IASB® meeting

Date	**November 2022**
Project	**Business Combinations under Common Control**
Topic	**Cover paper**
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Introduction and purpose

1. In its June 2022 meeting, the International Accounting Standards Board (IASB) commenced deliberating its preliminary views set out in the Discussion Paper *Business Combinations under Common Control* (Discussion Paper) on selecting the measurement method to apply to a business combination under common control (BCUCC). At that meeting, the IASB discussed the staff's analysis of feedback on some aspects of those preliminary views and was not asked to make any decisions.

2. The purpose of this meeting is to continue deliberating the selection of the measurement method to apply to a BCUCC. The agenda papers for this meeting provide our analysis of feedback on the IASB's preliminary views. We also provide our initial views on the way forward, which reflects our consideration of feedback on all aspects of those preliminary views.

3. We will discuss the following papers which summarise the approach to our analysis and our initial views:

   (a) Agenda Paper 23A—Overview;

   (b) Agenda Paper 23B—Initial views—The principle; and

   (c) Agenda Paper 23C—Initial views—Exceptions.

4. Agenda Papers 23D–23H are supporting papers which analyse individually the different factors we considered in reaching our initial views:

   (a) Agenda Paper 23D—Similarity to IFRS 3 BCs (updated from June 2022 meeting);

   (b) Agenda Paper 23E—User information needs (updated from June 2022 meeting);

   (c) Agenda Paper 23F—The cost-benefit trade-off;

   (d) Agenda Paper 23G—Structuring opportunities; and

   (e) Agenda Paper 23H—Other considerations.

5. Similar to the June 2022 meeting, we are not asking the IASB to make decisions during this meeting. Agenda Paper 23A explains the approach to deliberations and next steps.

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	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: • 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.	(a) All respondents agreed the project should cover the receiving entity's reporting but: (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; (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 (c) almost all respondents agreed the project should cover all transfers of a business under common control but:	*Objective* 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. *Scope* (a) Not expand the project scope to address: (i) reporting by other entities; or (ii) reporting, in separate financial statements, for an investment in a subsidiary received under common control;

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	The proposals would cover: (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: (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.	(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.	(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.
Selecting the measurement	(a) Neither the acquisition method nor a book-value method should be applied to all BCUCCs;	(a) Most respondents agreed but some disagreed and said a book-value method should be applied to all BCUCCs.	The IASB has not yet made tentative decisions.

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method—the principle	(b) in principle, the acquisition method should be applied if a BCUCC affects non-controlling shareholders of the receiving entity, subject to the cost-benefit trade-off and other practical considerations (NCS principle); and (c) a book-value method should be applied to all other BCUCCs, including combinations between wholly-owned entities.	(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 non-controlling shareholders (NCS) are insignificant. Many respondents disagreed, of which: • 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. (c) many respondents agreed however, many disagreed, of which: • 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; • a few said the receiving entity should have a choice as to which method to apply; and	

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		• a few said the method to apply should depend on the substance of the BCUCC.	
Selecting the measurement method—Other considerations	(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 (b) if the receiving entity's shares are privately held: (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 (ii) the receiving entity should be required to use a book-value method if all of its NCS	(a) Most respondents agreed. Some respondents disagreed, most of which said whether an entity has publicly traded shares should not affect the method selected. (b) if the receiving entity's shares are privately held: (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. (ii) many respondents agreed and many others disagreed. Most who disagreed said some related parties rely on financial statements to meet their information needs.	The IASB has not yet made tentative decisions.

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	are related parties of the entity (the related-party exception).		
Applying the acquisition method	(a) In principle, the acquisition method should be applied as set out in IFRS 3 *Business Combinations*; (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 (c) the IASB should develop a requirement for the receiving entity to recognise any excess fair value of the identifiable assets and liabilities received over the consideration paid (bargain purchase) as a	Most respondents agreed with these preliminary views except: (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 (c) some suggested recognising any bargain purchase in profit or loss.	The IASB has not yet made tentative decisions.

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	contribution to equity, not as a gain in profit or loss.		
Applying a book-value method	(a) The receiving entity should use the transferred entity's book values; (b) the IASB should specify how the receiving entity measures different forms of consideration paid; (c) the receiving entity should recognise within equity any difference between consideration paid and the book value of assets and liabilities received; (d) the IASB should not prescribe in which component(s) of equity to present that difference; (e) the receiving entity should recognise transaction costs as an expense, except that the costs of	(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); (b)–(e) almost all respondents agreed; and (f) many respondents agreed however, many others disagreed.	The IASB has not yet made tentative decisions.

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	issuing shares or debt instruments should be accounted for in accordance with applicable IFRS Accounting Standards; and (f) the receiving entity should include the assets, liabilities, income and expenses of the transferred entity prospectively.		
Disclosure requirements	When applying the acquisition method: (a) the receiving entity should comply with the disclosure requirements in IFRS 3, including any improvements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (IFRS 3 Discussion Paper); and (b) the IASB should provide application guidance, including how to apply the disclosure	When applying the acquisition method: (a) most respondents agreed but some respondents disagreed; and (b) most respondents agreed but some respondents disagreed. When applying a book-value method: (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;	The IASB has not yet made tentative decisions.

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	requirements in IAS 24 *Related Party Disclosures*. When applying a book-value method: (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); (b) the IASB should not require disclosure of pre-combination information; and (c) the receiving entity should disclose the amount recognised in equity and which component(s) of equity it is included in.	(b) many respondents agreed however, many others disagreed; and (c) almost all respondents agreed.	