Issues Paper
Summarising the December 2018 ASAF papers on BCUCC

Objective

1 The purpose of this session is to seek the views of EFRAG TEG and EFRAG CFSS on:

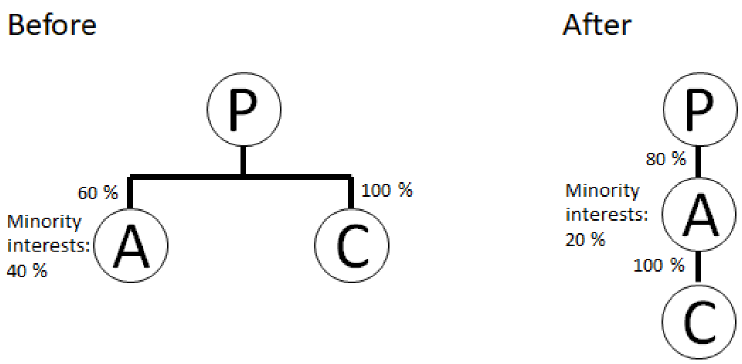
(a) Whether a current value measurement approach based on the acquisition method set out in IFRS 3 *Business Combinations* should be applied to all or some business combinations under common control ('BCUCC') that affect non-controlling shareholders in the receiving entity; and

(b) If a current value approach is applied to only some transactions that affect non-controlling shareholders, how the distinction could be made.

Transfers covered by the discussion

2 At its December 2018 meeting, ASAF will discuss an approach for those BCUCC that are affecting a non-controlling interest in the receiving entity. The discussion will only cover how a BCUCC should be accounted for in the financial statements of the receiving party. Referring to the illustration below, that means that the discussion should only consider how the transfer of C should be reflected in the financial statements of A.

3 In the illustration below, P controls a group of entities. One of P's consolidated group companies is entity C. P holds a 60 percent interest in entity A and the remaining 40 percent is owned by minority shareholders. P's 60 percent interest allows P to exercise control over A. P now transfers its subsidiary C to A.



Applying a current value approach to transactions that affect non-controlling interests

4 EFRAG TEG has previously considered that when minority interests in the receiving party are affected by a transfer of a business or entity, the transfer should be

accounted for similarly to under IFRS 3 (a current value measurement approach) in order to provide the most useful information for the minority interests about the transfer. This is also the starting point in the paper for the December 2018 ASAF meeting ('the Paper'). However, the paper for the December 2018 ASAF meeting discusses whether a current value measurement approach should be applied to *all* transactions affecting non-controlling interests or only to *some* of those transactions.

5 The Paper lists the following advantages and disadvantages of requiring a current value measurement approach for *all* transactions affecting non-controlling interests versus for only *some* of these transactions:

(a) When all transactions in the scope of the discussion would be accounted for under a current value measurement approach, the most useful information would always be provided to non-controlling interests to the extent that BCUCC are similar to business combinations within the scope of IFRS 3. If some transactions would not be accounted for under the current value measurement approach, some non-controlling interests would not receive the most useful information in the receiving entity's general-purpose financial statements.

(b) Using the same approach for all transactions affecting non-controlling interests would be simple and would prevent entities from structuring transactions in order to achieve a particular accounting treatment by changing the size or the nature of non-controlling interests. However, it would allow structuring transactions to achieve a desired accounting outcome by creating non-controlling interests. Therefore, an approach under which only some transactions are accounted for using a current value measurement approach may, depending on how the distinction is made, minimise structuring opportunities further. For example, it would be easier for an entity to go from a 'no non-controlling interests' scenario to a scenario with a few minority interests than from a 'no public listed non-controlling interests' scenario to a 'few public listed non-controlling interests' scenario.

(c) Using the same approach for all transactions would provide a familiar foundation as the approach is described in IFRS 3, applied in practice and understood. Making a distinction between different transactions is a more complex approach.

(d) Applying a current value measurement approach for all transactions affecting non-controlling interests would not consider an overall cost-benefit assessment. Such an assessment could be reflected if a current value measurement approach would only be required for some transactions.

(e) Requiring all transactions to be accounted for under the current value measurement approach would not consider that access to information about the transaction is more limited for a public shareholder than for a member of the key management personnel or a private investor singlehandedly holding a significant stake of the entity. Requiring only some transactions to be accounted for under the current value measurement approach could take into account different access to information about BCUCC that different types of non-controlling interests in the receiving entity might have.

6 The Paper discusses how to distinguish between transactions affecting non-controlling interests that should be accounted for using a current value measurement approach and transactions that should not (and instead be accounted for using, for example, a predecessor method). The discussion is relevant if only some (and not all) transactions affecting non-controlling interests are accounted for using a current value measurement approach.

7 To distinguish between transactions affecting non-controlling interests that should be accounted for using a current value measurement approach and transactions

that should not, the Paper differentiates between qualitative approaches; quantitative approaches and combinations of qualitative and quantitative approaches.

8 As examples of qualitative approaches, the Paper mentions that the distinction could be based on:

(a) Whether the receiving entity's equity instruments are traded in a public market. If they are, the transactions should be accounted for using a current value measurement approach. The Paper states that providing the best information to public non-controlling shareholders is consistent with the focus of regulatory environments that tend to subject public interest entities to particular scrutiny in order to protect that public interest; or

(b) The type of non-controlling shareholders. That is, if all the non-controlling shareholders are related parties (and/or employees) then a current value measurement approach should not be used – in other cases it should.

9 A quantitative approach could depend on the relative size of the non-controlling interests. For example, if the non-controlling interest in the receiving entity is 20 percent or more, then the transaction should be accounted for under a current value measurement approach.

10 If a quantitative approach is selected, it would have to be decided whether the threshold should be relative to the size of the minority at the reporting date or over a period of time.

11 An approach that would combine qualitative and quantitative thresholds could, for example, require a current value approach for all public entities as well as when non-controlling interests in a private entity is 10 percent or more at the time of the transaction.

Questions for EFRAG TEG and EFRAG CFSS

12 Does EFRAG TEG and EFRAG CFSS think a current value approach should be applied to all or some business combinations under common control that affect non-controlling shareholders and why?

13 If a current value approach is applied to only some transactions that affect non-controlling shareholders, how do EFRAG TEG and EFRAG CFSS think the distinction should be made, and why?

14 Do EFRAG CFSS and EFRAG TEG have any comments on the different alternatives on making the distinction that are being explored by the IASB staff (see paragraphs 7 - 11 above)?

Agenda papers

15 In addition to this issues paper, the following papers have been made available for background:

(a) Agenda paper 07-01 – ASAF paper 2 for the December 2018 ASAF meeting – Cover Note.

(b) Agenda paper 07-02 – ASAF paper 2A for the December 2018 ASAF meeting – Approach for transactions that affect non-controlling interest.