (i) some respondents suggest also addressing the reporting by other entities—most commonly the transferring entity; and (ii) some respondents suggest also addressing the receiving entity's reporting in its separate financial statements for an investment in a subsidiary received under common control; (b) all respondents agree the project should cover transfers of a business under common control but some respondents suggest also addressing other common control transactions (such as transfers of investments in associates between entities under common control); and

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	(a) reporting by the receiving entity (typically in its consolidated financial statements) and not other entities; (b) only transfers of businesses and not other transactions under common control; and (c) all transfers of a business under common control, including: (i) group restructurings; and (ii) BCUCCs preceded by an acquisition from an external party or followed by (or conditional on) a sale of the combining entities to an external party.	(c) almost all respondents agree the project should cover all transfers of a business under common control but: (i) one respondent says the project should not cover group restructurings; and (ii) a few respondents say the project should not cover transactions preceded by an acquisition from an external party or followed by (or conditional on) a sale of the combining entities to an external party.
Selecting the measurement method–the principle	(a) Neither the acquisition method nor a book-value method should be applied to all BCUCCs; (b) in principle, the acquisition method should be applied if a BCUCC affects non-controlling shareholders of the receiving entity, subject to the	(a) Most respondents agree but some disagree and say a book-value method should be applied to all BCUCCs. (b) many respondents agree and some others agree if the NCS principle is modified such that a receiving entity would apply a book-value method if affected non-controlling

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	cost-benefit trade-off and other practical considerations (NCS principle); and (c) a book-value method should be applied to all other BCUCCs, including combinations between wholly-owned entities.	shareholders (NCS) are insignificant. Many respondents disagree, of which: • some say a book-value method should be applied to all BCUCCs; • some say the method to apply should depend on the substance of the BCUCC; and • some say the receiving entity should have a choice as to which method to apply. (c) many respondents agree however, many disagree, of which: • most say the acquisition method should apply in specific circumstances (most commonly if the receiving entity has publicly traded debt) but otherwise agree with the preliminary view; • a few say the receiving entity should have a choice as to which method to apply; and

Topic	Preliminary views	Feedback summary
		• a few say the method to apply should depend on the substance of the BCUCC.
Selecting the measurement method–Other considerations	(a) If the receiving entity's shares are traded in a public market, the receiving entity should be required to apply the acquisition method; and (b) if the receiving entity's shares are privately held: (i) the receiving entity should be permitted to use a book-value method if it has informed all of its NCS that it proposes to use a book-value method and they have not objected (the optional exemption); and (ii) the receiving entity should be required to use a book-value method if all of its NCS are related parties of the entity (the related-party exception).	(a) Most respondents agree. Some respondents disagree, most of which say whether an entity has publicly traded shares should not affect the method selected. (b) if the receiving entity's shares are privately held: (i) many respondents agree and some respondents generally agree but suggest disregarding objecting NCS if those NCS are insignificant. Some other respondents disagree. Many respondents say the optional exemption may be challenging to apply and / or request application guidance. (ii) many respondents agree and many others disagree. Most who disagree say some related parties rely on financial statements to meet their information needs.
Applying the acquisition method	(a) In principle, the acquisition method should be applied as set out in IFRS 3 *Business Combinations*;	Most respondents agree with these preliminary views except:

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	(b) the IASB should not develop a requirement for the receiving entity to identify, measure and recognise a distribution from equity when applying the acquisition method; and (c) the IASB should develop a requirement for the receiving entity to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid (bargain purchase) as a contribution to equity, not as a gain in profit or loss.	(b) some suggest recognising a distribution from equity if the fair value of the consideration paid exceeds the fair value of the identifiable net assets received; and (c) some suggest recognising any bargain purchase in profit or loss.
Applying a book-value method	(a) The receiving entity should use the transferred entity's book values; (b) the IASB should specify how the receiving entity measures different forms of consideration paid (see Agenda Paper 23B for details);	(a) Many respondents agree but many others suggest using another group entity's book values or allowing or requiring the use of different book values (either the transferred entity's or another group entity's book values); (b)—(e) almost all respondents agree; and (f) many respondents agree however, many others disagree.

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	(c) the receiving entity should recognise within equity any difference between consideration paid and the book value of assets and liabilities received; (d) the IASB not prescribe in which component(s) of equity to present that difference; (e) the receiving entity should recognise transaction costs as an expense, except that the costs of issuing shares or debt instruments should be accounted for in accordance with applicable IFRS Accounting Standards; and (f) the receiving entity should include the assets, liabilities, income and expenses of the transferred entity prospectively.	
Disclosure requirements	When applying the acquisition method: (a) the receiving entity should comply with the disclosure requirements in IFRS 3, including any improvements resulting from the Discussion Paper	When applying the acquisition method: (a) most respondents agree but some respondents disagree; and (b) most respondents agree but some respondents disagree.

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	Business Combinations—Disclosures, Goodwill and Impairment (IFRS 3 Discussion Paper); and (b) the IASB should provide application guidance, including how to apply the disclosure requirements in IAS 24 *Related Party Disclosures*. When applying a book-value method: (a) some, but not all, of the disclosure requirements in IFRS 3, including any improvements resulting from the IFRS 3 Discussion Paper, are appropriate (summarised in paragraphs 5.17 and 5.19 of the Discussion Paper); (b) the IASB should not require disclosure of pre-combination information; and (c) the receiving entity should disclose the amount recognised in equity and which component(s) of equity it is included in.	When applying a book-value method: (a) most respondents agree except for pre-combination information but some respondents disagree and suggest specific additional information a receiving entity should disclose and/or information it should not be required to disclose; and (b) many respondents agree however, many others disagree; and (c) almost all respondents agree.