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Project	**Business Combinations under Common Control**
Paper topic	Feedback on disclosure requirements

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Purpose

1. This paper summarises feedback on the International Accounting Standards Board (IASB)'s preliminary views on disclosure requirements that would apply to a business combination under common control (BCUCC).
2. As explained in Agenda Paper 23, this paper does not ask the IASB for any decisions.

Structure of this paper

3. The paper is structured as follows:
   (a) BCUCCs to which the acquisition method applies:
      (i) preliminary views (paragraphs 4–5);
      (ii) key messages (paragraphs 6); and
      (iii) feedback summary (paragraphs 7–15).
   (b) BCUCCs to which a book-value method applies:
      (i) preliminary views (paragraphs 16–18);
      (ii) key messages (paragraphs 19); and
      (iii) feedback summary (paragraphs 20–27).
   (c) other feedback (paragraphs 28–30);
   (d) question for the IASB; and

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(e) Appendix A—Preliminary views and rationale.

BCUCCs to which the acquisition method applies

Preliminary views

4. The IASB's preliminary views are:

   (a) a receiving entity should be required to comply with disclosure requirements in IFRS 3 *Business Combinations*, including any improvements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (IFRS 3 Discussion Paper); and

   (b) the IASB should provide application guidance on how to apply those requirements together with the requirements in IAS 24 *Related Party Disclosures* when providing information about BCUCCs, particularly information about the terms of BCUCCs.

5. Paragraphs 5.5–5.11 of the Discussion Paper—reproduced in Appendix A—explain the IASB's rationale for these preliminary views.

Key messages

6. Most respondents agree with the preliminary views. Some disagree, many of whom express concerns about applying the requirements resulting from the IFRS 3 Discussion Paper, mainly because:

   (a) of the subjectivity, reliability and commercial sensitivity of such disclosures; and

   (b) such disclosures may be impracticable to provide for BCUCCs.

Feedback summary

User feedback

7. Most users agree with the preliminary views. One user says requiring a receiving entity to disclose the amount of any excess of the fair value of net assets acquired over

the consideration paid (that is, any bargain purchase) would be useful, regardless of whether that amount is recognised as a contribution to equity or in profit or loss[1].

Feedback from other stakeholders

8. Most respondents agree with the preliminary views. We separately summarised feedback on the preliminary view to:

   (a) require a receiving entity to comply with the disclosure requirements in IFRS 3, including any improvements to those requirements resulting from the IFRS 3 Discussion Paper (paragraphs 9–13); and

   (b) provide application guidance on how to apply those disclosure requirements together with the requirements in IAS 24 (paragraphs 14–15).

Disclosure requirements in IFRS 3 and related improvements

9. Most respondents agree with the preliminary view to require a receiving entity to comply with the disclosure requirements in IFRS 3, including any improvements to those requirements resulting from the IFRS 3 Discussion Paper.

10. However, a few respondents make additional suggestions:

   (a) one accounting firm and a national standard-setter suggest considering whether additional disclosures on how the transaction price was determined are needed because the transaction may be not priced at arm's length;

   (b) one national standard-setter suggests providing guidance on materiality considerations;

   (c) one national standard-setter suggests requiring a receiving entity to disclose any significant judgements made in identifying the acquirer (for example when there is an exchange of equity interests or a new entity); and

   (d) one preparer representative group suggests allowing a receiving entity to aggregate the information disclosed when a group restructuring includes multiple transactions to avoid duplication and dilution of information.

[1] See Agenda Paper 23A for this meeting for further information.

11. Some respondents, mostly preparers favouring the use of a book-value method for all BCUCCs[2], disagree with the preliminary view or express split views within their organisation/jurisdiction. Some of these respondents suggest developing specific disclosures requirements for BCUCCs and not referring to existing requirements.

12. Some respondents, including those who agree and disagree with the preliminary view, express concerns about applying the disclosures requirements resulting from the IFRS 3 Discussion Paper. Specifically:

    (a) some respondents, mainly from Asia-Oceania and Europe, are concerned about the subjectivity, reliability, and commercial sensitivity of the information that would be provided applying those requirements;

    (b) some respondents say those requirements would not meet users' needs and might be impracticable to provide for BCUCCs. For example:

        (i) synergies and other expected benefits might apply only at a group level and not at a receiving entity level; or

        (ii) some of the information, such as metrics management will use to monitor whether the objectives of an acquisition are being met, might not apply to a BCUCC.

13. A few accounting firms and a preparer say they reserve their comments on whether any requirements resulting from the IFRS 3 Discussion Paper should also be required for BCUCCs until that project is completed.

Providing application guidance

14. Most respondents agree the IASB should provide application guidance on how to apply the proposed disclosure requirements together with the requirements in IAS 24. Some of these respondents qualify their agreement as follows:

    (a) one national standard-setter says the IASB should only provide application guidance on applying existing disclosure requirements (and not create additional disclosure requirements through such guidance);

[2] See Agenda Paper 23B of the IASB's December 2021 meeting for further information.

(b) a few respondents say most BCUCCs to which the acquisition method applies will be on an arm's length basis, because there are rules protecting the interest of NCS and other creditors. For example, Business Europe says:

> In our view, most transactions under common control will be at arm's length basis since there are rules on transfer pricing in the interest of non-controlling shareholders and other creditors. Hence, we think the IASB should include in its application guidance that the application of e.g. transfer pricing rules should substantiate the arm's length transaction.

(c) one national standard-setter suggests providing application guidance that applies to all business combinations involving related parties (not just BCUCCs).

15. Some respondents disagree with the preliminary view. They say IAS 24 has sufficient guidance and express concerns about any additional application guidance, particularly about the terms of the combination. For example, the Autorité des Normes Comptables says:

> We also hold the view that any additional disclosure about the terms of the combination would provide details about legal environment framing the combination far beyond the general purpose of the financial statements described in paragraph 3.2 of the *Conceptual Framework for Financial Reporting*. Should the [IASB] confirm its preliminary view, we suggest this information be located outside IFRS financial statements.

BCUCCs to which a book-value method applies

Preliminary views

16. The IASB's preliminary views are that:

(a) some, but not all, of the disclosure requirements in IFRS 3, including any improvements resulting from the IFRS 3 Discussion Paper, are appropriate (as summarised in paragraphs 5.17 and 5.19 of the Discussion Paper and reproduced in Appendix A to this paper);

(b) the IASB should not require disclosure of pre-combination information; and

(c) the receiving entity should disclose:

(i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and

(ii) the component(s) of equity that includes this difference.

17. Paragraphs 5.13–5.27 of the Discussion Paper explain the IASB's rationale for its preliminary views. Appendix A reproduces relevant excerpts from these paragraphs.

18. Agenda Paper 23C to this meeting includes feedback on the disclosure of pre-combination information. The feedback in this paper excludes feedback relating to pre-combination information.

Key messages

19. Most respondents agree with the IASB's preliminary views. Some disagree and suggest specific additional information a receiving entity should disclose and/or information it should not be required to disclose.

Feedback summary

User feedback

20. All users say the information that would be provided applying the preliminary views would be useful. Some users say:

(a) fair value information should also be required (many of the users from China)—these users say capital markets regulations in China require disclosure of fair value information in a report separate from financial statements;

(b) information about the strategic rationale for a BCUCC should also be required (one user); and

(c) the IASB should provide application guidance—consistent with that proposed for BCUCCs to which the acquisition method applies—on how to apply the proposed disclosure requirements together with the requirements in IAS 24 when providing information about BCUCCs, particularly information about the terms of BCUCCs (one user).

21. Some users say additional information would be useful but recognise that the benefits of providing that information might not justify the costs of doing so. One of these users says the information that would be provided applying the preliminary views would improve comparability compared to current practice.

Feedback from other stakeholders

22. This section discusses feedback from stakeholders other than users. We have separately summarised feedback on the preliminary views on:

   (a) complying with some, but not all, disclosure requirements in IFRS 3 (paragraphs 23-25); and

   (b) disclosing information about the difference between consideration paid and the book value of assets and liabilities received (paragraphs 26-27).

Complying with the some, but not all, disclosure requirements in IFRS 3

23. Paragraph 5.19 of the Discussion Paper summarises disclosure requirements in IFRS 3 (and possible requirements discussed in the IFRS 3 Discussion Paper) a receiving entity would be required to comply with. Paragraph 5.21 of the Discussion Paper summarises the disclosure requirements a receiving entity would *not* be required to comply with.[3]

24. Most respondents agree that some, but not all, disclosure requirements in IFRS 3 (and possible improvements resulting from the IFRS 3 Discussion Paper) should apply and with the specific requirements that would or would not apply.

25. Some respondents suggest:

   (a) requiring a receiving entity to also disclose:

      (i) the acquisition-date fair value of consideration transferred and of each major class of consideration as required by paragraph B64(f) of IFRS 3 (one national standard-setter and one accountancy body, both from Asia-Oceania);

[3] Appendix A reproduces paragraphs 5.19 and 5.21 of the Discussion Paper.

(ii) information about contingent consideration and indemnification assets as required by paragraph B64(g) of IFRS 3 (one national standard-setter and one accountancy body, both from Asia-Oceania).

(iii) any measurement period adjustment as required by paragraph B67(a)(iii) (one national standard-setter).

(b) not requiring a receiving entity to disclose:

(i) how an acquirer obtained control of an acquiree as required by paragraph B64(d) of IFRS 3 (one national standard-setter and one accounting firm). They say this would require a receiving entity to identify the acquirer and ask how this would interact with the preliminary view that when a book-value method is applied, the receiving entity is determined based on the legal structure of the transaction.

(ii) the amount, and an explanation of, any gain or loss recognised in the current reporting period that relates to assets and liabilities received in a BCUCC that occurred in the current or previous reporting period as required by paragraph B67(e) of IFRS 3 (a few preparer representative groups). They say BCUCCs often have no commercial substance, and therefore providing such information would not be cost-beneficial.

(c) clarifying that any individual requirement not applying to BCUCCs to which a book-value method applies would also not apply to BCUCCs that occur after the end of the reporting period and for individually immaterial BCUCCs (a few preparer representative groups).

Disclosing information about the difference between consideration paid and book value of assets and liabilities received

26. Almost all respondents agree a receiving entity should disclose (a) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received and (b) the component(s) of equity that includes this difference.

27. One respondent says paragraph 79(b) and 106 of IAS 1 *Presentation of Financial Statements* already require similar disclosure[4] and suggests amending paragraph 106(d) of IAS 1 if further clarification is necessary.

Other feedback

28. One Latin-American regulator says disclosure requirements for all BCUCCs, regardless of the measurement method applied, should be similar. This respondent says the most important information is the purpose and rationale for a BCUCC.

29. Users say regardless of the method applied to account for a BCUCC, the following information would be useful:

    (a) the cash tax impact of a BCUCC in the current reporting period (one user); and

    (b) any cash transferred as part of, and the expected cash flow impact of, a BCUCC (one user).

30. One user says if a BCUCC affects segment reporting at the controlling party level they would prefer the controlling party to retrospectively restate segment information.

Question for the IASB
Does the IASB have any questions or comments on the feedback discussed in this paper? Specifically: (a) is there any feedback that is unclear? (b) are there any points you think the IASB did not consider in developing the Discussion Paper but should consider in the deliberations? (c) are there any points you would like staff to research further for the deliberations?

[4] Paragraph 79(b) of IAS 1 requires an entity to describe the nature and purpose of each reserve within equity and paragraph 106 requires an entity to provide a reconciliation between the carrying amount at the beginning and end of the period separately disclosing changes resulting from, amongst other items, transactions with owners in their capacity as owners (paragraph 106(d)).

Appendix A—Preliminary views and rationale

BCUCCs to which the acquisition method applies

A1. The following excerpts from the Discussion Paper explain the rationale for the IASB's preliminary views on disclosure requirements for BCUCCs to which the acquisition method applies:

> 5.5… One of the [IASB]'s reasons for its preliminary view is that business combinations under common control that affect non-controlling shareholders of the receiving company are similar to business combinations covered by IFRS 3. Furthermore, the composition of users of the receiving company's financial statements is similar in both cases. Hence, as discussed in paragraph 2.22, the common information needs of those users in such business combinations are also similar. Therefore, the [IASB]'s preliminary view is that, in principle, the disclosure requirements in IFRS 3, together with possible improvements to those requirements set out in the IFRS 3 Discussion Paper, should also apply to business combinations under common control when the acquisition method is used.
>
> 5.6 Requiring the same disclosures about those business combinations under common control as are required for business combinations covered by IFRS 3 would be consistent with the practice of some companies that apply the disclosure requirements in IFRS 3 to business combinations under common control reported using the acquisition method.
>
> 5.7 In addition to developing its overall approach to establishing disclosure requirements for these combinations, the [IASB] considered each of the disclosure requirements in IFRS 3 and each possible improvement to those requirements discussed in the IFRS 3 Discussion Paper. The [IASB] has found no reason to exclude any of those requirements or any of those improvements for business combinations under common control when the acquisition method is used.

5.8 The [IASB] also considered whether additional information should be required for those combinations. In particular, a feature of business combinations under common control is that such combinations may not be priced at arm's length, because they involve related parties. Therefore…the amount of the consideration paid might differ from the amount that would have been paid to an unrelated party in an arm's length transaction. Hence, the [IASB] considered whether it should require additional disclosure about the terms of these combinations to help users of the financial statements understand how the amount of the consideration paid was determined and whether it was reasonable…

5.9 The [IASB]'s preliminary views on possible improvements to the IFRS 3 disclosure requirements discussed in the IFRS 3 Discussion Paper would help address the issue discussed in paragraph 5.8. These possible improvements include the disclosure of additional information to help users of the financial statements assess whether the price paid in a business combination was reasonable, such as information about expected synergies…The [IASB] considers that such information would also be useful to users of the receiving company's financial statements in a business combination under common control reported applying the acquisition method.

5.10 Furthermore, IAS 24 *Related Party Disclosures* applies to business combinations under common control. In particular, that Standard requires the disclosure of information about the nature of the related party relationship, the amount of the consideration paid and any outstanding balances…IAS 24 also states that disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

5.11 The [IASB] considered whether those requirements in IAS 24 are sufficient to require the receiving company to provide users of its financial statements with the information they need

> about the terms of a business combination under common control. The [IASB] noted that those requirements would need to be applied together with the requirements in IFRS 3 (including any improved requirements resulting from the IFRS 3 Discussion Paper) when disclosing information about business combinations under common control, for example, information about the terms of those combinations. The [IASB] has reached the preliminary view that it should provide application guidance to help companies apply those disclosure requirements to such combinations. For example, that guidance could explain that companies should disclose information about the governance process over the terms of the combination, such as whether those terms were supported by an independent appraisal or were subject to an approval process involving shareholders or the governing body of the receiving company.

BCUCCs to which a book-value method applies

A2. The following excerpts from the Discussion Paper provide further information on, and explain the rationale for, the IASB's preliminary views on disclosure requirements for BCUCCs to which a book-value method applies:

> 5.16 In identifying possible disclosure requirements for such combinations when a book-value method applies, the [IASB] considered the disclosure requirements in IFRS 3 as a starting point. However, in the [IASB]'s view, because of the differences in both common user information needs and the cost–benefit trade-off, as well as the differences between how a book-value method and the acquisition method would be applied, only some of the disclosure requirements in IFRS 3 would be appropriate when a book-value method applies.
>
> 5.17 The [IASB] has reached the preliminary view that the requirement in IFRS 3 for companies to provide information to help users of financial statements evaluate the nature and financial effect of the combination is appropriate for business combinations under common control The [IASB] has also

reached the preliminary view that the related possible requirement discussed in the IFRS 3 Discussion Paper, for companies to provide information to help users understand the benefits expected from the combination, is also appropriate for these combinations.

5.18 However, the specific information needed to meet these requirements might differ from the information needed for business combinations covered by IFRS 3. For example, the benefits expected from the combination might include synergies and other benefits for the controlling party and the group it controls. Information about those other benefits might be necessary for users of the receiving company's financial statements to understand the nature and effect of the combination.

5.19 The [IASB] has also reached the preliminary view that when a book-value method is used, companies should be required to disclose:

(a) the name and a description of the transferred company, the combination date, the percentage of voting equity interests transferred to the receiving entity, the primary reasons for the combination and a description of how the receiving entity obtained control (paragraphs B64(a)–(d) of IFRS 3);

(b) the recognised amounts of each major class of assets received and liabilities assumed, including information about recognised amounts of liabilities arising from financing activities and defined benefit pension liabilities (paragraph B64(i) of IFRS 3 and the related preliminary view discussed in the IFRS 3 Discussion Paper);

(c) the carrying amount of any non-controlling interest in the transferred entity (paragraph B64(o) of IFRS 3);

(d) aggregate information for individually immaterial combinations that are material collectively (paragraph B65 of IFRS 3);

(e) information about combinations that occur after the end of the reporting period but before the financial statements are authorised for issue (paragraph B66 of IFRS 3);

(f) the amount and an explanation of any gain or loss recognised in the current reporting period that relates to assets and liabilities received in a business combination under common control that occurred in the current or previous reporting period, if such disclosure is relevant to understanding the receiving entity's financial statements (paragraph B67(e) of IFRS 3); and

(g) whatever additional information is necessary to meet the disclosure requirements discussed in paragraph 5.17 (paragraph 63 of IFRS 3).

5.20 However, in the [IASB]'s preliminary view, other disclosures required by IFRS 3 should not be required for business combinations under common control to which a book-value method is applied…

5.21 Table 5.1 summarises those disclosure requirements set out in IFRS 3 (including possible improvements to those requirements discussed in the IFRS 3 Discussion Paper) which, in the [IASB]'s preliminary view, should not be required for business combinations under common control to which a book-value method applies. Table 5.1 also notes the main reason for the [IASB]'s view on each requirement (although more than one reason applies in some cases).

Table 5.1—IFRS 3 disclosures that should not be required when a book-value method is applied

Main reason for the [IASB]'s preliminary view	Disclosure requirement
These combinations may not be similar to combinations covered by IFRS 3	Strategic rationale, management's objectives for the acquisition and subsequent performance of the acquisition (preliminary view discussed in the IFRS 3 Discussion Paper relating to paragraph B64(d) of IFRS 3)
	Description, timing and estimated amount of expected synergies (preliminary view discussed in the IFRS 3 Discussion Paper relating to paragraph B64(e) of IFRS 3)
The book-value method differs from the acquisition method	Description of factors that make up acquired goodwill and reconciliation of its carrying amount at the beginning and at the end of the reporting period (paragraphs B64(e) and B67(d) of IFRS 3)
	Description and estimate of financial effects of contingent liabilities recognised (paragraphs B64(j) and B67(c) of IFRS 3)
	Amount of gain recognised in a bargain purchase (paragraph B64(n) of IFRS 3)
The costs of providing the information outweigh the benefits	Fair value of the consideration transferred and of each major class of consideration at the acquisition date (paragraph B64(f) of IFRS 3)
	Fair value and gross contractual amount of acquired receivables (paragraph B64(h) of IFRS 3)
	Amount of goodwill deductible for tax purposes (paragraph B64(k) of IFRS 3)
	Pro forma information for the current period as though the acquisition had occurred at the beginning of the annual reporting period (paragraph B64(q) of IFRS 3 and the related preliminary view discussed in the IFRS 3 Discussion Paper)
The [IASB] has not yet discussed all aspects of a book-value method and the	Amount at the acquisition date (and subsequent changes in that amount) and description of contingent consideration and indemnification assets (paragraphs B64(g) and B67(b) of IFRS 3)

disclosure relates to a matter not yet considered	Description and amount recognised for separate transactions (paragraphs B64(l) and B64(m) of IFRS 3)
	Fair value of the equity interest in the acquiree in a business combination achieved in stages (paragraph B64(p) of IFRS 3)
	Information to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods (paragraphs 61, 62 and B67(a) of IFRS 3)

…

5.26 The [IASB] next considered its preliminary view, as discussed in paragraphs 4.44–4.50 [of the Discussion Paper], that when a book-value method applies:

(a) any difference between the amount of the consideration paid and the book value of the assets and liabilities received should be recognised within the receiving company's equity; and

(b) the [IASB] would not prescribe the component, or components, of equity within which that difference should be presented.

5.27 In the [IASB]'s view, information about that difference would be useful to users of the receiving company's financial statements. Accordingly, the [IASB] has reached the preliminary view that the receiving company should disclose the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received, together with the component, or components, of equity that includes this difference.