

## STAFF PAPER

June 2022

## IASB® meeting

Project	Business Combinations under Common Control	
Paper topic	Overview	
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## Introduction and purpose

1. The purpose of this meeting is to provide the International Accounting Standards Board (IASB) with our initial analysis of feedback on the IASB's preliminary views on selecting the measurement method to apply to a business combination under common control (BCUCC) set out in the Discussion Paper *Business Combinations under Common Control* (Discussion Paper).
2. This agenda paper explains the background, our approach to deliberations on selecting the measurement method and what each agenda paper covers. It also summarises our initial views.
3. We are not asking the IASB to make decisions during this meeting. In our view, it would be helpful for the IASB to first discuss and provide feedback on our initial views and any analysis that was unclear or that needs further research. We will use that feedback to refine the analysis and develop a recommendation that we will then bring to a future meeting for decision-making.

## Structure of this paper

4. The paper is structured as follows:
  - (a) background (paragraphs 5–11);

- (b) approach to deliberations on selecting the measurement method (paragraphs 12–25);
- (c) summary of staff’s initial views on Step I (paragraphs 26–28);
- (d) next steps (paragraphs 29–30);
- (e) Appendix A—Preliminary views and the IASB’s rationale;
- (f) Appendix B—Key messages from feedback;
- (g) Appendix C—Illustrative benefits of the two-step approach; and
- (h) Appendix D—Other conceptual considerations.

## Background

### ***IASB's observations/conclusions in the Discussion Paper***

5. The IASB’s preliminary views about selecting the measurement method were:
  - (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 (NCS), subject to the cost-benefit trade-off and other practical considerations; and
  - (c) a book-value method should be applied to other BCUCCs, including all combinations between wholly-owned entities.
  
6. Paragraphs 2.1–2.33 of the Discussion Paper explain the IASB’s reasons for these preliminary views. In particular, in reaching its preliminary views the IASB considered:
  - (a) *conceptual reasons* including:
    - (i) whether some or all BCUCCs are similar to or differ from business combinations covered by IFRS 3 *Business Combinations* (IFRS 3 BCs); and
    - (ii) information needs of users of the receiving entity’s financial statements (users); and

- (b) *practical reasons* including the cost constraint on useful financial reporting (that is, whether the costs of applying the acquisition method or a book-value method to some or all BCUCCs are justified by the benefits of information reported applying those methods) and other practical considerations.

*BCUCCs that affect NCS*

7. The IASB reached the preliminary view that, in principle, the acquisition method should apply to BCUCCs that affect NCS, subject to the cost-benefit trade-off and other practical considerations, because:
  - (a) such BCUCCs are similar to IFRS 3 BCs; and
  - (b) the common information needs of users in such BCUCCs are similar to the common information needs of users in IFRS 3 BCs.

*BCUCCs that do not affect NCS*

8. The IASB reached the preliminary view that a book-value method should apply to all other BCUCCs, including all combinations between wholly-owned entities, after considering various factors including:
  - (a) how similar such BCUCCs are to IFRS 3 BCs;
  - (b) the benefits to users of the information provided applying the acquisition method or a book-value method; and
  - (c) the cost constraint and whether the benefits of reporting particular information justify the costs of doing so.
9. In reaching the preliminary view discussed in paragraph 8, the IASB considered the reasons in paragraphs 8(a)–8(c) collectively and did not conclude individually on each of the reasons. For example, the IASB did not conclude on how similar BCUCCs that do not affect NCS are to IFRS 3 BCs.
10. Appendix A explains in more detail the reasons for the preliminary views discussed in paragraphs 7–9.

## **Feedback**

11. [Agenda Paper 23B](#) of the IASB’s December 2021 meeting summarised feedback on the preliminary views about the principle for selecting the measurement method. As reported in that agenda paper, respondents gave different reasons for their views including both conceptual and practical reasons. Appendix B reproduces key messages from that feedback. The other agenda papers for this meeting include more detailed feedback where applicable.

## **Approach to deliberations on selecting the measurement method**

12. We think the IASB should apply the principles in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* when deliberating the selection of the measurement method to apply to a BCUCC. Paragraphs 13–25 discuss how the IASB could do so.

## **Two-step approach**

13. We think it would be helpful to separate the deliberations on selecting the measurement method into two steps:
- (a) Step I—consider and tentatively decide whether *conceptually* (that is, before considering practical reasons) the acquisition method and/or a book-value method should apply to BCUCCs;<sup>1</sup> and
  - (b) Step II—consider *practical reasons* (that is, the cost constraint and other practical reasons) and make appropriate adjustments to the tentative decision in Step I.
14. Paragraphs 19–25 discuss the steps in further detail.
15. Step II could significantly affect the selection of the measurement method(s) and therefore any final proposals could differ significantly from tentative decisions made

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<sup>1</sup> Our analysis will focus on the acquisition method and a book-value method discussed in the Discussion Paper. At this stage of the project, we are not exploring other methods—these were considered in developing the Discussion Paper and feedback generally supports the use of either or both of these methods. A few users expressed support for a fresh start method which paragraph 48 of Agenda Paper 23C analyses.

in Step I. For example, if the IASB tentatively decides in Step I that conceptually the acquisition method should apply to all BCUCCs then in Step II, the IASB could, for practical reasons, decide that a book-value method should be:

- (a) permitted or required in a narrow set of circumstances;
- (b) permitted or required in a broad range of circumstances; or
- (c) permitted or required for all BCUCCs.

16. Nonetheless, we think reaching a tentative decision separately on Step I would be beneficial. In particular, doing so would:

- (a) provide direction for future deliberations on how to apply those measurement method(s);
- (b) provide a conceptual basis for any reporting requirements, which may reduce implementation challenges; and
- (c) affect the complexity of maintaining reporting requirements in the future—for example, maintaining the interaction of the measurement method(s) with requirements in other IFRS Accounting Standards.

17. Appendix C illustrates these benefits using different scenarios.

18. We also think that, at this stage of the project, deliberations on selecting the measurement method should consider only transactions that meet the definition of a business combination in IFRS 3. We think doing so would help keep the deliberations focussed and allow the IASB to make tentative decisions. After the IASB makes tentative decisions on whether and how to apply a particular measurement method(s) to such BCUCCs, we will consider whether and how those same tentative decisions should be applied to:

- (a) transactions—sometimes called group restructurings—that involve the transfer of a business under common control but do not meet the definition of a business combination in IFRS 3; and/or

- (b) BCUCCs for which common control is transitory.<sup>2</sup>

### ***Step I—Conceptual considerations***

19. We think in Step I (that is, to decide whether conceptually the acquisition method or a book-value method should apply to some or all BCUCCs), the IASB should assess:
- (a) the similarity to IFRS 3 BCs (paragraph 22); and
  - (b) user information needs (paragraph 23).
20. A few respondents suggested other conceptual considerations which Appendix D to this paper analyses.
21. It is not necessary for the IASB to conclude separately on the similarity to IFRS 3 BCs and user information needs—we acknowledge IASB members might place different weights on each of those matters. Rather, we think that to obtain the benefits discussed in paragraph 16, the IASB needs to decide only whether conceptually the acquisition method or a book-value method should apply to some or all BCUCCs after assessing the conceptual considerations collectively.

#### *Similarity to IFRS 3 BCs*

22. Agenda Paper 23B analyses whether some or all BCUCCs are similar to or differ from IFRS 3 BCs. The acquisition method applies to IFRS 3 BCs and we think assessing whether some or all BCUCCs are similar to or differ from IFRS 3 BCs will help the IASB tentatively decide whether conceptually the acquisition method or a book-value method should apply to some or all BCUCCs.

#### *User information needs*

23. Agenda Paper 23C analyses the composition and information needs of users in a BCUCC compared to an IFRS 3 BC. The acquisition method is designed to meet the common information needs of users in IFRS 3 BCs and we think assessing the composition and information needs of users will help the IASB tentatively decide

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<sup>2</sup> The IASB has not yet deliberated whether to include transactions sometimes called group restructurings or BCUCCs for which common control is transitory in the project’s scope. [Agenda Paper 23A](#) of the IASB’s December 2021 meeting explains respondents’ feedback.

whether conceptually the acquisition method or a book-value method should apply to some or all BCUCCs.

### **Step II—Practical considerations**

24. After the IASB tentatively decides on Step I (that is, whether conceptually the acquisition method or a book-value method should apply to some or all BCUCCs), we will analyse practical considerations including, for example, (a) the cost constraint and whether the benefits of reporting particular information justify the costs of doing so; and (b) opportunities for accounting arbitrage. We plan to analyse the practical considerations at future meetings after the IASB makes a tentative decision on Step I.
25. As explained in paragraph 15, Step II could significantly affect the measurement method(s) to be applied and therefore any final proposals on selecting the measurement method could differ significantly from tentative decisions made in Step I.

#### **Question 1 for the IASB**

Do IASB members have questions on the approach for deliberations explained in paragraphs 12–25?

### **Summary of staff's initial views on Step I**

26. For the reasons explained in the respective agenda papers, in our initial view:
  - (a) from the receiving entity's—that is, the reporting entity's—perspective, all BCUCCs are similar to IFRS 3 BCs because the receiving entity gains control of a business it did not control before (Agenda Paper 23B);
  - (b) for a BCUCC that affect NCS, the composition of users is similar to an IFRS 3 BC and the common information needs of users are similar to an IFRS 3 BC—accordingly, we think the information provided by the acquisition method meets those common information needs better than a book-value method (Agenda Paper 23C); and

- (c) for a BCUCC that does not affect NCS, the information provided by either the acquisition method or a book-value method could meet the common information needs of potential investors, lenders and other creditors (Agenda Paper 23C).
27. Overall, we think that conceptually—that is, before considering practical considerations—the acquisition method should apply to all BCUCCs. Although we think the information provided by either the acquisition method or a book-value method could meet users’ common information needs for BCUCCs that do not affect NCS, we think that all BCUCCs (regardless of whether they affect NCS) are similar to IFRS 3 BCs and applying the acquisition method to all BCUCCs would provide comparable information about all BCUCCs.
28. It is not our view that any final proposals should require the acquisition method to apply to all BCUCCs—as explained in paragraph 15, practical considerations (that is, Step II) could significantly affect our view of the measurement method(s) to be applied.

### Question 2 for the IASB

Do IASB members have comments or questions on the analysis in this paper?

Specifically:

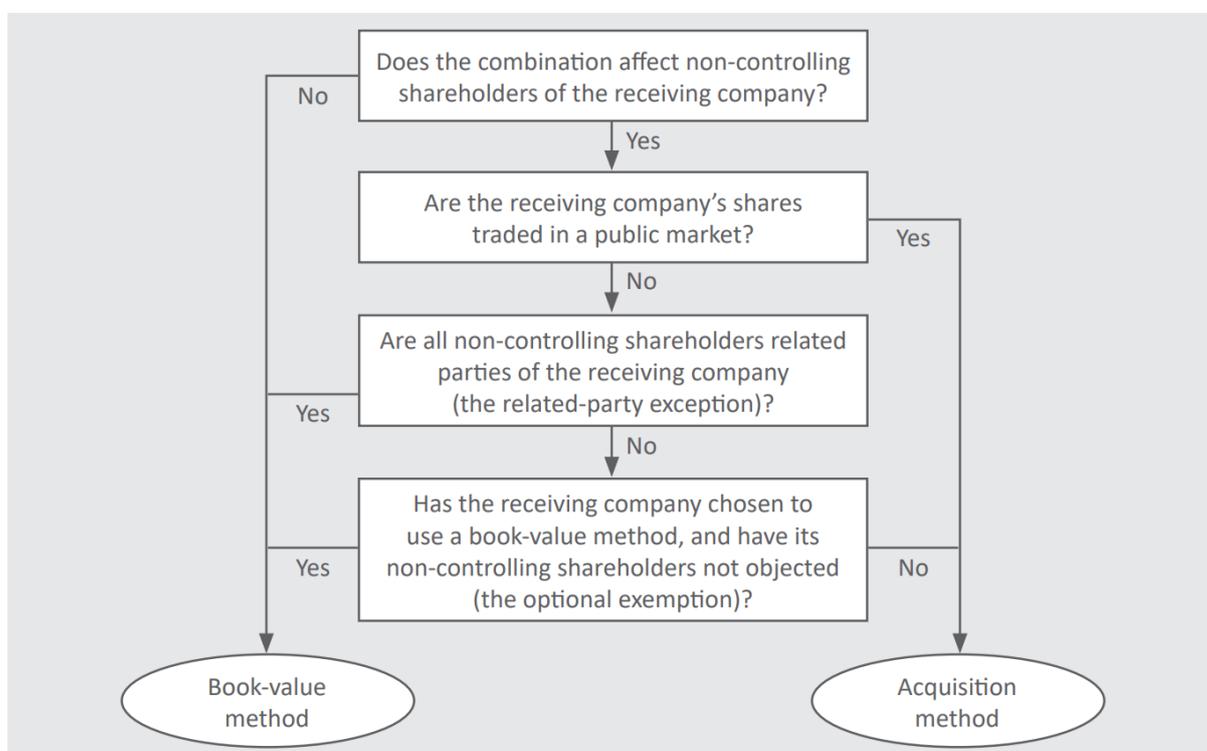
- (a) is there anything IASB members would like us to research or analyse further before the IASB makes tentative decisions on whether conceptually (that is, before considering practical reasons) the acquisition method or a book-value method should apply to some or all BCUCCs?
- (b) do IASB members have any other questions or comments on the analysis in this paper or the overall staff initial view in paragraph 27?

### **Next steps**

29. At a future meeting we will present our updated analysis and a staff recommendation with respect to whether conceptually (that is, before considering practical reasons) the acquisition method or a book-value method should apply to some or all BCUCCs.
30. We will then analyse practical considerations, including the cost constraint (that is, Step II).

## Appendix A—Preliminary views and the IASB’s rationale

A1. This diagram, extracted from paragraph 2.55 of the Discussion Paper, summarises the IASB’s preliminary views on which method to apply to a BCUCC.



*Neither the acquisition method nor a book-value method should be applied to all BCUCCs*

A2. In developing the Discussion Paper, the IASB considered views from different stakeholders which can be summarised as follows:

- (a) View A—BCUCCs are different from IFRS 3 BCs. Accordingly, the acquisition method should not be applied to any BCUCCs. Instead, a book-value method should be applied to all BCUCCs.
- (b) View B—BCUCCs are similar to IFRS 3 BCs in most, if not all, cases. Accordingly, the acquisition method should normally be applied to BCUCCs, except perhaps in some cases when the benefits of information produced by that method do not justify the costs of applying it. In those cases, a book-value method should be applied.
- (c) View C—some BCUCCs are similar to IFRS 3 BCs and others are not. Accordingly, neither the acquisition method nor a book-value method

should be applied to all BCUCCs. Instead, the acquisition method should be applied in some cases and a book-value method should be applied in other cases.

- A3. The IASB did not agree with view A—that is that all BCUCCs are different from IFRS 3 BCs and should be accounted for differently. In the IASB’s view, although ultimate control of the combining entities does not change in a BCUCC, that does not mean that such combinations are simply reallocations of economic resources within the group. Instead, such combinations always have economic substance for the receiving entity because the receiving entity gains control of a business that it did not control before the combination, just as occurs in an IFRS 3 BC.
- A4. In the IASB’s preliminary view, the acquisition method should be applied in some cases (see paragraphs A7–A8) and a book-value method should be applied in other cases (see paragraph A9).
- A5. The IASB considered whether to require entities to evaluate how similar a BCUCC is to an IFRS 3 BC in order to determine what method to apply. In the IASB’s view, it would be difficult to provide a workable set of indicators for entities to use in making such an evaluation. Also, the IASB’s view was that such an evaluation would be subjective and that requiring entities to make such an evaluation may not help reduce diversity in practice. Thus, the IASB reached the view that it should not base the selection of the measurement method on such an evaluation by the receiving entity.
- A6. The IASB considered that some of the indicators suggested by stakeholders—for example, the purpose of the combination or the process for deciding the terms of the combination—would not change the conclusion about what information would be most useful to users of the receiving entity’s financial statements.

#### *Combinations that affect NCS*

- A7. In the IASB’s preliminary view, when NCS acquire an ownership interest in the economic resources transferred in a BCUCC, the combination has a substantive effect not only on the receiving entity itself but also on its shareholders and therefore the combination is similar to an IFRS 3 BC. Furthermore, the composition of users who rely on that entity’s financial statements to meet their information needs about the combination is also similar to the composition of users in an IFRS 3 BC. Because

both the BCUCC itself is similar to an IFRS 3 BC and the composition of users is also similar, the common information needs of those users in such combinations are also similar.

- A8. Accordingly, the IASB’s preliminary view is that in principle the acquisition method should apply if a BCUCC affects NCS, subject to the cost–benefit trade-off and other practical considerations.

*Combinations that do not affect NCS*

- A9. The IASB’s preliminary view was that a book-value method should apply to BCUCCs that do not affect NCS, including combinations between wholly-owned entities. In reaching this preliminary view, the IASB considered the following arguments:

- (a) if the receiving entity does not have NCS, there is no change in the ultimate ownership interest in the economic resources transferred in the BCUCC;
- (b) similar information would be produced regardless of whether a combination takes place and how the controlling party structures any combination;
- (c) applying the acquisition method to a BCUCC involving wholly-owned entities may be difficult and, if consideration paid for a BCUCC differs from consideration that would have been paid to an unrelated party, the receiving entity might measure goodwill at an arbitrary amount that does not provide useful information; and
- (d) a book-value method is typically less costly to apply and would provide useful information to users of the receiving entity’s financial statements.

## Appendix B—Key messages from feedback

- B1. This appendix summarises the key messages in feedback on the IASB’s preliminary views on selecting the measurement method.

### *Whether to apply one method*

- B2. Most respondents agreed with the preliminary view that neither the acquisition method nor a book-value method should be applied to all BCUCCs. Some respondents (including most respondents from China) disagreed and said a book-value method should be applied to all BCUCCs. A few respondents reported mixed views within their organisation/jurisdiction or did not express a clear view.

### *BCUCCs that affect NCS*

- B3. Many respondents agreed with the preliminary view that, in principle, the acquisition method should be applied if a BCUCC affects NCS, subject to the cost-benefit trade-off and other practical considerations (the NCS principle). Additionally, some respondents agreed with the NCS principle overall but suggested modifying it such that a receiving entity would apply a book-value method if affected NCS are insignificant.
- B4. Many respondents disagreed with the NCS principle, of which:
- (a) some said a book-value method should be applied to all BCUCCs (as mentioned in paragraph B2);
  - (b) some said the receiving entity should apply either the acquisition method or a book-value method to BCUCCs that affect NCS (or to all BCUCCs<sup>3</sup>) depending on the substance of the BCUCC; and
  - (c) some said the receiving entity should have a choice between applying the acquisition method or a book-value method to BCUCCs that affect NCS (or to all BCUCCs).

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<sup>3</sup> Some respondents said the same approach (for example, assessing the substance) should be used for all BCUCCs, regardless of whether they affect NCS. Other respondents said different approaches should be used for BCUCCs that affect NCS and BCUCCs that do not affect NCS. This paper summarises feedback relating to BCUCCs that affect NCS separately from BCUCCs that do not affect NCS.

B5. Almost all users we conducted outreach with were asked about specific scenarios rather than the underlying principle and are therefore excluded from the feedback on the NCS principle presented in paragraphs B3–B4. All users—except users from China—agreed that the acquisition method should be applied to a BCUCC which affects the NCS of a receiving entity with shares traded in a public market (that is, the outcome of applying the NCS principle). Almost all users from China said a book-value method should be applied to the same scenario.

*BCUCCs that do not affect NCS*

B6. Many respondents agreed with the preliminary view that a book-value method should apply to BCUCCs that do not affect NCS, including combinations between wholly owned entities. However, many disagreed with that preliminary view, of which:

- (a) most said the acquisition method should apply in specific circumstances (most commonly if the receiving entity has publicly traded debt) but otherwise agreed with the preliminary view;
- (b) a few said the receiving entity should have a choice between applying the acquisition method or a book-value method to BCUCCs that do not affect NCS (or to all BCUCCs); and
- (c) a few said the receiving entity should apply either the acquisition method or a book-value method to BCUCCs that do not affect NCS (or to all BCUCCs) depending on the substance of the BCUCC.

## Appendix C—Illustrative benefits of the two-step approach

- C1. This appendix illustrates the benefits of the two-step approach discussed in paragraphs 13–25 and, in particular, how the IASB’s decision on Step I could:
- (a) provide direction for future deliberations on how to apply those measurement method(s);
  - (b) provide a conceptual basis for any reporting requirements, which may reduce implementation challenges; and
  - (c) affect the complexity of maintaining reporting requirements in the future—for example, maintaining the interaction of the measurement model(s) with requirements in other IFRS Accounting Standards.
- C2. This section is intended to illustrate how a decision on Step I could be beneficial. It is not intended to be an exhaustive list of all future decisions the IASB could or would need to make in particular situations.
- C3. If the IASB tentatively decides in Step I that conceptually the acquisition method should apply to all BCUCCs then future deliberations might focus on:
- (a) selecting the measurement method—whether, and in what circumstances, a book-value method should be applied for practical reasons; and
  - (b) applying a book-value method—a book-value method would be applied for practical reasons and could therefore be designed as a simplification of the acquisition method. This would:
    - (i) provide a clear basis for designing those simplifications (for example, to reduce costs);
    - (ii) make a book-value method easy for stakeholders to understand and apply because a book-value method would be based on the acquisition method—this could reduce practical application challenges; and
    - (iii) be simpler to maintain because it would not introduce an entirely new method.
- C4. If the IASB tentatively decides in Step I that conceptually a book-value method should apply to all BCUCCs then future analysis might focus on:

- (a) selecting the measurement method—whether, and in what circumstances, the acquisition method should be applied for practical reasons; and
- (b) applying a book-value method—a book-value method would not just be a simplification of the acquisition method (see paragraph C3(b)) and therefore:
  - (i) the IASB will need to design such a method comprehensively considering principles in the *Conceptual Framework*; and
  - (ii) the IASB would need to maintain a book-value method separately from the acquisition method.

C5. If the IASB tentatively decides in Step I that conceptually the acquisition method should apply to some BCUCCs and a book-value method should apply to other BCUCCs then future analysis might focus on:

- (a) selecting the measurement method:
  - (i) identifying BCUCCs to which each method should conceptually apply; and
  - (ii) whether, and in what circumstances, a different method should apply for practical reasons; and
- (b) applying a book-value method—a book-value method could potentially be applied to some BCUCCs because it should apply for conceptual reasons and to others for practical reasons (for example, cost-benefit reasons). A book-value method would need to be designed considering these different reasons.

## Appendix D—Other conceptual considerations

D1. This appendix analyses conceptual suggestions which a few respondents said should influence or determine selecting the measurement method and do not relate to the similarity to IFRS 3 BCs (covered in Agenda Paper 23B) or user information needs (covered in Agenda Paper 23C). Suggestions that relate to practical considerations will be considered as part of Step II and are therefore excluded from this appendix.

<b><i>Suggestion</i></b>	<b><i>Staff analysis</i></b>
1. One academic said materiality of the transferred business should be considered in selecting the measurement method.	<p>Paragraph 2.11 of the <i>Conceptual Framework</i> says:</p> <p style="text-align: center;">...materiality is an <i>entity-specific aspect</i> of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity’s financial report... [emphasis added]</p> <p>We think the materiality of information about a BCUCC does not affect the principles for selecting the measurement method.</p>
2. One preparer representative group suggested allowing the receiving entity a choice of applying either the acquisition method or a book-value method to BCUCCs that affects its NCS. The respondent said this would give the receiving entity flexibility to avoid unanticipated	As paragraph 25(b) of <a href="#">Agenda Paper 23</a> of the IASB’s March 2022 meeting discusses, we see no reason for the accounting by the transferring and receiving entity to be symmetrical. It is not uncommon for the reporting of the same transaction by different

<p>outcomes, for example asymmetry with the transferring entity’s reporting.</p>	<p>parties to that transaction to be asymmetrical. For example, the acquirer in an IFRS 3 BC typically recognises any excess of the fair value of assets and liabilities acquired over consideration paid as goodwill; however, the entity losing control typically recognises a gain or loss on disposal.</p>
<p>3. One academic representative group said the measurement method should depend on whether the fair value of the acquired business has been ‘reliably determined’.</p> <p>This respondent also suggested other criteria, for example, whether the BCUCC affects NCS, which have been analysed separately and are therefore not repeated here.</p>	<p>We think this should not affect the selection of the measurement method for the reason explained in paragraph 2.19 of the Discussion Paper:</p> <p style="padding-left: 40px;">...The [IASB] acknowledges that the pricing of some [BCUCCs] can differ from the pricing of [IFRS 3 BCs] (see paragraph 2.28) and that evidence of fair value may not always be readily available in a [BCUCC]. However, in the [IASB]’s view, those considerations relate to the mechanics of how the selected measurement method should be applied rather than to the selection of the measurement method...</p>