

STAFF PAPER

October 2019

IASB® Meeting

Project	Business Combinations under Common Control		
Paper topic	Cover paper		
CONTACT(S)	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743
	Jan Carlo T. Pereras	cpereras@ifrs.org	+44 (0)20 7246 6487
	Simone Villa	svilla@ifrs.org	+44 (0)20 7246 6498

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Purpose of this paper

1. This paper:
 - (a) introduces the Agenda Papers to be discussed at this month's meeting (paragraphs 2–5);
 - (b) sets out next steps in the Business Combinations under Common Control research project (paragraph 6); and
 - (c) provides a summary of previous discussions of the measurement approaches to transactions within the scope of the project by the International Accounting Standards Board (Board) (paragraphs 7–16).

Papers for this meeting

2. At the September 2019 meeting, the Board made tentative decisions on *when* a current value approach based on the acquisition method set out in IFRS 3 *Business Combinations* should be applied to transactions within the scope of the project, and when a predecessor approach should be applied (paragraph 15 and Appendix A).

3. At this month's meeting, the staff ask the Board to consider *how* a predecessor approach should be applied, and ask the Board for decisions. The staff will present the following Agenda Papers:
- (a) Agenda Paper 23A *Predecessor approach—carrying amounts* (paragraph 4); and
 - (b) Agenda Paper 23B *Predecessor approach—pre-combination information* (paragraph 5).

Agenda Paper 23A Predecessor approach—carrying amounts

4. Agenda Paper 23A discusses whether, applying a predecessor approach, a receiving entity should recognise and measure assets and liabilities transferred in a business combination under common control:
- (a) at the carrying amounts included in the financial statements of the transferred entity; or
 - (b) at the carrying amounts included in the consolidated financial statements of the transferred entity's controlling party.

Agenda Paper 23B Predecessor approach—pre-combination information

5. Agenda Paper 23B discusses whether, applying a predecessor approach, combining entities or businesses should be combined:
- (a) retrospectively from the beginning of the earliest period presented—under this alternative, pre-combination information in the primary financial statements is provided for all combining entities or businesses; or
 - (b) prospectively from the date of the transaction—under this alternative, pre-combination information in the primary financial statements is provided only for the receiving entity.

Next steps

6. At future meetings, the staff plan to ask the Board for decisions on:
 - (a) how the consideration transferred in a business combination under common control should be measured applying a predecessor approach, and how any difference between the consideration transferred and the predecessor carrying amounts recognised should be presented in the receiving entity's equity. The staff expect that those topics will complete the Board's discussions of how a predecessor approach should be applied.
 - (b) whether and how the acquisition method set out in IFRS 3 should be modified for transactions within the scope of the project; and
 - (c) what disclosures should be provided about business combinations under common control applying a current value approach based on the acquisition method set out in IFRS 3 and applying a predecessor approach.

Summary of previous discussions of the measurement approaches

7. 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. 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.
8. 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.
9. 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.

10. 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 potential equity investors in an initial public offering. The meeting was educational and the staff did not ask the Board for decisions.
11. 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.
12. 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.
13. In June 2019, the Board discussed:
 - (a) whether transactions that do not affect non-controlling shareholders of a receiving entity are different both from transactions that do affect such shareholders and from business combinations that are not under common control; and

- (b) if so, whether the Board could pursue an approach that is not based on the acquisition method for transactions that do not affect non-controlling shareholders, such as a form of predecessor approach.
14. In July 2019, the Board discussed:
- (a) information needs of potential equity investors of the combining entities about transactions that affect non-controlling shareholders of the receiving entity and about transactions that do not affect such shareholders; and
 - (b) an overview of how alternative measurement approaches could apply, and of the questions the Board will need to consider in developing those approaches.
15. In September 2019, the Board tentatively decided that the forthcoming discussion paper¹ on Business Combinations under Common Control should set out preliminary views that:
- (a) a current value approach based on the acquisition method set out in IFRS 3 should be required for transactions within the scope of the project that affect non-controlling shareholders of a receiving entity unless equity instruments of the receiving entity are not traded in a public market and one of the following conditions applies:
 - (i) all non-controlling shareholders are the receiving entity's related parties; or
 - (ii) the receiving entity chooses to apply a predecessor approach and all its non-controlling shareholders have been informed about, and not objected to, the receiving entity applying that approach.
 - (b) a predecessor approach should be required for all other transactions within the scope of the project.
16. Appendix A provides a flowchart summarising the Board's tentative decisions on when a current value approach and a predecessor approach should be applied to transactions within the scope of the project.

¹ At a future meeting, the staff will ask the Board to confirm what the next due process document on the project should be.

Appendix A—Summary of the Board’s September 2019 tentative decisions

