Staff paper

Agenda reference: 12A

IASB® meeting

Date	**January 2024**
Project	**Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)**
Topic	**Finalisation of agenda decision**
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Purpose of the meeting

1. At its November 2023 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission about how a parent entity that prepares separate financial statements applying IAS 27 *Separate Financial Statements* accounts for a merger with its subsidiary in its separate financial statements. The Committee instead decided to finalise an agenda decision.

2. The purpose of this meeting is to ask the International Accounting Standards Board (IASB) members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

Background

3. In the fact pattern described in the submission:

   (a) a parent entity prepares separate financial statements applying IAS 27 and recognises an investment in a subsidiary applying paragraph 10 of IAS 27;

   (b) the subsidiary contains a business (as defined by IFRS 3 *Business Combinations*); and

(c) the parent entity merges with the subsidiary, resulting in the subsidiary's business becoming part of the parent entity (merger transaction).

4. The submission asked how the parent entity should account for the merger transaction in its separate financial statements. In particular, the submission asked whether, in the context of the parent entity's separate financial statements, the merger transaction:

   (a) constitutes a business combination as defined in IFRS 3 and consequently, whether an entity should apply the acquisition method (and related requirements) in IFRS 3[1].

   (b) should not be accounted for as a business combination. Applying this view, the parent entity—in its separate financial statements—recognises the subsidiary's assets and liabilities at their previous carrying amounts (carrying amount method).[2]

5. Upon receiving the submission, we sent an information request to members of the International Forum of Accounting Standard Setters, securities regulators and large accounting firms. We also reviewed annual financial statements of public entities filed in the period from 1 January 2020 to 21 April 2023 to identify accounting policies applied with respect to the fact pattern described in the submission. The responses to the information request and our research of publicly available financial statements indicated that few, if any, entities apply the acquisition method to account for the fact pattern—ie we did not find evidence of diversity in accounting for the merger transaction.

6. Consequently, in June 2023, the Committee decided to publish a tentative agenda decision, having concluded that the matter described in the request does not meet the criteria for adding a standard-setting project to the work plan set out in paragraph 5.16 of the *Due Process Handbook*. In particular, given the lack of diversity in accounting

[1] For simplicity, we refer to the acquisition method (and related requirements) in IFRS 3 as 'the acquisition method' throughout the rest of this paper.

[2] The full request is reproduced in Appendix B to Agenda Paper 3 for the Committee's June 2023 meeting.

for the transaction, the Committee concluded that the matter did not meet the criterion in sub-paragraph 5.16(a) that 'the matter has widespread effect'.

Feedback on the tentative agenda decision

7. The Committee received 14 comment letters on its tentative agenda decision by the comment letter deadline.[3] The letters were from five national standard-setters, four accounting firms, two accounting bodies, one preparer and two individuals. Agenda Paper 5 for the Committee's November 2023 meeting summarised the comments and set out our analysis of those comments.

8. Seven respondents (mostly standard-setters and accounting firms) agreed with the Committee's decision not to add the matter to its standard-setting plan for the reasons outlined in the tentative agenda decision.

9. Some respondents said the merger transaction is prevalent. However, most of these respondents agreed with the Committee's observation about entities not generally applying the acquisition method to account for the merger transaction. Two of these respondents nonetheless suggested updating the agenda decision to explain how an entity applies IFRS Accounting Standards when considering the matter described in the submission.

10. One respondent agreed with the Committee's observation of a lack of diversity but said '…there is an urgent need of guidance on accounting for such transactions and the same should be taken up as a standard-setting project…'.

11. One individual respondent disagreed with the Committee's observations and conclusions. The respondent said the merger transaction is prevalent in their jurisdiction and an entity should apply the relevant requirements in IFRS Accounting Standards (including those in IFRS 3) when accounting for intra-group transactions in separate financial statements.

[3] There were no late comment letters as of the date of posting of this paper.

12. A number of respondents—while not disagreeing with the Committee's observations about entities generally not applying the acquisition method to account for the merger transaction—said there is diversity in how entities apply a carrying amount method. These respondents generally suggested clarifying how entities apply (or should apply) a carrying amount method and/or referring the matter to the IASB.

13. One respondent suggested amending the tentative agenda decision not to mention prevalent practice.

The Committee's discussion and conclusion

14. The Committee considered this feedback at its November 2023 meeting. The Committee confirmed its conclusion that the matter described in the request does not have widespread effect and decided not to add a standard-setting project to the work plan.

15. The Committee made some changes to the wording of the tentative agenda decision to improve the clarity of the agenda decision. The appendix to this paper includes the wording of the agenda decision approved by the Committee.

16. Twelve of the 13 Committee members present voted to finalise the agenda decision.

Questions for the IASB
Do you object to the Committee's: a. decision not to add a standard-setting project to the work plan? b. conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

Appendix—the agenda decision

A1. The agenda decision below was approved by the Committee at its November 2023 meeting.

Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27 *Separate Financial Statements*)

The Committee received a request about how a parent entity that prepares separate financial statements applying IAS 27 accounts for a merger with its subsidiary in its separate financial statements.

Fact pattern

In the fact pattern described in the request:

(a) a parent entity prepares separate financial statements applying IAS 27 and recognises an investment in a subsidiary applying paragraph 10 of IAS 27;

(b) the subsidiary contains a business (as defined by IFRS 3 *Business Combinations*); and

(c) the parent entity merges with the subsidiary, resulting in the subsidiary's business becoming part of the parent entity (merger transaction).

The request asked how the parent entity should account for the merger transaction in its separate financial statements. In particular, the request asked whether, in the context of the parent entity's separate financial statements, the merger transaction:

(a) constitutes a business combination as defined in IFRS 3 and consequently, whether an entity should apply the acquisition method (and related requirements) in IFRS 3; or

(b) should not be accounted for as a business combination. Applying this view, the parent entity—in its separate financial statements—recognises the subsidiary's assets and liabilities at previous carrying amounts.

Findings

Evidence gathered by the Committee indicates little, if any, diversity in determining whether to apply the acquisition method (and related requirements) in IFRS 3 to the merger transaction described in the request. In accounting for the merger transaction described in the request in their separate financial statements, parent entities generally do not apply the acquisition method (and related requirements) in IFRS 3.

Conclusion

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee decided not to add a standard-setting project to the work plan.