

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

When non-controlling interests are affected by BCUCC Issues Paper

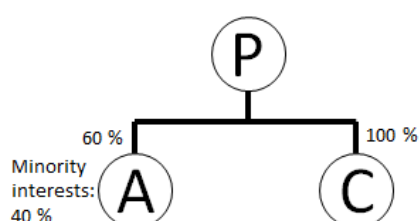
Objective

- 1 The purpose of this paper is to consider when the presence of non-controlling interests should result in business combinations under common control ('BCUCC') being accounted for under an IFRS 3 *Business Combinations* approach (or similar approach).

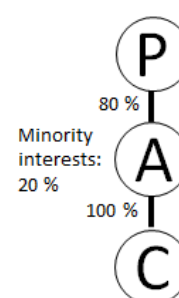
Background

- 2 At its June 2018 meeting EFRAG TEG seemed to be of the view that when non-controlling interests would be present in the receiving party in BCUCC those BCUCC should be accounted for as a transaction/acquisition. For example, an IFRS 3 approach (or similar approach where the net identifiable assets of the transferred business are measured at fair value) should be used to account for the transfer in the financial statements of the receiving party. However, EFRAG TEG did not discuss situations in which non-controlling interest would own parts of other entities or business that are part of the transfer.
- 3 In the situation discussed at the June 2018 EFRAG TEG meeting, P controls a group of entities. One of P's consolidated group companies is entity C, which represents one of P's several business lines. P acquires a 60 per cent interest in entity A, which is the parent company in a group of companies all operating in a business line similar to C's activities. A is a listed entity and the 40 per cent interest is owned by multiple shareholders. P's 60 per cent interest allows P to exercise control over A.
- 4 Subsequent to the acquisition of A, P transfers its subsidiary C to A. In exchange, P receives additional shares in entity A which dilute the minority interest from 40 per cent to 20 per cent. The case is illustrated below.

Before



After

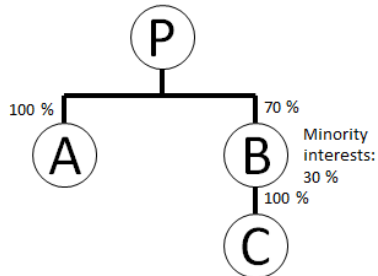


Other BCUCC involving minority interests

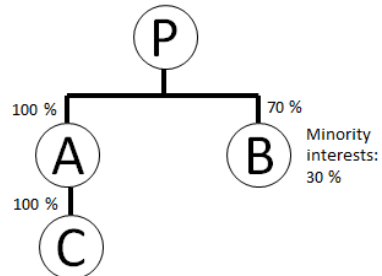
5 Minority interests can also be present in other entities related to BCUCC. Minority interests can thus be present:

(a) In the transferor (B) – cash consideration

Before

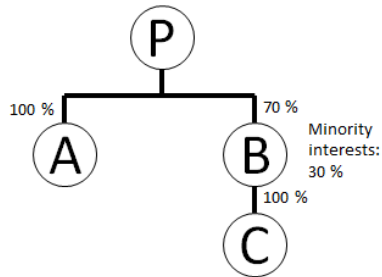


After

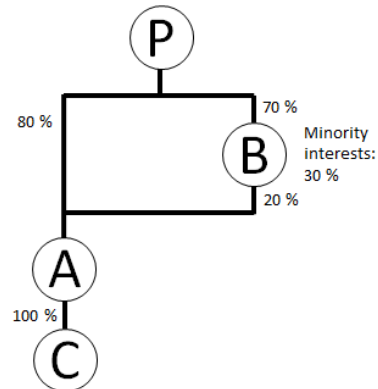


(b) In the transferor (B) – equity consideration

Before

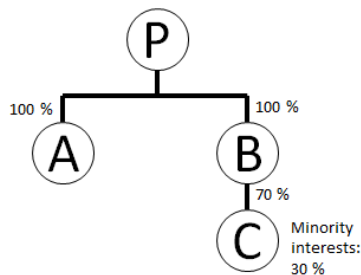


After

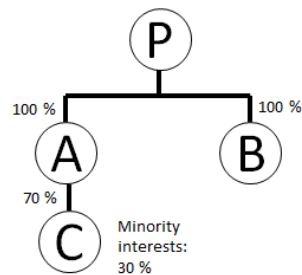


(c) In the transferred entity (C)

Before



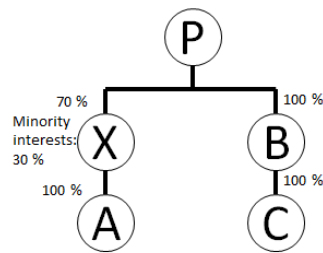
After



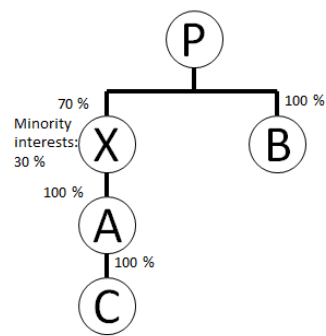
(d) In a party (X) that controls the receiving entity, but not the transferor – cash consideration

When non-controlling interests are affected by BCUCC - Issues Paper

Before

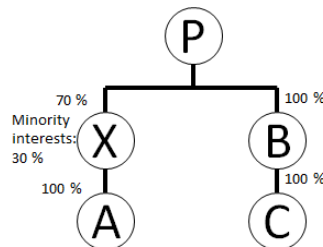


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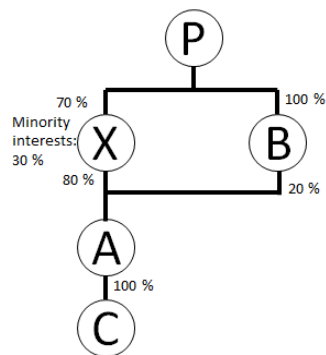


- (e) In a party (X) that controls the receiving entity, but not the transferor – equity consideration

Before

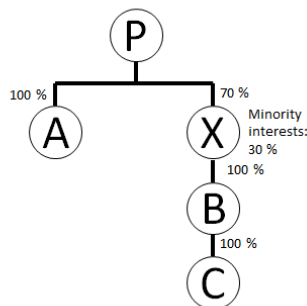


After

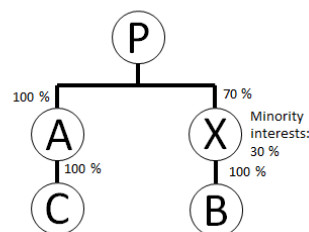


- (f) In a party (X) that controls the transferor, but not the receiving entity – cash consideration

Before

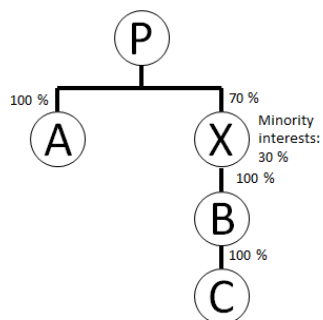


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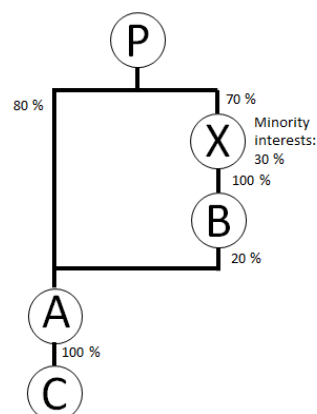


- (g) In a party (X) that controls the transferor, but not the receiving entity – equity consideration

Before



After



Questions for EFRAG TEG

- 6 In which of the cases described and illustrated in paragraphs 5(a) to 5(g) above, does EFRAG TEG consider that the transfer of 'C' to 'A' should be accounted for under an acquisition method similar to the one required by IFRS 3 **in the financial statements of 'A'**?
- 7 In which of these cases is EFRAG TEG's preliminary position based on the view that a method similar to the one required by IFRS 3 will provide the most useful information to the minority interests and in which situations is the preliminary position based on other reasons (e.g. the view that a 'real' transaction has taken place)?