Staff paper

Agenda reference: 23D

IASB® meeting

Date	**November 2022**
Project	**Business Combinations under Common Control**
Topic	**Similarity to IFRS 3 BCs**
Contacts	**Zicheng Wang** (zwang@ifrs.org) **Richard Brown** (rbrown@ifrs.org)

Introduction and purpose

1. This paper analyses whether the nature of some or all business combinations under common control (BCUCCs) is similar to or differs from the nature of business combinations covered by IFRS 3 Business Combinations (IFRS 3 BCs). This paper considers only the nature of the transactions. The acquisition method applies to IFRS 3 BCs and assessing whether the nature of BCUCCs is similar to IFRS 3 BCs could help the International Accounting Standards Board (IASB) decide whether the acquisition method or a book-value method should apply to BCUCCs. However, even if the nature of all BCUCCs is similar to IFRS 3 BCs, the acquisition method should not necessarily apply to all BCUCCs. Deciding which measurement method should apply will involve considering all factors collectively including, for example, user information needs (Agenda Paper 23E) and the cost-benefit trade-off (Agenda Paper 23F).

2. This paper is based on Agenda Paper 23B to the IASB's June 2022 meeting and has been updated to:

   (a) reflect feedback from IASB members in the IASB's June 2022 meeting;

   (b) remove references to the two-step approach suggested in the IASB's June 2022 meeting (see paragraphs 10–13 of Agenda Paper 23A); and

   (c) cross-reference to other agenda papers which were not included at the IASB's June 2022 meeting.

3. As noted in paragraph 15 of Agenda Paper 23A, this paper is a supporting paper included for reference—it does not contain questions for the IASB. IASB members can raise any particular questions or comments on our analysis in this paper when discussing Agenda Papers 23B and 23C or when answering question (c) on page 8 of Agenda Paper 23A.

Structure of this paper

4. The paper is structured as follows:

(a) background (paragraphs 5–13);

(b) staff analysis (paragraphs 14–60);

(c) Appendix A—Considerations on contributions and distributions; and

(d) Appendix B—History of the BCUCC scope exclusion.

Background

Observations/conclusions in the Discussion Paper

5. In the Discussion Paper *Business Combinations under Common Control* (Discussion Paper), the IASB separately considered BCUCCs that affect non-controlling shareholders of the receiving entity (NCS) and BCUCCs that do not affect NCS.

6. The IASB concluded BCUCCs that affect NCS are similar to IFRS 3 BCs because in both scenarios:

   (a) the receiving entity gains control of a business it did not control before; and

   (b) there is a substantive change in the ownership interests in the economic resources of the transferred business.

7. For BCUCCs that do not affect NCS (as explained in paragraph 6 of Agenda Paper 23A) the IASB reached a preliminary view that a book-value method should be applied after collectively considering various factors, including how similar such BCUCCs are to IFRS 3 BCs. The IASB did not conclude on how similar BCUCCs that do not affect NCS are to IFRS 3 BCs. Paragraph 2.24 of the Discussion Paper notes that questions arise about how similar BCUCCs that do not affect NCS are to IFRS 3 BCs because, unlike in an IFRS 3 BC, in a BCUCC that does not affect NCS there is no change in:

   (a) the ultimate control of the combining entities; and

   (b) the ultimate ownership interests in the economic resources transferred.[1]

Feedback

8. Respondents were not specifically asked to comment on the IASB's conclusions on the similarity of BCUCCs to IFRS 3 BCs. However, because the IASB specifically considered whether some or all BCUCCs are similar to or differ from IFRS 3 BCs in developing its preliminary views, many respondents provided feedback which is included in the appropriate sections of this paper. For full details of feedback see Agenda Paper 23B of the IASB's December 2021 meeting.

[1] The Discussion Paper considered simple examples of BCUCCs. A BCUCC that does not affect NCS could result in a change in ultimate ownership interests in the transferred business if, for example, the transferring entity has non-controlling shareholders—this is considered in paragraphs 31–32.

General feedback

9. Many respondents (who agreed that neither the acquisition method nor a book-value method should apply to all BCUCCs) said not all BCUCCs are the same.

10. Some respondents (who said a book-value method should apply to all BCUCCs) said BCUCCs lack substance from the controlling party's perspective because ultimate control of the transferred business does not change.[2] Most of these respondents said in their experience the controlling party directs the transaction.

Assessing the substance of a BCUCC

11. Some respondents (who said not all BCUCCs are the same) suggested requiring a receiving entity to assess the substance of a BCUCC to determine which method to apply because:

    (a) doing so would remove structuring opportunities; and

    (b) unlike allowing a free choice, doing so would improve comparability.

12. Some of these respondents did not suggest how an entity would assess the substance of a BCUCC but most suggested different factors or combination of factors to consider, including:

    (a) the existence of NCS (many of these respondents);

    (b) the purpose of the combination—for example preparing for an initial public offering (IPO) or only for legal reasons (many of these respondents);

    (c) whether the transaction is priced at arm's length and the degree of measurement uncertainty and judgement required to determine whether the transaction is priced at arm's length (some of these respondents);[3]

    (d) whether the transaction price has been independently reviewed (some of these respondents);

    (e) the materiality of the transferred business (one respondent);[4] and

    (f) the substance of the BCUCC from both the receiving entity's and controlling party's perspective (one respondent).

13. One national standard-setter acknowledged the subjectiveness of assessing the substance but nonetheless said it is important to do so.

---

[2] Respondents often referred to the 'substance' of a BCUCC. We think feedback on the 'substance' of a BCUCC refers to the 'substance of the phenomena'—see paragraph 2.12 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. Accordingly, references to the 'substance' of a BCUCC in this agenda paper refer to the substance of the economic phenomenon and whether it is similar to or differs from IFRS 3 BCs.

3 The degree of measurement uncertainty and judgement does not change the nature of a BCUCC transaction, so is not analysed in this paper and instead is analysed in paragraphs 47–48 of Agenda Paper 23H.

4 Appendix A of Agenda Paper 23H analyses this suggestion.

Staff analysis

Structure of our analysis

14. Our analysis considers arguments suggesting the nature of some or all BCUCCs is similar to or differs from the nature of IFRS 3 BCs. These include arguments previously considered by the IASB and those suggested by respondents to the Discussion Paper. We grouped these arguments into the following categories:

    (a) wider group perspective (paragraphs 18–26);

    (b) composition of, and effect on, shareholders (paragraphs 27–34);

    (c) decision-making process (paragraphs 35–38);

    (d) purpose of the combination (paragraphs 39–45); and

    (e) transaction pricing (paragraphs 46–58).

15. Within each of these categories we set out:

    (a) the IASB's observations/conclusions in the Discussion Paper;

    (b) reasons why the nature of some or all BCUCCs differs from IFRS 3 BCs;

    (c) reasons why the nature of some or all BCUCCs is similar to IFRS 3 BCs; and

    (d) our initial view.

16. The sections detailing reasons why the nature of some or all BCUCCs is similar to or differs from IFRS 3 BCs list all reasons (including those previously considered by the IASB and those suggested by respondents) and do not include our analysis or views of those reasons. The staff initial view sections include our analysis and initial views. We acknowledge that each individual business combination is not identical and, for example, may be undertaken for different reasons. In assessing whether the nature of BCUCCs is similar to IFRS 3 BCs, we are analysing whether some or all BCUCCs have specific characteristics that distinguishes the nature of those transactions from IFRS 3 BCs.

17. We also reviewed the history of IFRS 3 to better understand why paragraph 2(c) of IFRS 3 excludes BCUCCs from IFRS 3's scope (the BCUCC scope exclusion)—for example, whether the IASB developed the BCUCC scope exclusion because the nature of BCUCCs differs from IFRS 3 BCs or for other reasons. This review identified that common control scope exclusions existed in predecessors to IFRS 3 dating back to at least 1983 but did not identify why such a scope exclusion was originally created—Appendix B provides further details.

Wider group perspective

Observations/conclusions in the Discussion Paper

18. Paragraph 2.16 of the Discussion Paper says:

> The [IASB] does not agree with the view 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 companies does not change in [BCUCCs], 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].

Reasons why the nature of BCUCCs differs from IFRS 3 BCs

19. The BCUCC scope exclusion does not look at the receiving entity in isolation. In considering the applicability of the BCUCC scope exclusion, a reporting entity is required to consider whether the transaction is a common control transaction and therefore to look beyond itself and consider the transaction within the wider group context. In addition, most BCUCCs are directed by the controlling party (see paragraphs 35–38) for the benefit of the wider group (see paragraphs 39–45). Accordingly—and unlike an IFRS 3 BC—it is necessary to consider the perspective of the wider group, including the controlling party.

20. There is precedent for looking beyond the reporting entity and considering the wider group perspective when accounting for a transaction. For example, paragraph B15(a) of IFRS 3's guidance on identifying the acquirer in a business combination considers the relative voting rights of a combining entity's owners.

Reasons why the nature of BCUCCs is similar to IFRS 3 BCs

21. As confirmed by the IASB at its March 2022 meeting, the receiving entity in a BCUCC is the reporting entity.

22. Paragraph 1.2 of the Conceptual Framework says:

> The objective of general purpose financial reporting is to provide financial information *about the reporting entity* that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. [emphasis added]

23. Paragraph 3.8 of the Conceptual Framework says:

> Financial statements provide information about transactions and other events *viewed from the perspective of the reporting entity* as a whole, not from the perspective of any particular group of the entity's existing or potential investors, lenders or other creditors. [emphasis added]

24. Whether the nature of some or all BCUCCs is similar to or differs from IFRS 3 BCs should therefore be considered from only the reporting entity's perspective. The wider group and the controlling party's perspective is irrelevant when assessing a BCUCC from the receiving entity's perspective. At the receiving entity level, the controlling party is a shareholder of the reporting entity, not part of the reporting entity itself.

25. In a BCUCC—similar to an IFRS 3 BC—the receiving entity gains control of a business it did not control before and therefore the BCUCC always has substance from the receiving entity's perspective.

Staff initial view

26. For the reasons explained in paragraphs 21–25 and paragraph 2.16 of the Discussion Paper (reproduced in paragraph 17 of this paper), we think that whether the nature of some or all BCUCCs is similar to or differs from IFRS 3 BCs should be considered only from the reporting entity's perspective. Although we think the similarity to IFRS 3 BCs should not be considered from the controlling party's perspective, we consider the role the controlling party plays in the transaction when assessing the:

    (a) composition of, and effect on, shareholders (paragraph 28);

    (b) decision-making process (paragraph 36);

    (c) purpose of the combination (paragraphs 40–41); and

    (d) transaction pricing (paragraphs 49–52).

Composition of, and effect on, shareholders

Observations/conclusions in the Discussion Paper

27. As explained in paragraphs 6–7, the IASB:

    (a) concluded that BCUCCs that affect NCS are similar to IFRS 3 BCs; and

    (b) did not conclude on how similar BCUCCs that do not affect NCS are to IFRS 3 BCs.

Reasons why the nature of all BCUCCs differs from IFRS 3 BCs

28. The composition of, and effect on, shareholders means that the nature of all BCUCCs differs from IFRS 3 BCs. In particular:

    (a) unlike an IFRS 3 BC, the controlling party controlled the transferred business before and after the combination. Considering the controlling party's perspective (see paragraphs 19–20), there is no change of control or acquisition of the transferred business, which is only moved within the group.

(b) even if the receiving entity has NCS, those NCS are aware of the controlling party's influence when they invest in a receiving entity. NCS are often protected by, for example, jurisdictional regulations or shareholder agreements from unfavourable transactions under common control. The existence of these legal protections distinguishes common control transactions such as BCUCCs from arm's length transactions such as IFRS 3 BCs.

Reasons why the nature of only some BCUCCs is similar to IFRS 3 BCs

29. Depending on shareholder composition, the nature of some BCUCCs is similar to IFRS 3 BCs while the nature of other BCUCCs differs from IFRS 3 BCs. We grouped separately reasons related to:

(a) existence of, and effect on, the receiving entity's non-controlling shareholders (paragraph 30); and

(b) existence of, and effect on, the transferring entity's non-controlling shareholders (paragraphs 31–32).

The receiving entity's non-controlling shareholders

30. For the reasons explained in paragraph 6, the nature of BCUCCs that affect NCS is similar to IFRS 3 BCs.[5] However, the nature of BCUCCs that do not affect NCS differs from IFRS 3 BCs because in a BCUCC that does not affect NCS, there is no change in the ultimate ownership interests in the transferred business. This is different from an IFRS 3 BC—in an IFRS 3 BC, the parent entity of the reporting entity acquires an ownership interest that it did not have before the IFRS 3 BC.[6]

The transferring entity's non-controlling shareholders

31. The nature of a BCUCC in which the transferring entity has non-controlling shareholders is similar to an IFRS 3 BC.

32. One national standard-setter said the receiving entity should apply the acquisition method to BCUCCs that do not affect NCS of the receiving entity if the transferring entity has non-controlling shareholders. This respondent said the transferring entity's non-controlling shareholders would likely demand that the selling price is at fair value in order to not negatively impact their interests. Similar to non-controlling shareholders of the receiving entity, non-controlling shareholders of the transferring entity are often protected (see paragraph 28(b)) so such BCUCCs would be priced on an arm's length basis and therefore are similar in nature to an IFRS 3 BC.[7]

[5] One respondent said if the receiving entity's parent entity has non-controlling shareholders, similar to non-controlling shareholders of the immediate receiving entity, those shareholders would acquire an ownership interest in the transferred business.

[6] The reporting entity could also be controlled by other parties, for example by an individual. For simplicity, this paper refers to a 'parent entity' as an example of a party that controls the reporting entity in an IFRS 3 BC.

[7] One respondent suggested that changes in the controlling party's ownership interest should be considered. We note that a change in the controlling party's ownership interest can only occur if there is also a change in interests for the receiving entity's non-controlling shareholders (analysed in paragraph 30) and/or the transferring entity's non-controlling shareholders (analysed in paragraph 31–32).

Reasons why the nature of all BCUCCs is similar to IFRS 3 BCs

33. While the composition of, and effect on, shareholders can differ between BCUCCs and IFRS 3 BCs, and between different BCUCCs, it does not affect the nature of the BCUCC itself and whether that nature is similar to or differs from an IFRS 3 BC. In particular:

    (a) IFRS Accounting Standards do not generally contain different requirements for:

        (i) transactions under common control—this indicates that the existence of a controlling party does not, in itself, affect whether the nature of a transaction under common control is similar to or differs from a transaction between unrelated parties.

        (ii) transactions based on whether the reporting entity has non-controlling shareholders—for example, IFRS 3 does not have different requirements for IFRS 3 BCs depending on whether the reporting entity has non-controlling shareholders. This indicates that the existence of non-controlling shareholders does not, in itself, distinguish the nature of the transaction.

    (b) compared to an IFRS 3 BC, the existence of a controlling party in a BCUCC might result in the consideration including a contribution to, or a distribution from, the receiving entity's equity (this is analysed separately as part of the transaction pricing in paragraphs 46–58).

    (c) from the reporting entity's perspective, the nature of a BCUCC is a business combination, regardless of the composition of, and effect on, shareholders of the reporting entity.

Staff initial view

34. For the reasons explained in paragraph 33, we think the composition of, and effect on, shareholders is not a factor that distinguishes the nature of BCUCCs from IFRS 3 BCs. Although we think the composition of, and effect on, shareholders does not change the nature of BCUCCs, other agenda papers analyse whether it should influence the selection of the measurement method, including whether:

    (a) common user information needs depend on whether a BCUCC affects NCS (Agenda Paper 23E);

    (b) the cost-benefit trade-off depends on whether a BCUCC affects NCS (Agenda Paper 23F);

    (c) selecting the measurement method based on whether NCS are affected could create some structuring opportunities (paragraphs 17–19 of Agenda Paper 23G);

    (d) structuring opportunities applying the acquisition method would be more relevant for BCUCCs between wholly-owned entities (paragraphs 24–26 of Agenda Paper 23G); and

    (e) it is more challenging to apply the acquisition method to a BCUCC that does not affect NCS than to a BCUCC that affects NCS (Agenda Paper 23H).

Decision-making process

Observations/conclusions in the Discussion Paper

35. The IASB considered the process for deciding the terms of the combination when developing its preliminary views but did not conclude on its effect on whether a BCUCC is similar to or differs from an IFRS 3 BC. Paragraph 2.19 of the Discussion Paper says:

> The [IASB] also considers 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… [emphasis added]

Reasons why the nature of BCUCCs differs from IFRS 3 BCs

36. Most BCUCCs are initiated and directed by the controlling party—the combining entities do not generally have 'free will' to decide whether and on what terms a BCUCC occurs. Although IFRS 3 BCs might also be directed by a parent entity (see paragraph 37), it is more common for BCUCCs to be directed by a controlling party than for an IFRS 3 BC to be directed by a parent entity.

Reasons why the nature of BCUCCs is similar to IFRS 3 BCs

37. Some IFRS 3 BCs are directed by a parent entity so the reporting entity might not have 'free will' to decide whether and on what terms the transaction occurs. However, the accounting for an IFRS 3 BC is unaffected by whether the transaction is directed by a parent entity and whether the reporting entity has 'free will' in deciding whether and on what terms the transaction occurs. This indicates that direction by a parent entity and 'free will' of the reporting entity does not change the nature of a business combination from the reporting entity's perspective. Regardless of who directs an IFRS 3 BC or a BCUCC and the extent of 'free will' of the reporting entity, the reporting entity obtains control of a business it did not control before.

Staff initial view

38. For the reasons explained in paragraph 37, we think the decision-making process for a BCUCC is not a factor that distinguishes the nature of BCUCCs from IFRS 3 BCs.[8]

[8] The IASB has not yet deliberated whether the receiving entity should disclose information such as the decision-making process or the purpose of a BCUCC. The IASB's preliminary view was that it should provide application guidance on how to apply disclosure requirements including those in IAS 24 *Related Party Disclosures*. Paragraph 5.11 of the Discussion Paper says such application guidance could explain, for example, that the receiving entity should disclose information about the governance process over the terms of the combination Agenda Paper 23D of the IASB's January 2022 meeting summarises respondents' feedback.

Purpose of the combination

Observations/conclusions in the Discussion Paper

39. The IASB considered the purpose of the combination when developing its preliminary views but did not conclude on its effect on whether a BCUCC is similar to or differs from an IFRS 3 BC. Paragraph 2.19 of the Discussion Paper says:

> The [IASB] also considers 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… [emphasis added]

Reasons why the nature of BCUCCs differs from IFRS 3 BCs

40. The purpose of a BCUCC is often to benefit the controlling party and the wider group, and not necessarily to benefit either or both of the combining entities. For example, a BCUCC may be driven by:

    (a) another transaction, for example preparing for an IPO; or

    (b) the wider group's reasons and not just the receiving entity's reasons—for example, tax reasons, to create synergies for the wider group or the cash flows from the transferred business may be diverted to the controlling party.

41. Considering the wider group perspective (see paragraphs 18–26), the purpose of a BCUCC is often a reallocation of resources within the group by the controlling party. This differs from an IFRS 3 BC, which always involves the acquisition of one or more businesses.

Reasons why the nature of BCUCCs is similar to IFRS 3 BCs

42. The reasons discussed in paragraph 40 are not unique to BCUCCs. A parent entity may direct a reporting entity to perform an IFRS 3 BC for similar reasons—for example, to prepare for an IPO or to create synergies for the wider group.

43. A BCUCC might only be a resource reallocation from the controlling party's perspective. However, for the reasons explained in paragraphs 21–25, whether the nature of some or all BCUCCs is similar to or differs from IFRS 3 BCs should be considered from only the reporting entity's perspective.

44. When the IASB was developing IFRS 3, some stakeholders said the pooling method (a form of book-value method) should be applied to mergers—business combinations in which the predominant form of consideration is equity—for various reasons, including that the intention of the merger is to unite commercial strategies.[9] The IASB concluded that mergers are economically similar to acquisitions and

[9] See paragraphs BC29–BC35 of the Basis for Conclusions on IFRS 3 for further information.

that the acquisition method should be applied even to mergers, indicating that the purpose of a business combination does not change its nature.

Staff initial view

45. For the reasons explained in paragraphs 42–44, we think the purpose of a BCUCC is not a factor that distinguishes the nature of BCUCCs from IFRS 3 BCs.

Transaction pricing

Observations/conclusions in the Discussion Paper

46. Paragraph 2.19 of the Discussion Paper says:

> 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…

47. Paragraph 2.28 and 2.29 of the Discussion Paper, considering BCUCCs that do not affect NCS, say:

> 2.28 Another difficulty with applying the acquisition method when the receiving [entity] does not have [NCS] is that the consideration paid might differ from the consideration that would have been paid to an unrelated party… However, as discussed further in Section 3, the measurement of goodwill applying the acquisition method is based on the premise that the amount of the consideration paid is determined in an arm's length negotiation and depends on the fair value of the acquired business and the price for any synergies expected from the combination. As a result, goodwill is measured at an amount that is expected to reflect the fair value of the pre-existing goodwill in the acquired business and the price for the synergies expected from the combination. In contrast, if [BCUCCs] are not priced at arm's length, applying the acquisition method might measure goodwill at an arbitrary amount that does not provide useful information.
>
> 2.29 As also discussed further in Section 3, such a scenario is less likely to arise in a [BCUCC that affects NCS]. The research for this project indicates that in such combinations, the consideration paid would typically approximate the consideration that would have been paid between unrelated parties, because many jurisdictions have regulations that are designed to protect non-controlling shareholders. However, those regulations would not apply if a transaction does not affect [NCS].

48. In developing the Discussion Paper, the IASB considered whether and how often the consideration paid in a BCUCC differs from the consideration that would have been paid in an arm's length transaction. Appendix A summaries the IASB's considerations.

Reasons why the nature of all BCUCCs differs from IFRS 3 BCs

49. The consideration in an IFRS 3 BC could include overpayments or underpayments, for example, if the price is driven up in the course of bidding for the acquiree or a forced sale. However, BCUCCs are ultimately transactions with owners so overpayments or underpayments represent a transaction with owners in their capacity as owners (that is, a distribution from or contribution to the receiving entity's equity). It would therefore be inappropriate to assume the transaction price gives evidence about the value of a business and any synergies acquired in a BCUCC.

50. By contrast, in an IFRS 3 BC:

    (a) unrelated willing parties generally exchange equal values so the consideration transferred provides the best evidence of the acquirer's interest in the acquiree in many, if not most, situations (paragraph BC331 of the Basis for Conclusions on IFRS 3); and

    (b) overpayments are unlikely to be detectable or known at the acquisition date and the amount of any overpayment would be difficult, if not impossible, to quantify (paragraph BC382 of the Basis for Conclusions on IFRS 3); and

    (c) conceptually overpayments or underpayments in an IFRS 3 BC represent a loss or gain to the acquirer (paragraph BC315 of the Basis for Conclusions on IFRS 3), not a distribution from or contribution to the receiving entity's equity.

51. BCUCCs might also include overpayments or underpayments more often than would happen in an IFRS 3 BC because they may be directed by the controlling party (see paragraphs 35–38).

52. The nature of the transaction should be considered as a whole (rather than considering any contribution or distribution separately as suggested in paragraph 54) so the entire transaction differs from an IFRS 3 BC.

Reasons why the nature of only some BCUCCs is similar to IFRS 3 BCs

53. As explained in paragraphs 49–50, the nature of any overpayment or underpayment is different in a BCUCC compared to an IFRS 3 BC. Although they might occur more often in BCUCCs that do not affect NCS than in IFRS 3 BCs, overpayments or underpayments are unlikely to occur for BCUCCs that affect NCS (as explained in Appendix A). Therefore:

    (a) for BCUCCs that affect NCS, it is unlikely that transaction pricing will significantly differ from IFRS 3 BCs; but

    (b) for BCUCCs that do not affect NCS, it is possible that transaction pricing will significantly differ from IFRS 3 BCs.

Reasons why the nature of all BCUCCs is similar to IFRS 3 BCs

54. Although the transaction pricing for BCUCCs (particularly BCUCCs that do not affect NCS) can differ from IFRS 3 BCs, because it can include a distribution from or contribution to equity, that does not mean the nature of the business combination itself differs. Although any reporting requirements will need to consider the reporting for the consideration paid (see paragraph 57), the transaction price is the consideration paid for the business combination—any contribution or distribution is not part of the business combination itself. Economically, any such contribution or distribution is separate from the BCUCC and does not affect whether the nature of the BCUCC itself is similar to or differs from an IFRS 3 BC.

Staff initial view

55. For the reasons discussed in paragraphs 49–50, we think the potential for distributions or contributions in a BCUCC's transaction pricing (particularly for BCUCCs that do not affect NCS) is a difference compared to an IFRS 3 BC. However, we think this does not distinguish the nature of BCUCCs themselves from IFRS 3 BCs.

56. In particular we note paragraphs 6.80–6.82 of the Conceptual Framework say that assets may be acquired, and liabilities incurred, as a result of an event that is not a transaction on market terms, for example, if the transaction price is affected by relationships between the parties. In such cases it may be appropriate to measure the assets and liabilities received at their current value (for example, fair value) as a deemed cost. This suggests that a transaction not being on market terms does not change the nature of the transaction itself.

57. This Agenda Paper does not seek to address how any distribution or contribution should be identified, recognised or measured, which we acknowledge could be difficult. The IASB will decide whether and how any distribution or contribution should be identified, recognised and measured when deliberating how to apply the acquisition method and a book-value method.

58. Although we think the transaction pricing and potential for distributions or contributions does not distinguish the nature of BCUCCs from IFRS 3 BCs, other agenda papers analyse whether it should influence the selection of the measurement method, including concerns about:

    (a) measuring goodwill at an amount not evidenced by a transaction price between independent parties (paragraphs 34–38 of Agenda Paper 23H); and

    (b) measurement uncertainty in measuring the consideration that would have been paid in an arm’s length transaction (paragraphs 40–41 of Agenda Paper 23H).

Summary of staff initial views

59. In our initial view the nature of all BCUCCs is similar to IFRS 3 BCs because the receiving entity gains control of a business it did not control before. In particular, we think:

(a) whether the nature of some or all BCUCCs is similar to or differs from IFRS 3 BCs should be considered only from the perspective of the receiving entity (that is, the reporting entity); and

(b) from the receiving entity’s perspective, the nature of all BCUCCs is similar to IFRS 3 BCs.

60. Although the transaction pricing and composition of, and effect on, shareholders do not result in the nature of BCUCCs differing from IFRS 3 BCs, other agenda papers analyse whether they should affect the selection of the measurement method (for example, because they affect common user information needs or because the acquisition method would measure goodwill at an amount not evidenced by a transaction price between independent parties).

Appendix A—Considerations on contributions and distributions

A1. Paragraphs 3.13 and 3.17 of the Discussion Paper note the IASB's view that a contribution to or distribution from the receiving entity's equity would be unlikely to occur in practice for a BCUCC that affects NCS.

A2. Paragraph 3.13 of the Discussion Paper says:

> The [IASB] also considered whether a distribution from equity would be likely to occur in practice in [BCUCCs] that affect [NCS]. In effect, any such distribution would transfer wealth from those [NCS] to the transferring [entity], and ultimately to the controlling party. Research for this project and stakeholder input suggest that distributions to the controlling party are unlikely to occur in such combinations. Such distributions are unlikely to occur because many jurisdictions have legal requirements and regulations that are designed to protect the interests of [NCS].

A3. Paragraph 3.17 of the Discussion Paper says:

> The [IASB] also considered whether the receiving [entity] should be required to recognise a contribution to equity when applying the acquisition method to a [BCUCC]. The [IASB] first considered whether such a contribution would be likely to occur if such a combination affects [NCS]. The legal protections discussed in paragraph 3.13 might not apply in this situation, because any such contribution would transfer wealth from the controlling party to the [NCS] and so would not adversely affect those shareholders. Nevertheless, the controlling party is unlikely to allow a transfer of wealth to [NCS]. Therefore, the [IASB] has reached the view that such contributions are also unlikely to occur in practice.

A4. Agenda Paper 23A of the IASB's December 2019 meeting includes further details about the IASB's prior considerations on this matter. That agenda paper includes feedback from members of the Capital Markets Advisory Committee, the Global Preparers Forum, the Accounting Standards Advisory Forum and the International Organization of Securities Commissions as well as the staff's review of a report published by The World Bank.

Appendix B—History of the BCUCC scope exclusion

B1. IFRS 3 excludes ‘a combination of entities or businesses under common control’ from its scope (the BCUCC scope exclusion). The Basis for Conclusions on IFRS 3 do not explain why these transactions are excluded (for example, whether the IASB developed the BCUCC scope exclusion because the nature of BCUCCs differs from IFRS 3 BCs or for other reasons). We reviewed the history of the BCUCC scope exclusion to better understand the rationale for the exclusion.

B2. The International Accounting Standards Committee (IASC) issued IAS 22 *Accounting for Business Combinations* in 1983. IAS 22 excluded from its scope ‘transfers or exchanges of assets among enterprises under common control’. There are no Basis for Conclusions on IAS 22 to explain the rationale for this exclusion.

B3. ‘Business combinations involving entities or businesses under common control’ were excluded from the scope of IFRS 3 issued in 2004. The IASB’s intention in developing IFRS 3 (2004) was to focus on specific areas and not to reconsider all the requirements in IAS 22. The IASB therefore decided to defer considering the accounting for BCUCCs until a later phase of the project (paragraph BC24 of the Basis for Conclusions on IFRS 3 (2004)). Paragraph BC26 of the Basis for Conclusions on IFRS 3 (2004) explains why the wording of the scope exclusion in IFRS 3 (2004) differs from the wording in IAS 22 but does not explain why such transactions were excluded from IFRS 3 (2004)’s scope.

B4. In revising IFRS 3 in 2008, the IASB decided to continue to exclude BCUCCs from IFRS 3’s scope. The IASB was aware of nothing that has happened since IFRS 3 (2004) was issued to suggest IFRS 3 should be delayed to address BCUCCs (see paragraph BC59 of the Basis for Conclusions on IFRS 3). However, the Basis for Conclusion on IFRS 3 does not further explain why such transactions are excluded from IFRS 3’s scope.