IFRS

STAFF PAPER

February 2020

IASB® meeting

Project	Business Combinations under Common Control		
Paper topic	Due process		
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Purpose of this paper

1. At previous meetings, the International Accounting Standards Board (Board) discussed measurement approaches for transactions within the scope of the project and made tentative decisions about when a particular approach would be applied, and how that approach would be applied. Agenda Paper 23A *Disclosure* for this month's meeting discusses what information about business combinations under common control should be disclosed and asks the Board for decisions. This topic completes the Board's discussion of reporting business combinations under common control if the Board decides to publish a discussion paper for this project.

2. This paper discusses what type of consultation document to publish for the project, what comment period to set for that document and asks the Board for permission for the staff to begin the balloting process.

Structure of this paper

3. This paper:

   (a) summarises the background for the project (paragraphs 5–7);

   (b) discusses whether the next consultation document on the project should be a discussion paper or an exposure draft (paragraphs 8–24);

(c) summarises the due process steps undertaken throughout the project (paragraphs 25–39);

(d) discusses the length of the comment period (paragraphs 40–44); and

(e) asks the Board for permission for the staff to begin the balloting process (paragraph 45).

4. Appendixes to the paper include:

(a) Appendix A—Due process steps in the development of a discussion paper;

(b) Appendix B—Public meetings of the Board and its consultative groups;

(c) Appendix C—Desktop review of business combinations under common control; and

(d) Appendix D—Academic literature review.

Background

5. Business combinations under common control are excluded from the scope of IFRS 3 *Business Combinations*. There is no guidance in IFRS Standards on reporting these transactions. Applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, entities typically report business combinations under common control applying either a form of a predecessor approach or the acquisition method set out in IFRS 3. Moreover, there is also diversity in how a predecessor approach is applied. That diversity of accounting policies results in limited comparability of information provided in financial statements about similar transactions and creates complexity for users of financial statements. In addition, in some cases it gives rise to application questions on determining whether a business combination is under common control, because the answer drives the reporting for the transaction. Appendix C provides an overview of the staff's desktop review on current reporting practice.

6. Respondents to the 2011 and 2015 Agenda Consultations identified business combinations under common control as a high priority project. The project was ranked as important and urgent by respondents from a wide range of countries,

notably from emerging economies. It was also identified as important by regulators and by members of the IFRS Advisory Council[1].

7. The aim of the research project is to identify and explore potential solutions in order to create a foundation for any future requirements that would improve the comparability and transparency of reporting business combinations under common control.

The next consultation document

8. The next consultation document for a research project could either be a discussion paper or an exposure draft. The *Due Process Handbook* explains that a discussion paper includes a comprehensive overview of the issue, possible approaches to addressing the issue, the preliminary views of the Board and an invitation to comment. A discussion paper also reflects and conveys differences of views of the Board members. In contrast, an exposure draft sets out a specific proposal in the form of a proposed IFRS Standard (or amendment to an IFRS Standard) and is therefore generally set out in the same way as, and has all the components of, an IFRS Standard.

9. In developing the recommendation on what the next consultation document on the project should be, the staff considered the factors discussed in Agenda Paper 28 *Discussion Papers and Exposure Drafts*[2] for the February 2018 IASB meeting. These factors include the need for formal consultation, the stage of development, significance of change, effect on timelines and possible pitfalls such as re-exposure. The staff's analysis of these factors in the context of the project is presented in paragraphs 10–21.

The need for formal consultation

10. The nature of the information being sought should be considered in determining the type of consultation document to be published. The research project on business combinations under common control is the Board's first step in considering concerns

[1] IASB Work Plan 2017-2021 (Feedback Statement on the 2015 Agenda Consultation), page 27.
[2] February 2018 Agenda Paper 28 *Discussion Papers and Exposure Drafts*, paragraphs 24–41.

raised by stakeholders about financial reporting of those transactions. Before concluding whether to start a standard-setting project on a research topic, the Board considers whether to seek public feedback on its conclusions from the research project. Such public feedback is normally sought through the issuance of a discussion paper.

11. The *Due Process Handbook* does not require the Board to publish a discussion paper before adding a standard-setting project to its agenda. Nonetheless, if the Board decides not to publish a discussion paper, the *Due Process Handbook* requires the Board to 'be satisfied that it has sufficient information and understands the problem and the potential solutions well enough to proceed without a discussion paper'. As noted in paragraph 8, an exposure draft must set out specific proposals in the form of a proposed IFRS Standard (or amendment to an IFRS Standard) instead of exploring the issue and broad possible approaches to addressing it.

12. The staff think that the nature of information being sought in the research project on business combination under common control suggests that a discussion paper would constitute an appropriate next step in the project. A discussion paper would allow the Board to discuss its understanding of the issue and to seek feedback on the potential approaches to addressing the issue that were identified in the research stage. It would also allow the Board to seek feedback on its preliminary views on how the issue should be addressed before commencing a standard-setting project.

The stage of development

13. An understanding and agreement on core topics, before a project is too far advanced, can help create consensus and gain acceptance of a potential new IFRS Standard or a major amendment even when some stakeholders disagree with particular decisions of the Board.

14. At this stage of the project, the Board has defined the problem and its scope and has considered possible approaches to address the problem. In exploring the issue and developing its preliminary views on how the issue should be addressed, the Board has consulted its consultative bodies and performed targeted outreach with other stakeholders, notably users of financial statements and stakeholders from emerging

economies. Those initial consultations indicated that stakeholders hold diverse views on how the Board should address the existing diversity in practice.

15. Publishing a discussion paper would allow a wide range of stakeholders to provide feedback on the Board's preliminary views and to comment on the general direction of the project. That feedback would allow the Board to assess whether there is sufficient evidence to support the Board's preliminary views and would help the Board to refine its overall approach, as needed, without spending significant time and costs developing detailed proposals that would be required in an exposure draft.

Significance of change

16. As noted in paragraph 5, because no IFRS Standard addresses reporting business combinations under common control, the current practice for reporting these transactions is diverse. For that reason, any new reporting requirements for such transactions would affect current practice. Depending on the overall direction that the Board decides to take in any potential new Standard or a major amendment, the effect on the current practice can be less or more significant. In addition, due to their nature, reporting such transactions can have a pervasive effect on an entity's financial statements with many line items being affected. Those effects can also be significant for large business combinations under common control.

17. Furthermore, as noted in paragraph 14, the Board's outreach activities to date indicated that stakeholders hold diverse views on which measurement approach would provide the most useful information about business combinations under common control to users of financial statements.

18. When an effect on practice can be significant, it is more likely that there is a need to consult on the Board's preliminary views in the research project before adding a standard-setting project to the agenda. This is also the case for any potential changes in reporting when there is a high degree of controversy—when there are divergent views about the improvements that need to be made or the best approach to those improvements, there is a greater need for consultation. In those cases, a discussion paper would be more appropriate to ensure that the full range of views is captured and considered, leading to a common understanding that would be the foundation of future proposals. In addition, a discussion paper would be useful as a change management

tool because it provides an opportunity to set out and refine a common articulation of the issues and approaches. It can also help reduce the risk of instinctual opposition to change, provide the opportunity for debate to mature among stakeholders and would allow the Board to bring interested parties together to work towards a consensus about approaches to the main issues before moving onto detailed proposals.

19. In contrast, an exposure draft could be more appropriate in cases when the Board has already determined the approach it intends to pursue and that approach is generally understood and accepted by a wide range of interested parties.

Effect on timelines and possible pitfalls

20. The Board needs to balance the time needed for consultation against the benefits of consultation. Failure to consult appropriately could result in insufficient information being obtained which means that a consultation might need to be repeated. As noted in paragraph 14, stakeholders expressed diverse views on how business combinations under common control should be reported and on the Board’s tentative decisions made in the research project. A discussion paper would provide stakeholders with an opportunity to share concerns about the Board’s preliminary views and to set out counter arguments. It would also allow the Board to flesh out feedback from stakeholders and to refine its preliminary views, as needed, without being constrained to a particular approach.

21. Accordingly, although publishing a discussion paper would constitute an additional step in the formal consultation process, the staff think that the benefits of this step outweigh the costs. Furthermore, the staff think that consulting on the Board’s preliminary views on the overall approach instead of proceeding straight to an exposure draft could help the Board to reduce the overall project timeline rather than result in a longer timeline. This is because building consensus on the key issues before investing time in developing detailed proposals for an exposure draft would help the Board to reduce a risk of re-exposure. In addition, thorough consultation at all stages of the project would help to reduce a risk that any potential new IFRS Standard or amended IFRS Standard does not address the issues effectively, leading to a need for further standard-setting in the future.

22. If the Board were to decide to proceed to an exposure draft as the next consultation document on business combinations under common control, it would need to explore further technical topics to enable the Board to publish specific proposals. Those issues include but are not limited to:

    (a) how the predecessor approach should be applied, including:

        (i) how to determine predecessor carrying amounts of the assets and liabilities received if the transferred entity did not prepare financial statements applying IFRS Standards;

        (ii) how to report contingent consideration arrangements and indemnification assets;

        (iii) how to measure non-controlling interest in the transferred entity;

        (iv) whether and how to report separate transactions embedded in a combination;

        (v) whether to prescribe an approach for circumstances when initial accounting for a combination is not complete by the end of the reporting period;

    (b) what consequential amendments to other IFRS Standards are necessary;

    (c) what transition provisions (including on first-time adoption of IFRS Standards) and the effective date for the new requirements should be; and

    (d) whether to develop the proposals as amendments to IFRS 3 or as a separate new IFRS Standard.

23. The staff have not estimated how much time those additional topics would require. However, the staff think that if the Board were to proceed with an exposure draft, it would not be issued until 2021.

Staff recommendation

24. Based on the analysis in paragraphs 10–23, the staff recommend that the next consultation document should be a discussion paper.

Question 1 for the Board
Does the Board agree with the staff recommendation in paragraph 24 that the next consultation document should be a discussion paper?

Summary of due process requirements

25. The following sections discuss the due process steps undertaken during the project. Appendix A provides a more detailed account of the due process steps undertaken. If the Board agrees that the next consultation document is a discussion paper, the staff think that the Board has complied with all the necessary due process requirements to issue such consultation document. As noted in paragraph 22, if the Board were to decide to proceed to an exposure draft as the next consultation document, further technical topics would need to be explored.

Board meetings

26. The Board is required to debate all technical proposals in public meetings. The Board discussed the project at 21 public meetings between September 2013 and February 2020.

27. At these meetings, the Board identified the issues, explored alternative approaches and developed its preliminary views. Briefly, the Board discussed the following topics:

    (a) the scope of the project;

    (b) factors to consider in determining which measurement approach would be applied;

    (c) information needs of different types of primary users of financial statements related to business combinations under common control;

    (d) when each measurement approach should be applied;

    (e) how each measurement approach should be applied; and

    (f) disclosure.

28. Appendix B provides a list of these meetings and topics discussed.

Reporting to the IFRS Foundation Trustees and IFRS Advisory Council

29. The Board is required to update the IFRS Advisory Council on its technical programme and major projects as part of its due process. The Advisory Council received regular updates on the status and progress of the project as part of the discussion of the Board's activities.

30. The IFRS Foundation Trustees and the Due Process Oversight Committee (DPOC) also received regular updates on the status and progress of the project as part of the reports on the technical work programme.

Meetings with consultative bodies

31. The project was discussed at meetings of the Board's consultative groups, including the Accounting Standards Advisory Forum (ASAF), the Capital Markets Advisory Committee (CMAC), the Global Preparers Forum (GPF) and Emerging Economies Group (EEG). Appendix B provides a list of these meetings and topics discussed.

32. Input received at those meetings was reported to the Board and considered by the Board in developing its preliminary views on the project.

Other outreach activities and consultations

33. In addition to meetings with its consultative bodies as noted in paragraph 31, Board members and the staff have undertaken extensive outreach and consultation with a broad range of stakeholders from various jurisdictions. These stakeholders included:

    (a) preparers and users of financial statements (for example, preparers and users from the UK, China, Brazil, Australia, investors and analysts who participated in the meetings of the Corporate Reporting Users' Forum, members of CMAC who specialise in credit analysis);

    (b) regulators (for example, the International Organization of Securities Commissions and the European Securities and Markets Authority);

(c) national standard-setters (for example, the Hong Kong Institute of Certified Public Accountants, Chinese Accounting Standards Board, Organismo Italiano di Contabilità, Canadian Accounting Standards Board, standard-setters represented on the Asian-Oceanian Standard-Setters Group and standard-setters that attended the World Standard-setters conferences); and

(d) accounting firms.

34. Some of these meetings were public, while others were private. The project was also discussed at the IFRS Foundation's annual IFRS conferences that were attended by a wide range of stakeholders.

35. These outreach and consultation activities allowed Board members and the staff to exchange views with various stakeholders, explain the objectives and the focus of the project, as well as clarify technical issues as needed. These discussions allowed the Board to receive timely feedback as the Board developed its preliminary views.

Research activities

36. In addition to outreach activities and consultations, the staff performed various research activities as the project progressed. These activities included:

(a) a request for information about financial reporting requirements in a group restructuring in preparation for an initial public offering, sent to national and regional standard-setters—responses from 15 jurisdictions were received.

(b) a request for information about legal requirements related to business combinations under common control, sent to ASAF members and IOSCO members—responses from 17 jurisdictions were received.

(c) review of national requirements and guidance on applying a predecessor approach in various jurisdictions, including member jurisdictions of the ASAF, the EEG and G20—the review covered 25 jurisdictions as well as IPSAS 40 *Public Sector Combinations* issued by the International Public Sector Accounting Standards Board.

(d) review of guidance on reporting business combinations under common control published by accounting firms.

(e) desktop review of how business combinations under common control are reported in practice—this covered more than 250 transactions (Appendix C).

(f) review of academic literature—Appendix D provides an overview of academic papers identified by the staff that are relevant to reporting business combinations under common control and the staff's observations.

(g) review of articles and publications, including consultation documents issued by national standard-setters, and other literature on business combinations under common control and on information needs of users of financial statements.

Information on the IFRS Foundation website

37. The staff have made use of the IFRS Foundation website to provide interested parties with regular updates on the project. Specifically, the *Business Combinations under Common Control* project page includes:

(a) agenda papers, decisions summaries (as part of the IASB *Update*) and audio or video recordings of Board meetings;

(b) agenda papers discussed by the Board's consultative bodies and recordings summaries of their meetings;

(c) a webinar on the scope of the project; and

(d) a description of the current stage of the project and next steps.

38. Updates about the project were also provided in some of the IASB podcasts produced by the IFRS Foundation after each Board meeting.

39. Interested parties can sign up to receive regular updates via email alerts by registering to follow the project.

Question 2 for the Board

Is the Board satisfied that it has complied with the applicable due process steps?

Comment period

40. Paragraph 4.17 of the *Due Process Handbook* states that a comment period for a discussion paper is at least 120 days (minimum comment period). If the topic is narrow in scope and urgent, the Board may set a shorter comment period for a discussion paper and need not consult the Due Process Oversight Committee before doing so.

41. The staff do not think that a shorter period is necessary or appropriate for this project. Although the project was identified as a high-priority project by respondents in the 2011 and 2015 Agenda Consultation, the staff are not aware of any immediate urgency to complete the project as soon as possible.

42. The staff think that the Board should take into account the following considerations in setting a comment period that would allow sufficient time for stakeholders to consider the document fully and provide responses:

    (a) the project deals with an issue that is narrow in scope. However, the effect of a business combination under common control can be significant for the reporting entity. A comment period longer than the minimum comment period would allow stakeholders to better assess the implications of the Board's preliminary views.

    (b) the discussion paper would discuss a predecessor approach which is currently not addressed in IFRS Standards. A comment period longer than the minimum comment period would allow stakeholders to analyse the appropriateness of the Board's preliminary views on how that approach should be applied.

    (c) as noted in paragraph 14, stakeholders expressed diverse views on how business combinations under common control should be reported and on the

Board’s tentative decisions made in the research project. A comment period longer than the minimum comment period would allow the debate to mature among stakeholders and would be more likely to result in feedback that is based on a thorough consideration and discussion of the Board’s preliminary views, and of its reasons for them, rather than just instinctive reactions reflecting particular entity’s existing practices.

43. In addition, the staff note that the Board intends to consult stakeholders on a number of other projects in 2020 (including IBOR Phase 2, Goodwill and Impairment, Rate-regulated Activities, and the 2020 Agenda Consultation). Allowing a comment period longer than the minimum comment period would give stakeholders more flexibility to manage their schedule and resources.

44. In light of the above, the Board may prefer to allow a comment period of, for example, 180 days if the Board feels that stakeholders will need that period to develop and submit fully considered comments on the Board’s preliminary views.

Question 3 for the Board
What comment period does the Board wish to set for the discussion paper?

Permission to begin the balloting process

45. Appendix A sets out a summary of the due process steps undertaken in developing the Board’s preliminary views. Based on the analysis in paragraphs 26–39, the staff think that the Board has completed all the due process steps necessary to ensure that a discussion paper would meet its purpose. Therefore, the staff request the permission to begin the balloting process for a discussion paper.

Question 4 for the Board
Does the Board permit the staff to begin the balloting process for the discussion paper?

Appendix A—Due process steps in developing a discussion paper

Step	Required /Optional	Actions
Discussion or Research Paper development		
DP developed in public meetings. **Or** **Decision to publish an RP is made in a public meeting, with a clear statement of the extent of the IASB's involvement.**	Optional	The Board has discussed the project in 21 public meetings between September 2013 and February 2020. Please refer to Appendix B for a list of these meetings. All the preliminary views that would be set out in the discussion paper were developed in public meetings. Papers for the meetings were posted before each meeting and a summary of each meeting was included in the IASB *Update*.
Consultation with the IFRS Advisory Council (the 'Advisory Council') has occurred.	Optional	The Advisory Council has received regular updates on the progress of the project as part of the discussion of the Board's activities.
Project-specific updates are sent via email alerts to registered users.	Optional	Interested parties can sign up to receive regular updates via email alerts by registering to follow the project.
Consultative groups are established depending on the nature of issues and the level of interest among interested parties.	Optional	Not considered necessary at this stage of the project.
Online survey to generate evidence in support of or against a particular approach.	Optional	Not considered necessary at this stage of the project.
Outreach meetings to promote debate and hear views on the financial reporting issue	Optional	As the project progressed, it was discussed at 18 meetings with the ASAF, CMAC, GPF, EEG as well as at the World Standard-setters and IFRS conferences. Please refer to Appendix B for a list of these meetings.

Step	Required /Optional	Actions
that is being examined.		In addition to the meetings with its consultative bodies noted above, Board members and the staff have undertaken extensive outreach and consultation with a broad range of stakeholders from various jurisdictions. These stakeholders included: (a) preparers and users of financial statements (for example, preparers and users from the UK, China, Brazil, Australia, investors and analysts who participated in the meetings of the Corporate Reporting Users' Forum, members of CMAC who specialise in credit analysis); (b) (b) regulators (for example, the International Organization of Securities Commissions and the European Securities and Markets Authority); (c) (c) national standard-setters (for example, the Hong Kong Institute of Certified Public Accountants, Chinese Accounting Standards Board, Organismo Italiano di Contabilità, Canadian Accounting Standards Board, standard-setters represented on the Asian-Oceanian Standard-Setters Group and standard-setters that attended the World Standard-setters conferences); and (d) accounting firms.
Public discussions with representative groups.	Optional	
Regional discussion forums, where possible, with national standard-setters with the IASB.	Optional	
Podcasts to provide interested parties with high level updates or other useful information about the specific project.	Optional	Updates about the project were provided in some of the IASB podcasts produced by the IFRS Foundation after each Board meeting. In addition, a webinar on the scope of the project is available on the project page.
Publication		
DP or RP has appropriate comment period.	Required	This Agenda Paper discusses the appropriate comment period for the discussion paper.
Press release to announce publication of the DP.	Optional	The project team plan to develop a press release in due course.
Snapshot document to explain the rationale and basic concepts	Optional	The project team plan to develop a snapshot in due course.

Step	Required /Optional	Actions
included in the DP.		
Webcast of interactive presentations streamed in real time from the IASB's office.	Optional	A webinar on the scope of the project is available on the project page. The project team will consider whether to provide another webinar or webcast in the future when the team is developing the communications plan for the discussion paper.
The IASB determines if focused investor consultation is required to supplement the comment letters.	Required if DP issued	Project team will liaise with the investor engagement team regarding investor consultation during the comment period.
Request for additional comment and suggestions by conducting fieldwork.	Optional	Not considered necessary at this stage of the project.
Round-table meetings between external participants and members of the IASB.	Optional	Not considered necessary at this stage of the project.

Appendix B—Public meetings of the Board and its consultative groups

Board meetings

Date	Topic
February 2020	• Disclosures about transactions within the scope of the project • Due process steps and permission to ballot
January 2020	• Update on when each measurement approach would apply • How to apply a predecessor approach (consideration transferred, transaction costs and difference between consideration and assets and liabilities received)
December 2019	• How to apply a current value approach (whether and how the acquisition method set out in IFRS 3 should be modified)
October 2019	• How to apply a predecessor approach (assets and liabilities received and pre-combination information)
September 2019	• When each measurement approach would apply
July 2019	• Education session on information needs of potential equity investors • Education session on developing measurement approaches
June 2019	• Education session on developing measurement approaches
April 2019	• Considerations in developing measurement approaches • Whether or not to pursue a single measurement approach for transactions within the scope of the project
March 2019	• Education session on developing measurement approaches • Education session on information needs of lenders and other creditors
December 2018	• Education session on approach for transactions that affect non-controlling shareholders
June 2018	• Direction on measurement approach for transactions that affect non-controlling shareholders
May 2018	• Education session on current value approaches
April 2018	• Education session on current value approaches
February 2018	• Starting point in developing proposals

Date	Topic
December 2017	• Scope of the project
October 2017	• Scope of the project
September 2017	• Update on the status of the project
April 2016	• Update on the status of the project
September 2014	• Update on the status of the project
June 2014 (with FASB)	• Scope of the project
September 2013 (with FASB)	• Update on the status of the project

ASAF meetings

Date	Topic
July 2019	• Developing measurement approaches
April 2019	• Developing measurement approaches • Information needs of lenders and other creditors
December 2018	• Approach for transactions that affect non-controlling shareholders
July 2018	• Developing measurement approaches • Summary of joint investor survey conducted and presented by Hong Kong Institute of Certified Public Accountants (HKICPA) and Organismo Italiano di Contabilità
December 2017	• Scope of the project • Developing measurement approaches
April 2016	• Update on the research and outreach on the project • Feedback received on the 2015 Agenda Consultation • Developing measurement approaches
December 2015	• Update on the status of the project • Exploring a predecessor approach • Common control combinations in Hong Kong presented by HKICPA

Date	Topic
March 2015	• Update on the status of the project • Approach for transactions within the scope of the project • Common control combinations in Canada presented by the Canadian Accounting Standards Board
June 2014	• Scope of the project

Joint CMAC and GPF meetings

Date	Topic
June 2019	• Reporting any distributions from equity applying a current value approach • Providing comparative information applying a predecessor approach
June 2018	• Developing measurement approaches • Information needs of primary users

CMAC meetings

Date	Topic
March 2019	• Developing measurement approaches • Information needs of lenders and other creditors
October 2014	• Information needs of primary users

GPF meetings

Date	Topic
March 2017	• Update on the status of the project
March 2015	• Developing measurement approaches

EEG meetings

Date	Topic
March 2019	• Approach for transactions that affect non-controlling shareholders • Information needs of lenders and other creditors • Developing measurement approaches

Date	Topic
December 2017	• Background and scope of the project • Update on research and outreach activities • Considerations in developing measurement approaches
December 2015	• Update on the status of the project

Appendix C—Desktop review of business combinations under common control

C1. In April 2019, the staff performed a desktop review of how business combinations under common control are reported in practice. In performing the review, the staff used the financial search engine, *Alphasense*. It searches across various content that includes regulatory filings and disclosures made by more than 68,000 companies worldwide covering both publicly traded and privately held companies. The search was limited to annual reports written in English.

C2. In selecting the sample to review, the staff used the following parameters:

(a) annual reports are published between 1 January 2018 to 31 March 2019;

(b) financial statements are prepared applying the IFRS Standards; and

(c) annual reports meeting particular text criteria (eg contain words ‘merge’, ‘acquisition’, ‘take over’ and ‘common control’).

C3. Applying these parameters, the search returned 774 annual reports. The staff reviewed those reports to identify those that disclosed a business combination under common control. The staff identified 207 annual reports that disclosed 267 transactions.

C4. In reviewing reporting those transactions, the staff focused on:

(a) which measurement approach was applied. In the sample reviewed, 94.0% of the transactions were reported applying a form of a predecessor approach and 4.5% applying the acquisition method. The information provided about remaining 1.5% of transactions was not sufficient to determine which approach was applied.

(b) how a predecessor approach was applied, including:

(i) which predecessor carrying amounts were used to measure the assets and liabilities transferred to the receiving entity. In 45.8% of transactions carrying amounts reported by the controlling party were used and in 11.6% of transactions carrying amounts reported by the transferred entities were used. In the remaining cases, information provided was not sufficient to determine which predecessor carrying amounts were used.

(ii) what pre-combination information was provided. In 78.9% of transactions pre-combination information in the primary financial statements was provided for all combining entities or businesses and in 17.5% of transactions it was provided about the receiving entity only. In the remaining cases, information provided was not sufficient to determine what pre-combination information was provided.

(iii) how consideration transferred was measured. For transactions that were settled fully or partially in shares, in 32.8% of transactions consideration was measured at the nominal amounts of issued shares, in 21.3% of transactions at their fair value and in 6.6% of transactions at the carrying amounts of the assets and liabilities received. In the remaining cases, information provided was not sufficient to determine how the consideration transferred was measured.

(iv) how transactions costs were reported. The staff identified 13 sets of financial statements that discussed treatment of transaction costs applying a predecessor approach. Almost all of them stated that transaction costs directly attributable to a business combination under common control were recognised in the statement of profit or loss.

(v) how the difference between consideration transferred and assets and liabilities received was presented. In all cases any such difference was presented as a change in equity.

(c) how the acquisition method was applied. 75.0% of the transactions reported applying the acquisition method were reported applying that method as set out in IFRS 3. The remaining 25.0% were reported applying that method with modifications.

(d) what information was disclosed in the notes to the financial statements applying either approach.

Appendix D—Academic literature review[3]

Table 1—Descriptive evidence on business combinations under common control

Title, author(s) and scope	Overview of paper's conclusions and findings	Staff observations
Biancone, Paolo Pietro (2013), 'Business combinations under common control (BCUCC): the Italian experience', *GSTF Business Review (GBR)*, 2 (3), 51-60 Sample: Companies listed on Italian stock exchange (n = 128) and companies listed on FTSE MIB index (Italian and foreign companies) (n = 23), sample period 2009–2012 with focus on disclosures in 2011 For that year, 38% of the sample of Italian stock exchange companies (48 companies) and 56% of the FTSE MIB companies (13 companies) were involved in at least one business combination under common control.	The authors examine companies' related disclosures for the year 2011. Of the 48 Italian stock exchange companies, a third disclosed the reason for the transaction. Organisational motivations, such as restructuring, prevailed over strategic motivations, such as exploiting synergies. About 30% of the 48 companies disclosed the accounting treatment for business combinations under common control which the authors interpret as indicating low relevance of information about the accounting treatment. From the FTSE MIB sample of 13 companies involved in at least one business combination under common control in 2011, 40% disclosed reasons for the transaction and about six per cent disclosed the accounting treatment used.	The study provides preliminary evidence on the frequency and type of business combinations under common control, based on Italian companies' related disclosures. A limitation of the study is that the authors do not explain how the related disclosures were identified–whether through reading the full report or through word search. Therefore, it is difficult to conclude how thorough their analysis is and how robust their findings are. The authors do not examine financial data reported by companies within the sample (for example, whether the reported amount of goodwill of the reporting entity changed after the transaction), which would be useful for standard-setters in assessing the financial effects of the accounting methods used.
Janowicz, M. (2017), 'Business combinations under common control in International Financial Reporting	Business combinations under common control are accounted for in different ways. The research notes significant variation in disclosure across companies	The study's identification of business combinations under common control through analysis of companies' reports provides some

[3] All papers on business combinations under common control were identified from Social Science Research Network and Google Scholar search, including working and published papers. An important caveat to consider when interpreting academic literature findings is that authors may have difficulty in identifying business combinations under common control because different companies use different terms to refer to such transactions. As a result, it is possible that authors may include in their sample transactions that are not business combinations under common control without realising that they are doing so. This could affect the validity of authors' conclusions.

Title, author(s) and scope	Overview of paper's conclusions and findings	Staff observations
Standards–is authoritative accounting guidance needed?', *Zeszyty Teoretyczne Rachunkowości,* (93), 97-112 Sample: Companies listed on the Warsaw Stock Exchange and the alternative trading market (New Connect) (n = 162), sample period 2005–2015 The author examines business combinations involving listed companies and identifies around 90% of them to be business combinations under common control. They are mainly concentrated in the later part of the sample period, namely in the years 2009–2015 (except 2010).	about the accounting policies applied and in what is referred to as the type of business combination (merger or acquisition). The author argues that lack of explicit guidance on accounting for these transactions may decrease comparability of the financial statements and lead to possible manipulation of the information provided to the users of financial statements, especially when full disclosure on the method of accounting is not provided. The author concludes that guidance on accounting for business combinations under common control is necessary and argues for allowing both the predecessor method and acquisition method, depending on what is referred to as the substance of the transaction. The author also emphasises the importance of requiring a uniform set of disclosures.	assurance that the business combinations examined are identified by the entity as a business combination under common control. A limitation of the study is that it does not provide information on the types of companies (or attributes of companies) that choose different methods of accounting for such transactions or of the circumstances when different methods are used. Therefore, apart from concluding that there is wide variation among companies in the methods used, it is impossible to draw inferences about companies' incentives to choose one method over the other. Even though the authors examine in detail the financial statements of the companies in their sample, they do not attempt to quantify the effects of alternative methods on companies' financial statements, which would be informative for standard-setters.
Baker, C R., Biondi, Y., and Zhang, Qi. (2010), 'Disharmony in international accounting standards setting: The Chinese approach to accounting for business combinations', *Critical Perspectives on Accounting*, 21 (2), 107-17	The authors argue that the Chinese standard-setters' decision to allow a form of a predecessor approach referred to as the pooling of interest method (and thus diverge from IFRS 3) is based on consideration of political and economic factors and different views on the objectives of financial reporting. The authors also argue that business combinations in China are	A limitation of the study is that the authors substitute undisclosed pro forma acquisition data with their proxy for such data. They compute goodwill as the difference between the market and book value of the combined entity at the acquisition date, based on the listed shares only and without recognising any control premium. This approach raises

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Case study: TCL Group reorganization - TCL Group (state-owned parent) merger with TCL Communication Equipment Co (market-listed subsidiary) through an exchange of shares The study provides comparative financial analysis of the impact of the pooling method (as reported) versus the purchase method (based on authors' construction of pro-forma information).	considered to be reorganisations among economic entities and not capital market transactions. In their analysis, the authors observe that the 'pooling method' compared to 'pro-forma' acquisition method (referred to as the 'purchase method') results in higher return on equity (25.21% vs 11.39%) and higher debt to equity ratio (451% vs 273%). This difference is to be expected and reflects the difference between the 'pooling' and 'purchase' method accounting. The authors, however, interpret this result as a significant negative impact of the 'pro-forma' acquisition method on the consolidated financial statements.	questions about the accuracy of data, which may limit the inferences and conclusions that can be drawn from the study.
Baker, C. R., Biondi, Y., and Zhang, Q. (2012), 'Should merger accounting be reconsidered? A discussion based on the Chinese approach to accounting for business combinations', Unpublished working paper Case study: Further analysis of the TCL Group reorganization - TCL Group (state-owned parent) merger with TCL Communication Equipment Co (market-listed subsidiary) through an exchange of shares	The authors argue that differences between Accounting Standard for Business Enterprises 20 *Business Combinations* (issued by the Ministry of Finance of the People's Republic of China) and FASB 141/IFRS 3 are driven by the Chinese accounting standard setting body's different view of business combinations, which is based on the prevalence of reorganisations among entities under common control. The authors propose two issues that need to be considered by standard-setters in the development of a new framework aimed at harmonising and enhancing both the Chinese approach and the FASB and the IASB's approach:	The study provides useful institutional details about business combinations in China, a significant number of which are under common control. This paper uses the same case study as the one used by Baker et al. (2010). Therefore, there is a significant overlap in the conclusions of the two studies.

Title, author(s) and scope	Overview of paper's conclusions and findings	Staff observations
	(a) distinguish business combinations between related and unrelated parties; and (b) distinguish between business combinations with continuity or discontinuity in the operations of the combining entities. The authors argue that in the case of related entities, a variant of the pooling method may be the preferred option. In the case of unrelated entities, checking for continuity in the operations of the combining entities is an important second step. Continuity may make the pooling method preferable, while a discontinuity of one of the combining entities may lead to the purchase method being the preferred option.	

Table 2—Empirical evidence on business combinations under common control

Title, author(s) and scope	Overview of paper's conclusions and findings	Staff observations
Zhang, Q., Chen, S., and Han, W. (2019), 'Predecessor vs acquisition: evidence of business combinations under common control', *Working Paper* Sample: Companies in China observations (n = 212), sample period 2010–2018	Zhang et al. (2019) estimate the value relevance of the predecessor method versus the acquisition method for business combinations under common control in China. In the empirical analyses the authors use numbers that are recognised and audited, based on the predecessor method, and estimated 'as if' acquisition method numbers based on disclosure in the notes to the financial statements. The following conclusions are drawn: (c) the predecessor method earnings have higher explanatory power for returns than acquisition method earnings; (d) the association between returns and earnings changes is stronger for the predecessor method but there is no difference in the association between returns and earnings levels across the two methods; (e) the value relevance of predecessor method earnings and book values is not statistically different from the value relevance of 'as if' acquisition method earnings and book values; (f) the association between prices and earnings is stronger for the predecessor method but there is	The study provides preliminary evidence on the value relevance of the predecessor and acquisition methods, using a relevant research setting and a reasonable time frame. However, the evidence is not conclusive. It suffers from some methodological limitations and therefore cannot be used to guide standard setting decisions. A limitation of studies relying on comparison of numbers recognised in audited financial statements and 'as if' numbers constructed by the authors from disclosures in the financial statements is that the studies cannot provide grounds for standard setting. Researchers cannot observe 'as if' prices/returns that would be obtained if the alternative method were used. In addition, using association studies to examine the usefulness of alternative accounting policies can only shed light on whether the market behaves as if it both (1) believes and (2) attaches some weight to information provided to it (Ronen, 2001) [4].

[4] Ronen, J. (2001). On R&D capitalization and value relevance: a commentary. *Journal of Accounting and Public Policy*, *20*(3), 241-254.

Title, author(s) and scope	Overview of paper's conclusions and findings	Staff observations
	no difference in the association between prices and book values across the two methods; (g) the predecessor method is more value relevant than the 'as if' acquisition method only for the sub-sample of companies with a high ratio of fair value to book value; and (h) the predecessor method has a stronger predictive ability for future earnings and cash flows than 'as if' acquisition method earnings.	
Bonacchi, M., Marra, A., and Shalev, R. (2015), 'Fair value accounting and firm indebtedness–evidence from business combinations under common control', *Available at SSRN 2587270* Sample: Listed companies from 18 European countries, (n = 230 (147 using acquisition method and 83 using predecessor method)), sample period 2005–2012	Bonacchi et al. (2015) conclude that companies choose to use fair value for business combinations under common control (ie the acquisition method) to reduce their accounting leverage. To corroborate the above conclusion, the authors examine whether companies make use of their lower accounting leverage to issue more public debt in the four quarters following the transaction. They find that companies using the acquisition method, but not those using the predecessor method, are more likely to issue new public debt in the period following the transaction relative to comparable companies that did not undertake a business combination under common control.	A limitation of the study is that the transactions examined (n = 230) are only a small fraction of all business combinations under common control involving European listed companies in the period 2005–2012 (n = 3,882). Therefore, the study's sample may not be fully representative of the whole population. The descriptive statistics of the study show that some transactions had non-controlling interest (39% are accounted for at fair value, 32.5% are accounted for using the predecessor method). It would be informative to know more about the reasons why companies choose one method over the other in the presence of non-controlling interest.