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Business Combinations under Common Control Cover Note

Objective

- 1 The purpose of the session is to provide an oral update on feedback received from EFRAG CFSS members on existing guidance and possible outreach activities with national standard-setters on the IASB project on *Business Combinations under Common Control* (BCUCC).

Background

- 2 BCUCC are currently excluded from the scope of IFRS 3 *Business Combinations*. Without specific guidance in IFRS Standards entities must apply the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop an accounting policy which would result in relevant information for users of financial statements.
- 3 In 2016, the IASB added the BCUCC project to its research agenda and decided that the scope of the project should include transactions under common control in which the reporting entity obtains control of one or more businesses, regardless of whether IFRS 3 would identify the reporting entity as the acquirer. The focus of the project is how to account for a BCUCC in the financial statements of the receiving entity.
- 4 The IASB is planning to issue a discussion paper on BCUCC in the second quarter of 2020.
- 5 In preparation for the forthcoming discussion paper on BCUCC, EFRAG Secretariat would like to assess the importance of the BCUCC project in Europe and determine what the local guidance and established current accounting practice within different jurisdictions are. At the beginning of March, EFRAG Secretariat sent out a questionnaire to EFRAG CFSS members to assist in collecting this information. The questionnaire is included in Appendix 1.
- 6 Additionally, EFRAG Secretariat would like to obtain EFRAG CFSS's preliminary views on the IASB tentative decisions on the project so far. Some of those tentative decisions have already been discussed with EFRAG CFSS members in the past, however, as the BCUCC project has advanced the proposals have been further developed.

Questions for EFRAG TEG/CFSS

- 7 Do EFRAG TEG/CFSS members have any further comments on the feedback provided?
- 8 Are EFRAG TEG/CFSS members interested in having outreach activities on the BCUCC project?

Appendix 1: Questionnaire for EFRAG CFSS members

Introduction

- 1 In anticipation of the forthcoming IASB discussion paper on BCUCC, EFRAG is seeking feedback from EFRAG CFSS members on two main areas:
 - (a) **Part 1** - to help assess the importance of the BCUCC project in Europe and determine what is the local guidance and established current accounting practice within the jurisdictions; and
 - (b) **Part 2** – to obtain preliminary views on the tentative decisions of the IASB on the project so far. The EFRAG Secretariat acknowledge that some of those tentative decisions have already been discussed with EFRAG CFSS members in the past, however, as the BCUCC project has advanced, the EFRAG Secretariat would like to obtain members' views on the proposals.
- 2 Additionally, based on the feedback received, EFRAG would like to gather initial indications of EFRAG CFSS members on whether they would like to participate in outreach activities related to the BCUCC project.

Questions to EFRAG CFSS members

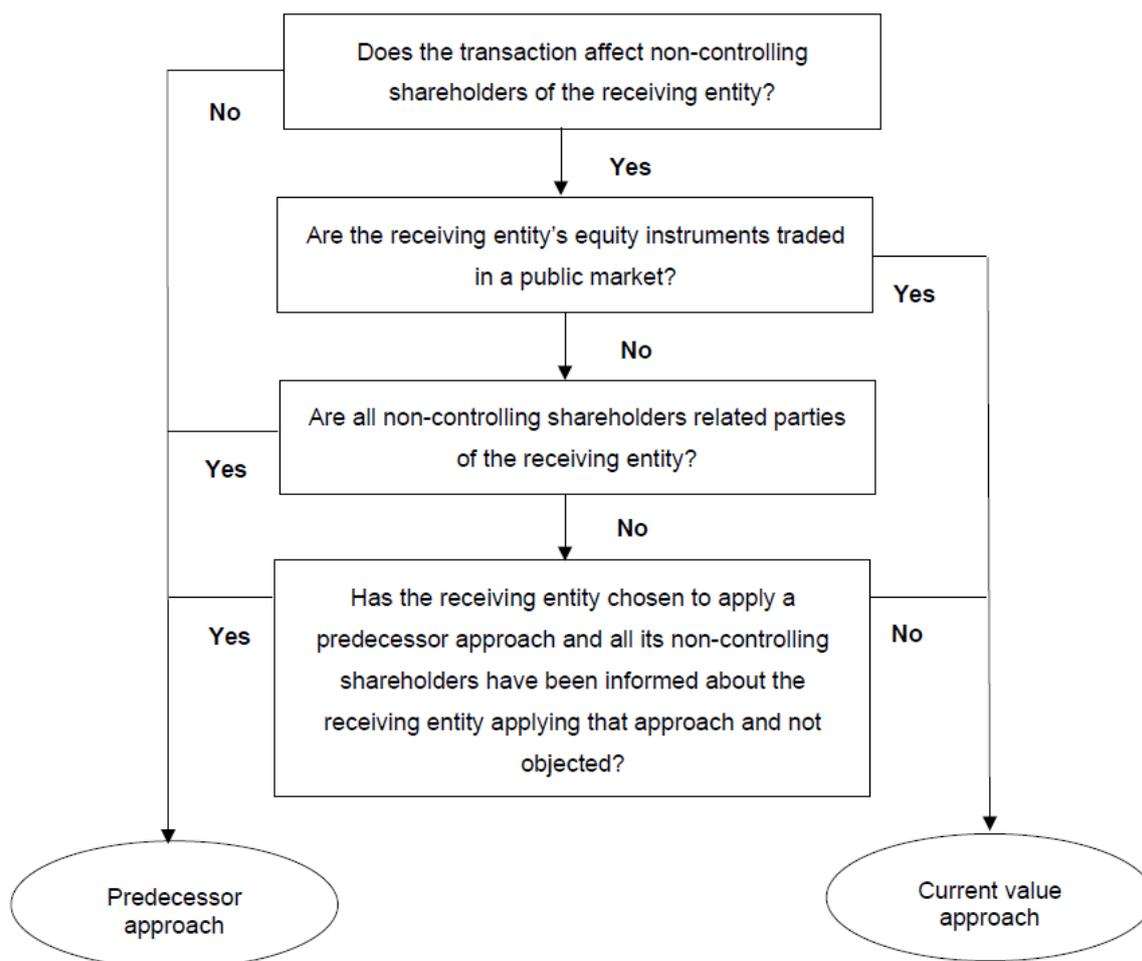
Part 1 - to assess the importance of the BCUCC project in a European perspective

- 3 EFRAG would like to seek EFRAG CFSS members input with regard to how common BCUCC are and whether local guidance on BCUCC exists within your jurisdictions:
 - (a) **Question 1** – How common is it in your jurisdiction that an entity under common control is transferred to a receiving entity that has to prepare its separate and/or consolidated financial statements in accordance with IFRS Standards (please specify if the answer relate to separate financial statements only, to consolidated financial statements or both)?
 - (i) It happens about as regularly or more regularly than business combinations that are not under common control.
 - (ii) A rough estimate would be that it only happens between five and eight times for every ten business combinations that are not under common control.
 - (iii) A rough estimate would be that it only happens between one and four times for every ten business combinations that are not under common control.
 - (iv) A rough estimate would be that it only happens between one and nine times for every hundred business combinations that are not under common control. It happens less than once for every hundred business combinations that are not under common control.
 - (b) **Question 2** – Is the frequency for how often an entity under common control is transferred to a receiving entity that has to report under IFRS significantly higher for some entities than others? If so, are there any characteristics that are common for the entities for which the frequency is higher? If so, what are those characteristics?
 - (c) **Question 3** – Does local GAAP in your jurisdiction include any guidance on how to account for BCUCC? If so, what does the guidance say?
 - (d) **Question 4** – Is there a common practice in your jurisdiction for how to account for BCUCC? If so, please explain the practice.

- (e) **Question 5** – Does local GAAP in your jurisdiction include any requirements for disclosures around BCUCC (in addition to any general disclosure requirements on business combinations)? If so, what are those requirements?
- (f) **Question 6** - What financial reporting issues are you aware of in relation to reporting BCUCC for preparers, regulators or users of financial information?

Part 2 - to obtain EFRAG CFSS's preliminary views on the IASB tentative decisions on the BCUCC project so far. The tentative decisions of the IASB on how to account for a BCUCC in the receiving entity's financial statements are presented below.

- 4 The graph below illustrates the IASB tentative decisions as to when to apply a current value approach or a predecessor approach when accounting for BCUCC.



Source: the IASB

- 5 The IASB concluded that a single measurement approach for all business combinations under common control was not appropriate. Therefore, the IASB tentatively decided that to the extent BCUCC are similar to acquisitions within the scope of IFRS 3, a current value approach should be applied; for all other BCUCC a predecessor approach should be applied. BCUCC affecting the non-controlling shareholders of the receiving entity are similar to acquisitions within the scope of IFRS 3 and therefore, applying a current value approach would provide the most useful information to primary users. In this respect, do you consider that the IASB tentative decision to apply different measurement approaches to BCUCC depending

on whether the BCUCC affects the non-controlling shareholders of the receiving entity is well justified?

- 6 Do you agree with the IASB tentative decision to apply a current value approach based on the acquisition method as set out in IFRS 3 to all or some transactions that affect non-controlling shareholders of the receiving entity except when the receiving entity's equity instruments are not publicly traded and one of the following conditions applies:
- (a) all non-controlling shareholders are related parties to the receiving entity; or
 - (b) the receiving entity chooses to apply a predecessor approach and all its non-controlling shareholders have been informed about and do not object it?
- 7 Do you consider that the option under paragraph 6(b) is practicable to apply?
- 8 Do you agree with the IASB tentative decision to apply a form of a predecessor approach to all other transactions within the scope of the project?
- 9 The IASB tentatively decided on the particular application aspects of the predecessor approach including:
- (a) a receiving entity should recognise and measure assets and liabilities transferred at the carrying amounts included in the financial statements of the transferred entity; and
 - (b) pre-combination information in primary financial statements should be provided only about the receiving entity i.e. comparative figures should not be restated for all the combining entities.

What are EFRAG CFSS members views on the particular aspects as to how the predecessor approach should be applied?

- 10 In December 2019, the IASB tentatively decided to modify the acquisition method when applied to BCUCC and to present a contribution to the receiving entity's equity when the acquired identifiable net assets exceed the consideration transferred instead of recognising that excess as a gain on a bargain purchase in the statement of profit or loss. On the other hand, the IASB concluded that a symmetrical recognition of a distribution from the receiving entity's entity, when the consideration transferred in excess of the value received, would be infrequent as it would represent overpayment on the part of the receiving entity. Therefore, the IASB decided **not** to require recognition of a distribution and include the excess consideration in the initial measurement of goodwill. Based on these tentative decisions, the questions for you are:
- (a) do you agree with the tentative decision of the IASB to apply the acquisition method set out in IFRS 3 to recognise the excess fair value of the acquired identifiable net assets over the fair value of the consideration transferred as a **contribution** to the receiving entity's equity?
 - (b) do you agree with the IASB tentative decision **not** to identify, recognise and measure a **distribution** when the consideration transferred is higher than the fair value of the acquired identifiable net assets?