



Istituto Nazionale per i Principi Contabili

BUSINESS COMBINATIONS UNDER COMMON CONTROL

DECEMBER 2025

THIS PAPER DOES NOT REPRESENT THE VIEWS OF THE OIC BOARD OR ANY INDIVIDUAL OIC BOARD MEMBER

AGENDA

- Introduction
- The OIC Project
- Next steps



INTRODUCTION

PURPOSE OF THE SESSION

- Present the OIC project on the accounting for Business Combinations under Common Control («BCUCC») under IFRS.
- Understand current practices in different countries
- Collect inputs from ASAF members

QUESTIONS FOR ASAF MEMBERS

- What is the current practice in your jurisdiction on the accounting for BCUCC under IFRS?
- In which circumstances, if any, the acquisition method provides more useful information than the book-value method?
- How do you assess economic substance in your jurisdiction? (see slide 12)
- Are the indicators listed in slide 13 relevant in your jurisdiction?
- Do you have any other comments? Any suggestion?



THE OIC PROJECT



THE CONTEXT

- BCUCC is a very important topic in Italy
- Italy has decided to mandate or allow the application of IFRS to individual accounts:
 - For listed companies application of IFRS to individual accounts is mandatory;
 - For small companies and some specific cases is not permitted;
 - For all other companies the application of IFRS is permitted.
- Therefore apply IFRS to account for BCUCC is frequent in Italy.

THE CONTEXT

- BCUCC are scoped out of IFRS 3 *Business Combinations* and currently there is no regulation under IFRS.
- The IASB started a project with the objective of defining requirements for accounting for BCUCC, but in November 2023 the IASB decided to discontinue the project.
- Consequently, in 2025 OIC decided to start the project.
- The objective of the OIC project is to publish guidance for Italian Entities including principles to follow to account for BCUCC.

SCOPE OF THE OIC PROJECT

Preliminary view:

The project's scope includes:

- all the BCUCC that are currently excluded from the scope of IFRS 3 (eg mergers, contributions and acquisitions of a business)
- separate and consolidated financial statements of the acquiring entity
- mergers between a parent company and its subsidiaries

Other transactions under common control (eg disposal of an asset) are excluded from the scope of the project.

IAS 8 APPROACH

Preliminary view:

We start from paragraphs 10-12 of IAS 8, thus we consider:

- the requirements in IFRSs dealing with similar and related issues; and
- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework
- pronouncements of other standard-setting bodies
- accounting literature and accepted industry practices

WHAT WE HAVE DONE SO FAR

We reviewed the following sources:

- IASB DP on BCUCC
- Other local GAAPs (eg US GAAP, UK GAAP, Spanish GAAP)
- Accounting firms manuals

We got input from our stakeholders on the main challenges they face in the accounting for BCUCC:

- Acquisition method vs book value method
- How to apply the book value method (eg which book values, retrospective or prospective approach?)

ACQUISITION METHOD VS BOOK VALUE METHOD

ITALIAN CURRENT PRACTICE

- Acquisition method is applied only if the BCUCC has an economic substance.
- The economic substance results in significant changes in the pre and post-transactions cash flows of the transferred business.
- In all other cases the book-value method is applied.
- In practice most BCUCC are accounted for using the book-value method

Question for ASAF members

Do you assess economic substance in your jurisdiction?

ACQUISITION METHOD VS BOOK VALUE METHOD

OTHER PRACTICES

❖ Some NSS guidance (local gaap)

Apply the book-value method to all BCUCC, without requiring the entity to assess whether the transaction has economic substance

❖ Some accounting firms manuals:

the acquisition method can be applied when

- The transaction affects non-controlling shareholders (significant?);
- The consideration is paid in full in cash; or
- The transaction is undertaken in connection with an IPO

Question for ASAF members

Are these indicators relevant in your jurisdiction?

In all the other circumstances book-value method is applied

❖ Other accounting firms manuals – accounting policy choice

NEXT STEPS

How to apply the book-value method:

- Retrospective approach vs prospective approach.
- transferred company's book values vs parent company's book values.



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THANK YOU

