
Emerging Economies Group meeting

Date	December 2022
Project	Business Combinations under Common Control
Topic	Cover paper
Contacts	Zicheng Wang (zwang@ifrs.org) Richard Brown (rbrown@ifrs.org)

This paper has been prepared for discussion at a public meeting of the Emerging Economies Group (EEG). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

Introduction

1. The purpose of this session is to:
 - (a) provide an update on the Business Combinations under Common Control (BCUCC) project; and
 - (b) ask Emerging Economies Group (EEG) members' views on particular aspects of our analysis on selecting the measurement method(s) to apply to BCUCCs.
2. We will discuss the following papers which summarise our initial views on selecting the measurement method(s) to apply to BCUCCs:
 - (a) Agenda Paper 5B (Agenda Paper 23B of the International Accounting Standards Board's (IASB's) November 2022 meeting) *Initial views—The principle*; and
 - (b) Agenda Paper 5C (Agenda Paper 23C of the IASB's November 2022 meeting) *Initial views—Exceptions*.
3. The agenda papers for this meeting refer to other agenda papers of the IASB's November 2022 meeting which analyse individually the different factors we considered in reaching our initial views on which measurement method(s) to apply. Paragraphs 11–18 of this paper summarise the initial views from those other agenda papers, which will be available on the [IASB's November 2022 meeting page](#) in due course.

Structure of this paper

4. The paper is structured as follows:
 - (a) update on the BCUCC project (paragraphs 5–10);
 - (b) summary of staff initial views on each factor individually (paragraphs 11–18);
 - (c) summary of our initial views on which measurement method(s) to apply (paragraphs 19–20);

- (d) questions for EEG members; and
- (e) Appendix A—Summary of tentative decisions

Update on the BCUCC project

5. In its [December 2021 meeting](#) and [January 2022 meeting](#) the IASB discussed feedback on the Discussion Paper *Business Combinations under Common Control* (Discussion Paper), summarised in Appendix A. The IASB also discussed a deliberation plan, starting with workstreams on the project scope and selecting the measurement method. After completing these two workstreams, the IASB will deliberate other topics including how to apply the measurement methods.
6. In its [March 2022 meeting](#), the IASB deliberated the objective and scope of the project. The IASB tentatively decided to update the project's objective to reflect the stage of the project and to emphasise that, in developing reporting requirements, the IASB is considering the needs of users of the receiving entity's (that is, the reporting entity's) financial statements. The IASB also tentatively decided not to expand the project's scope—for more details see Appendix A.
7. In its [June 2022 meeting](#), the IASB started deliberating its preliminary views on selecting the measurement method to apply to a BCUCC. At that meeting, the IASB discussed the staff's analysis of feedback on some aspects of those preliminary views. The IASB was not asked to make any decisions at its June 2022 meeting.
8. The IASB will continue its deliberations on selecting the measurement method to apply to a BCUCC at its meeting in November 2022. At this meeting, the IASB will discuss staff's analysis of feedback on this topic, including the two agenda papers provided to you as part of this meeting. The November 2022 IASB meeting is educational, and we will not ask the IASB for decisions.
9. The IASB's November 2022 meeting will take place before the EEG's December 2022 meeting but after the papers for the EEG's December 2022 meeting will have been posted. We will provide a verbal update of the IASB's November 2022 meeting at the EEG's December 2022 meeting.
10. Feedback from EEG will be provided to the IASB at a future meeting to help the IASB in its deliberations on selecting the measurement method to apply to a BCUCC.

Summary of staff initial views on each factor individually

Similarity to IFRS 3 BCs (Agenda Paper 23D of the IASB's November 2022 meeting)

11. In our initial view the nature of all BCUCCs is similar to business combinations covered by IFRS 3 *Business Combinations* (IFRS 3 BCs) because the receiving entity gains control of a business it did not control before. In particular, we think:
 - (a) whether the nature of some or all BCUCCs is similar to or differs from IFRS 3 BCs should be considered only from the perspective of the receiving entity (that is, the reporting entity); and

- (b) from the receiving entity's perspective, the nature of all BCUCCs is similar to IFRS 3 BCs.
12. Although the transaction pricing and composition of, and effect on, shareholders do not result in the nature of BCUCCs differing from IFRS 3 BCs, other agenda papers analyse whether they should affect the selection of the measurement method (for example, because they affect common user information needs or because the acquisition method would measure goodwill at an amount not evidenced by a transaction price between independent parties).

User information needs (Agenda Paper 23E of the IASB's November 2022 meeting)

13. Our initial views on user information needs are:
- (a) the project should not address the controlling party's information needs; and
 - (b) the common information needs of users that must rely on the financial statements depends on the composition of users:
 - (i) for a BCUCC that affects non-controlling shareholders of the receiving entity (NCS), the information provided by the acquisition method meets those common information needs better than a book-value method; and
 - (ii) for a BCUCC that does not affect NCS, the information provided by either the acquisition method or a book-value method could meet the common information needs of potential investors, lenders and other creditors.

The cost-benefit trade-off (Agenda Paper 23F of the IASB's November 2022 meeting)

14. Our initial views, with the assumptions explained in the Agenda Paper 23F of the IASB's November 2022 meeting, are:
- (a) the costs of applying the acquisition method to a BCUCC will be comparable to the costs of applying the acquisition method to an IFRS 3 BC;
 - (b) the costs of applying a book-value method to a BCUCC will depend on various factors but we expect applying a book-value method to BCUCCs to be, on average, less costly than applying the acquisition method;
 - (c) applying the acquisition method to BCUCCs that affect NCS would generally meet the cost-benefit trade-off better than applying a book-value method; and
 - (d) applying a book-value method to BCUCCs that do not affect NCS would generally meet the cost-benefit trade-off better than applying the acquisition method.

Structuring opportunities (Agenda Paper 23G of the IASB's November 2022 meeting)

15. In our initial view:

- (a) some structuring opportunities to qualify for a particular measurement method (that is, the acquisition method or a book-value method) will exist unless the acquisition method applies to all BCUCCs, as well as to all IFRS 3 BCs;
- (b) the IASB's preliminary views on which measurement method to apply could create some opportunities to structure transactions to qualify for a particular measurement method (for example, a BCUCC could be structured with insignificant NCS to qualify for the acquisition method), although exceptions could be designed to minimise such structuring opportunities (see Agenda Paper 5C);
- (c) how the acquisition method is applied to BCUCCs could create some structuring opportunities, particularly if the acquisition method were applied to BCUCCs between wholly-owned entities; and
- (d) how a book-value method is applied to BCUCCs could also create some structuring opportunities.

Other considerations (Agenda Paper 23H of the IASB's November 2022 meeting)

Comparability

16. Because we think all BCUCCs are similar to IFRS 3 BCs (see Agenda Paper 23D of the IASB's November 2022 meeting), applying the acquisition method to all BCUCCs would maximise comparability between all BCUCCs and with IFRS 3 BCs. Specifying when two measurement methods should apply to BCUCCs (for example, applying the IASB's preliminary views) would increase comparability between BCUCCs in similar circumstances and reduce the diversity in practice.

Practical challenges in applying the acquisition method

17. We think applying the acquisition method to BCUCCs that affect NCS could involve some practical challenges (for example, identifying the acquirer), which are costs of applying the acquisition method considered holistically in Agenda Paper 23F of the IASB's November 2022 meeting.
18. We think the practical challenges could be more significant if the acquisition method was applied to BCUCCs that do not affect NCS. For example, compared to BCUCCs that affect NCS:
- (a) it may be challenging to identify the acquirer in a BCUCC that does not affect NCS; and
 - (b) overpayments or underpayments are more likely to occur in a BCUCC that does not affect NCS so, applying the IASB's preliminary views on how to apply the acquisition method, goodwill would be measured at an arbitrary amount.

Summary of staff initial views on which measurement method(s) to apply

19. We continue to agree with the IASB's preliminary views to, in principle, apply the acquisition method to BCUCCs that affect NCS and a book-value method to BCUCCs that do not affect NCS. As Agenda Paper 5B explains, on balance we think this approach provides the most useful information whilst considering the cost-benefit trade-off, structuring opportunities and other considerations. We acknowledge there are disadvantages to this approach, specifically:
- (a) it would not result in comparability between all BCUCCs—although it would result in comparability between BCUCCs in similar circumstances; and
 - (b) it could create some structuring opportunities to structure BCUCCs with insignificant NCS—although Agenda Paper 5C considers exceptions and exemptions which could help minimise such structuring opportunities.
20. Agenda Paper 5C explains our initial views on whether a different method should be applied in some circumstances and the reasons for those views.¹ This includes exceptions included in the IASB's preliminary views in the Discussion Paper and other possible exceptions. In our initial view:
- (a) for BCUCCs that affect NCS, two potential packages of exceptions (whereby a book-value method would apply) should be considered further:
 - (i) package 1—optional exemption package; and
 - (ii) package 2—insignificant NCS package; and
 - (b) for BCUCCs that do not affect NCS, there should be no exceptions (that is, a book-value method should apply to all BCUCCs that do not affect NCS).

Questions for EEG members

1. Do you have any comments or suggestions on our analysis of possible exceptions/exemptions in Agenda Paper 5C, specifically:
- (a) the possible exceptions/exemptions which were not included in the Discussion Paper (insignificant NCS, government-related entities and disregarding insignificant objections when applying the optional exemption);
 - (b) how the possible exceptions could be combined into a package (for example, the optional exemption package and insignificant NCS package); and

¹ For simplicity, throughout our agenda papers these different circumstances are referred to collectively as 'exceptions' but they include circumstances in which a different method should be required / permitted / prohibited.

- (c) if the IASB decides to explore the insignificant NCS exemption further, what do you think the IASB should consider when designing such an exemption (for more details see Appendix A of Agenda Paper 5C)?
2. Do you have any other comments or feedback on this agenda paper or our analysis in Agenda Papers 5B and 5C?

Appendix A—Summary of tentative decisions

A1. This table summarises the IASB's preliminary views in the Discussion Paper, the feedback from respondents and the IASB's tentative decisions from deliberations.

Topic	Preliminary views	Feedback summary	Tentative decisions
Objective and scope	<p>The objective of the project is to explore possible reporting requirements for a receiving entity that would reduce diversity in practice and improve the transparency of reporting BCUCCs. More specifically, the IASB aims to provide users of financial statements with better information that is both:</p> <ul style="list-style-type: none"> more relevant—by setting up reporting requirements based on user information needs; and more comparable—by requiring similar transactions to be reported in a similar way. 	<p>(a) All respondents agreed the project should cover the receiving entity's reporting but:</p> <ul style="list-style-type: none"> (i) some respondents suggested also addressing the reporting by other entities—most commonly the transferring entity; and (ii) some respondents suggested also addressing the receiving entity's reporting in its separate financial statements for an investment in a subsidiary received under common control; <p>(b) all respondents agreed the project should cover transfers of a business under common control but some respondents suggested also addressing other common control transactions (such as transfers of investments in associates between entities under common control); and</p> <p>(c) almost all respondents agreed the project should cover all transfers of a business under common control but:</p>	<p><i>Objective</i></p> <p>Update the project objective to reflect the stage of the project and to emphasise that the IASB is considering the needs of users of the receiving entity's (that is, the reporting entity's) financial statements.</p> <p><i>Scope</i></p> <p>(a) Not expand the project scope to address:</p> <ul style="list-style-type: none"> (i) reporting by other entities; or (ii) reporting, in separate financial statements, for an investment in a

Topic	Preliminary views	Feedback summary	Tentative decisions
	<p>The proposals would cover:</p> <ul style="list-style-type: none"> (a) reporting by the receiving entity (typically in its consolidated financial statements) and not other entities; (b) only transfers of businesses and not other transactions under common control; and (c) all transfers of a business under common control, including: <ul style="list-style-type: none"> (i) group restructurings; and (ii) BCUCCs preceded by an acquisition from an external party or followed by (or conditional on) a sale of the combining entities to an external party. 	<ul style="list-style-type: none"> (i) one respondent said the project should not cover group restructurings; and (ii) a few respondents said the project should not cover transactions preceded by an acquisition from an external party or followed by (or conditional on) a sale of the combining entities to an external party. 	<ul style="list-style-type: none"> subsidiary received under common control; (b) not expand the project scope to address reporting of other common control transactions; and (c) the IASB has not yet made tentative decisions about other aspects such as group restructurings or transitory control.

Topic	Preliminary views	Feedback summary	Tentative decisions
<p>Selecting the measurement method—the principle</p>	<p>(a) Neither the acquisition method nor a book-value method should be applied to all BCUCCs;</p> <p>(b) in principle, the acquisition method should be applied if a BCUCC affects NCS, subject to the cost-benefit trade-off and other practical considerations (NCS principle); and</p> <p>(c) a book-value method should be applied to all other BCUCCs, including combinations between wholly-owned entities.</p>	<p>(a) Most respondents agreed but some disagreed and said a book-value method should be applied to all BCUCCs.</p> <p>(b) many respondents agreed and some others agreed if the NCS principle is modified such that a receiving entity would apply a book-value method if affected NCS are insignificant. Many respondents disagreed, of which:</p> <ul style="list-style-type: none"> • some said a book-value method should be applied to all BCUCCs; • some said the method to apply should depend on the substance of the BCUCC; and • some said the receiving entity should have a choice as to which method to apply. <p>(c) many respondents agreed however, many disagreed, of which:</p> <ul style="list-style-type: none"> • most said the acquisition method should apply in specific circumstances (most commonly if the receiving entity has publicly traded debt) but otherwise agreed with the preliminary view; 	<p>The IASB has not yet made tentative decisions.</p>

Topic	Preliminary views	Feedback summary	Tentative decisions
		<ul style="list-style-type: none"> • a few said the receiving entity should have a choice as to which method to apply; and • a few said the method to apply should depend on the substance of the BCUCC. 	
Selecting the measurement method—Other considerations	<p>(a) If the receiving entity's shares are traded in a public market, the receiving entity should be required to apply the acquisition method; and</p> <p>(b) if the receiving entity's shares are privately held:</p> <p>(i) the receiving entity should be permitted to use a book-value method if it has informed all of its NCS that it proposes to use a book-value method and they have not objected (the optional exemption); and</p>	<p>(a) Most respondents agreed. Some respondents disagreed, most of which said whether an entity has publicly traded shares should not affect the method selected.</p> <p>(b) if the receiving entity's shares are privately held:</p> <p>(i) many respondents agreed and some respondents generally agreed but suggest disregarding objecting NCS if those NCS are insignificant. Some other respondents disagreed. Many respondents said the optional exemption may be challenging to apply and/or requested application guidance.</p> <p>(ii) many respondents agreed and many others disagreed. Most who disagreed said some related parties rely on financial statements to meet their information needs.</p>	The IASB has not yet made tentative decisions.

Topic	Preliminary views	Feedback summary	Tentative decisions
	<p>(ii) the receiving entity should be required to use a book-value method if all of its NCS are related parties of the entity (the related-party exception).</p>		
<p>Applying the acquisition method</p>	<p>(a) In principle, the acquisition method should be applied as set out in IFRS 3 <i>Business Combinations</i>;</p> <p>(b) the IASB should not develop a requirement for the receiving entity to identify, measure and recognise a distribution from equity when applying the acquisition method; and</p> <p>(c) the IASB should develop a requirement for the receiving entity to recognise any excess</p>	<p>Most respondents agreed with these preliminary views except:</p> <p>(b) some suggested recognising a distribution from equity if the fair value of the consideration paid exceeds the fair value of the identifiable assets and liabilities received; and</p> <p>(c) some suggested recognising any bargain purchase in profit or loss.</p>	<p>The IASB has not yet made tentative decisions.</p>

Topic	Preliminary views	Feedback summary	Tentative decisions
	<p>fair value of the identifiable assets and liabilities received over the consideration paid (bargain purchase) as a contribution to equity, not as a gain in profit or loss.</p>		
<p>Applying a book-value method</p>	<p>(a) The receiving entity should use the transferred entity's book values;</p> <p>(b) the IASB should specify how the receiving entity measures different forms of consideration paid;</p> <p>(c) the receiving entity should recognise within equity any difference between consideration paid and the book value of assets and liabilities received;</p>	<p>(a) Many respondents agreed but many others suggested using another group entity's book values or allowing or requiring the use of different book values (either the transferred entity's or another group entity's book values);</p> <p>(b)–(e) almost all respondents agreed; and</p> <p>(f) many respondents agreed however, many others disagreed.</p>	<p>The IASB has not yet made tentative decisions.</p>

Topic	Preliminary views	Feedback summary	Tentative decisions
	<p>(d) the IASB should not prescribe in which component(s) of equity to present that difference;</p> <p>(e) the receiving entity should recognise transaction costs as an expense, except that the costs of issuing shares or debt instruments should be accounted for in accordance with applicable IFRS Accounting Standards; and</p> <p>(f) the receiving entity should include the assets, liabilities, income and expenses of the transferred entity prospectively.</p>		
Disclosure requirements	<p>When applying the acquisition method:</p> <p>(a) the receiving entity should comply with the disclosure requirements in IFRS 3, including any improvements resulting from the Discussion Paper <i>Business</i></p>	<p>When applying the acquisition method:</p> <p>(a) most respondents agreed but some respondents disagreed; and</p> <p>(b) most respondents agreed but some respondents disagreed.</p>	The IASB has not yet made tentative decisions.

Topic	Preliminary views	Feedback summary	Tentative decisions
	<p><i>Combinations—Disclosures, Goodwill and Impairment</i> (IFRS 3 Discussion Paper); and</p> <p>(b) the IASB should provide application guidance, including how to apply the disclosure requirements in IAS 24 <i>Related Party Disclosures</i>.</p> <p>When applying a book-value method:</p> <p>(a) some, but not all, of the disclosure requirements in IFRS 3, including any improvements resulting from the IFRS 3 Discussion Paper, are appropriate (summarised in paragraphs 5.17 and 5.19 of the Discussion Paper);</p> <p>(b) the IASB should not require disclosure of pre-combination information; and</p>	<p>When applying a book-value method:</p> <p>(a) most respondents agreed except for pre-combination information but some respondents disagreed and suggest specific additional information a receiving entity should disclose and/or information it should not be required to disclose;</p> <p>(b) many respondents agreed however, many others disagreed; and</p> <p>(c) almost all respondents agreed.</p>	

Topic	Preliminary views	Feedback summary	Tentative decisions
	(c) the receiving entity should disclose the amount recognised in equity and which component(s) of equity it is included in.		