IFRS

June 2019

STAFF PAPER

IASB® Meeting

Project	**Business Combinations under Common Control**		
Paper topic	Cover paper		
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Purpose of this paper

1. This paper:
   (a) introduces Agenda Paper 23A *Transactions that do not affect non-controlling shareholders* to be discussed at this month's meeting (paragraphs 2–3);
   (b) sets out next steps in the Business Combinations under Common Control research project (paragraphs 4–5); and
   (c) provides a summary of previous discussions of the measurement approaches to transactions within the scope of the Business Combinations under Common Control research project by the International Accounting Standards Board (Board) (paragraphs 6–11).

Agenda Paper 23A Transactions that do not affect non-controlling shareholders

2. Agenda Paper 23A considers:
   (a) whether transactions that do not affect non-controlling shareholders of the receiving entity are different both from transactions that affect such

shareholders and from business combinations that are not under common control; and

(b) if so, whether the Board could therefore pursue an approach that is not based on the acquisition method set out in IFRS 3 *Business Combinations* for transactions that do not affect non-controlling shareholders of the receiving entity, such as a form of a predecessor approach.

3. The paper is for information only. The staff plan to ask the Board for decisions on a package of topics at a future meeting.

Next steps

4. At future meetings, the staff plan to present to the Board:

(a) an updated analysis of transactions that affect non-controlling shareholders of the receiving entity and a discussion of information needs of potential equity investors;

(b) analysis of how a current value approach based on the acquisition method could apply to transactions within the scope of the project; and

(c) analysis of how a predecessor approach could apply to transactions within the scope of the project.

5. At future meetings, the staff plan to ask the Board to make decisions on the following interrelated topics:

(a) *when* to apply a particular approach:

(i) whether a current value approach should be applied to all transactions that affect non-controlling shareholders of the receiving entity, and if not all, how that distinction should be made; and

(ii) whether a form of a predecessor approach should be applied to transactions that do not affect non-controlling shareholders of the receiving entity, including those that affect lenders and other creditors of the receiving entity and those undertaken in preparation for a sale of the combining entities; and

(b) *how* to apply a particular approach:

(i) how the acquisition method set out in IFRS 3 should be applied to transactions within the scope of the project; and

(ii) how a predecessor approach should be applied.

Summary of previous discussions of the measurement approaches

6. In February 2018, the Board tentatively decided to use the acquisition method set out in IFRS 3 as the starting point in the analysis of transactions within the scope of the project. In making that tentative decision, the Board noted that using the acquisition method as a starting point would not determine whether the Board would ultimately propose applying that method to all, or even to many, transactions within the scope of the project.

7. In June 2018, the Board directed the staff to develop an approach based on the acquisition method set out in IFRS 3 and to consider whether and how that method should be modified to provide the most useful information about transactions that affect non-controlling shareholders.

8. In December 2018, the Board discussed whether a current value approach based on the acquisition method should be applied to all or only some transactions that affect non-controlling shareholders of the receiving entity. The Board also discussed how any such distinction should be made. The meeting was educational and the staff did not ask the Board for decisions.

9. In March 2019, the Board discussed an overview of the staff's approach, including how information needs of different types of primary users of the receiving entity's financial statements are considered in developing measurement approaches for transactions within the scope of the project. The Board also discussed whether a form of predecessor approach could be applied for transactions between wholly owned entities, including transactions that affect lenders and other creditors of the receiving entity or prospective equity investors in an initial public offering. The meeting was educational and the staff did not ask the Board for decisions.

10. In April 2019, the Board tentatively decided that it need not pursue a single measurement approach for all transactions within the scope of the project. Specifically, the Board could pursue:

(a) a current value approach for all or some transactions that affect non-controlling shareholders of the receiving entity; and

(b) a different approach, such as a form of a predecessor approach, for transactions that affect lenders and other creditors of the receiving entity but do not affect non-controlling shareholders.

11. The Board also directed the staff to continue developing measurement approaches for transactions within the scope of the project by considering:

(a) whether and how transactions within the scope of the project can be different from business combinations that are not under common control;

(b) what information would be useful to various primary users of the receiving entity’s financial statements;

(c) whether the benefits of providing particular information would justify the costs of providing that information; and

(d) complexity and structuring opportunities that could arise under various approaches.