IFRS Accounting

IFRS Interpretations Committee

Date	**June 2023**
Project	**Business Combinations under Common Control (BCUCCs)**
Topic	**Project direction**
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Agenda

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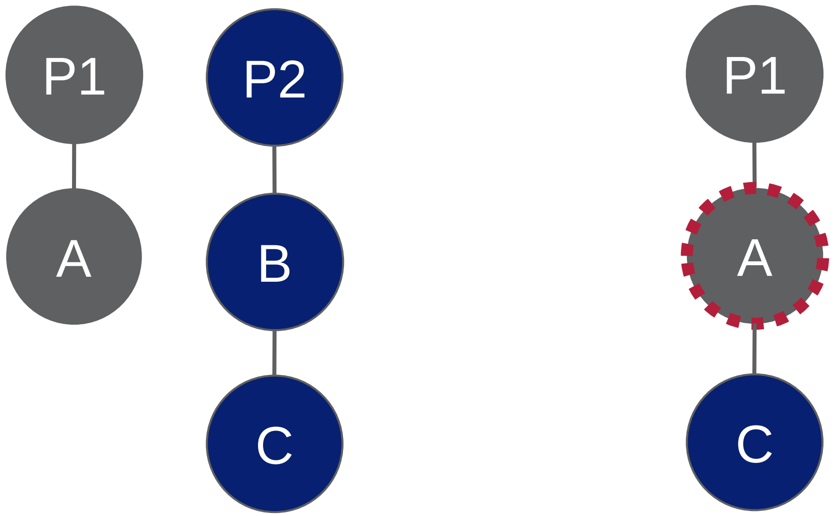
The purpose of this meeting is to gather more information to help the IASB make an informed decision on project direction. For more details see Agenda Papers 23–23B of the IASB's April 2023 meeting.

Background

What is a BCUCC?

Business combination

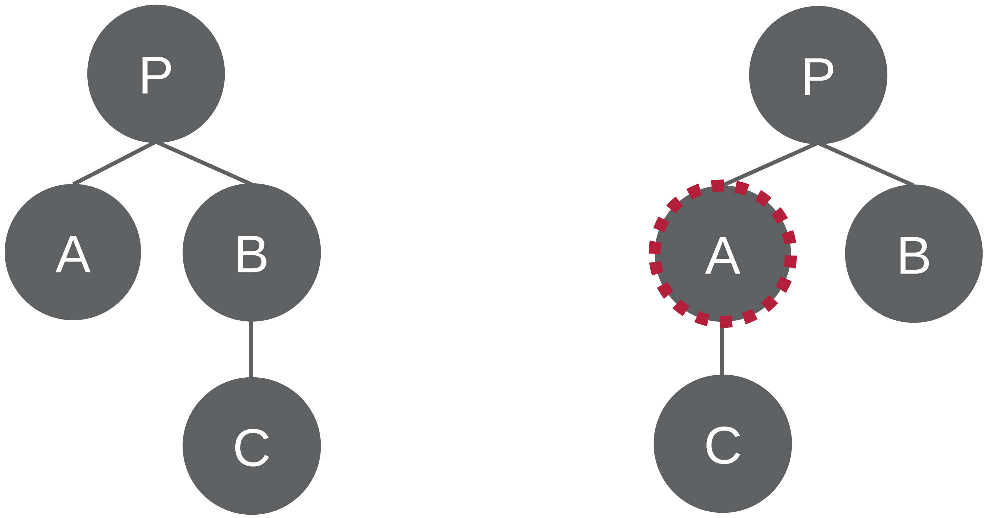
Before the combination | After the combination



Company A reports the acquisition of Company C applying the acquisition method (see slide 5).

Business combination under common control

Before the combination | After the combination



This is a BCUCC between wholly-owned subsidiaries. Company A uses the acquisition method or a book-value method to report the acquisition of Company C.

How do those methods work today?

	IFRS 3's acquisition method	Book-value method is not defined
Assets and liabilities received	Measured at fair value	Measured at book value
Intangibles and contingent liabilities	All identifiable assets and liabilities received are recognised	Only previously recognised assets and liabilities are recognised
Goodwill	Recognised	Not recognised
Pre-combination information	Excludes the transferred company	Diversity in practice
Disclosure	Comprehensive disclosure	Little disclosure

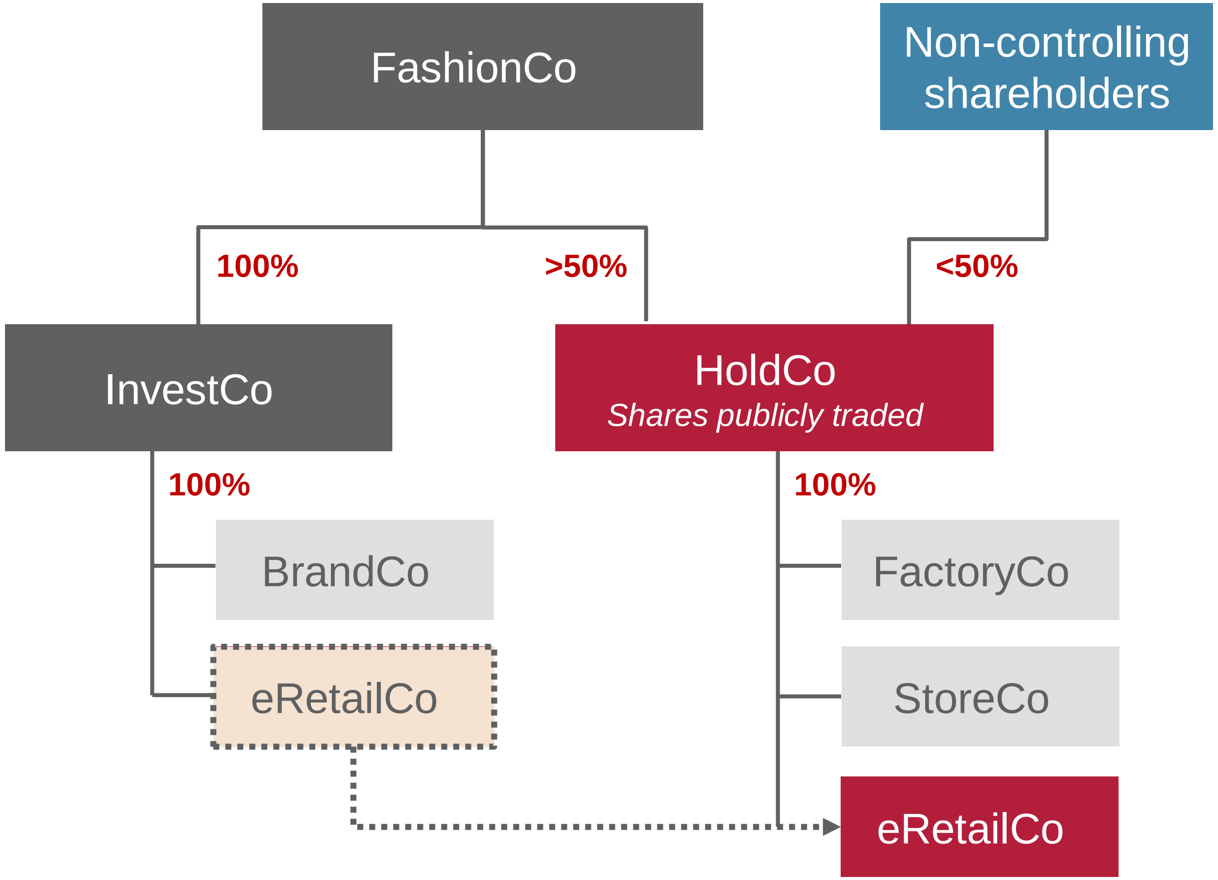
Illustrative scenario

Listed company with a majority shareholder

This scenario illustrates a BCUCC that affects non-controlling shareholders (NCS).

- FashionCo wishes to raise capital from its successful eRetailCo, without losing control.
- HoldCo buys eRetailCo from InvestCo.
- HoldCo's shares are publicly traded. It is controlled by FashionCo but has non-controlling shareholders.

The IASB's preliminary view was that HoldCo should use the acquisition method.



Selecting the method—IASB's preliminary views and feedback

Neither method should apply in all cases	**Overall:** most respondents agreed but some (from various jurisdictions) said a BVM should apply to all BCUCCs. **Users:** almost all users (except users from China) agreed; almost all users from China said a book-value method (BVM) should apply to all BCUCCs.
Apply the acquisition method (AM) to BCUCCs that affect NCS (for example, slide 6) with limited exceptions	**Overall:** many respondents agreed but many others (from various jurisdictions) disagreed, of which: • some said a BVM should apply to all BCUCCs; • some said the method to apply should depend on the substance of the BCUCC; and • some said the receiving entity should have a choice as to which method to apply. **Users:** all users (except users from China) agreed for the illustrative scenario on slide 6; almost all users from China said a BVM should apply.[1]
Apply a book-value method (BVM) in all other cases (for example, slide 4)	**Overall:** many respondents agreed but many others disagreed, most of which said to apply the AM in specific circumstances (most commonly if the receiving entity has publicly traded debt). **Users:** almost all users agreed for a pre-IPO scenario (scenario 2[1]). For a scenario where the receiving entity has bank debt and publicly traded debt (scenario 3[1]) most users agreed but some said the AM should apply.

1 Almost all users were asked about specific scenarios rather than the underlying principle (see Agenda Paper 23D of the IASB's December 2021 meeting for the scenarios and more details).

Project timeline

The IASB published the Discussion Paper in November 2020.

The comment period closed in September 2021

The IASB discussed feedback on the Discussion Paper.

The IASB tentatively decided to update the project's objective to reflect the stage of the project and not to expand the project's scope.

The IASB discussed the staff's analysis of feedback on selecting the measurement method to apply to a BCUCC.

The IASB discussed the project direction and asked the staff to consult before the IASB decides.

Nov Sep Dec Jan Mar Jun Nov Apr

2020 2021 2022 2023

Project direction

Options for project direction

I. Recognition, measurement and disclosure requirements	II. Disclosure-only requirements	III. No recognition, measurement or disclosure requirements
Detailed requirements, as anticipated in the Discussion Paper. Decisions could, for example, include: • which method(s) to apply in principle; • exceptions, including exploring possible new exceptions in more detail; and • how to apply a book-value method. Considering jurisdictional diversity in user feedback[1]: • prescribing one approach would not meet all users' information needs; and • allowing entities a choice might meet user information needs in their jurisdiction but wouldn't reduce diversity or always meet user information needs.	The IASB could develop disclosure requirements for BCUCCs: • regardless of the measurement method applied—for example, the recognised amounts of each class of assets received and liabilities assumed; • to which the acquisition method is applied—for example, information about acquired goodwill; and • to which a book-value method is applied—for example, which entity's book values have been used.	The IASB could discontinue the project and not develop any reporting requirements. This option would: • not improve diversity of reporting for BCUCCs; • not improve transparency of reporting for BCUCCs; and • not require significant additional resources

[1] In addition to selecting the measurement method (slide 8), there was also diversity in feedback on other topics--for example whether to restate pre-combination information (see Agenda Paper 23B of the IASB's April 2023 meeting).

Due Process Handbook requirements

To decide whether a standard-setting project (options I or II on slide 10) would address users' needs, the IASB considers:

Deficiency in reporting	The project aims to reduce diversity (for example, which method to apply and how to apply a book-value method) and improve transparency. The extent to which a project would achieve these aims would depend on what requirements the IASB develops.
Importance to users	Engagement with users has raised questions about the importance of the project to users. There was jurisdictional diversity in user feedback—if the project does not meet user information needs globally, it may reduce its importance.
Types of entities affected	52% of the 267 BCUCC transactions in our 2019 research were by entities listed in China (including Hong Kong). Research limitations make it difficult to draw definitive conclusions.
How pervasive or acute	We are not aware of BCUCCs that affect NCS being common across jurisdictions. We understand that a form of book-value method is typically (but not always) applied to BCUCCs that do not affect NCS.
The IASB's resources	The level of resources required would depend on what requirements the IASB develops. We expect option II to require significantly less resources than option I.

Questions for IFRS IC members

IFRS Accounting

Questions for discussion

1. What problems are caused by the gap in IFRS Accounting Standards for reporting BCUCCs?
    a) Since the project was added to the IASB's agenda in 2007, is practice largely settled or are there significant challenges in accounting for BCUCCs?
2. Do you have specific examples where the reporting for a BCUCC resulted in financial statements that were misleading or failed to provide useful information about the BCUCC? How common are such examples?
3. Considering the criteria on slide 11, which option from slide 10 do you think the IASB should choose?