EFRAG
European Financial Reporting Advisory Group

Draft Comment Letter

You can submit your comments on EFRAG's draft comment letter by using the '[Express your views](#)' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

Comments should be submitted by 30 July 2021.

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX Month 2021]

Dear Mr Hoogervorst [Mr Barckow as from July 2021]

Re: Business Combinations under Common Control

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Discussion Paper DP/2020/2 *Business Combinations under Common Control,* issued by the IASB on 30 November 2020 (the 'DP').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG welcomes the IASB's discussion paper *Business Combinations under Common Control* ('BCUCC'). BCUCC are frequently undertaken for many different reasons to achieve purposes that vary from business combinations of entities not under common control. For example, they may take place to re-organise group activities with an aim to achieve synergies, spin-offs in preparation for an initial public offering (IPO) or to obtain tax efficiency within the group. The often-complex structures and arrangements to effect such changes raise considerable challenges for financial reporting. As IFRS Standards are currently silent on how the entity receiving a BCUCC should account for the transaction, there is diversity in practice which warrants attention.

Therefore, EFRAG welcomes the IASB's efforts to explore possible reporting requirements for a receiving company that would reduce diversity in practice, improve comparability and consistency of reporting and provide more relevant information for users of financial statements.

Project scope

EFRAG agrees with the scope proposed by the IASB in its DP as defined in paragraphs 1.10 to 1.23 of the DP. In particular, EFRAG welcomes that both BCUCC and group restructurings are in the scope of this project.

However, EFRAG considers that the IASB should avoid identifying or labelling group restructurings as a BCUCC, particularly when the arrangement does not meet the description of a business combination in IFRS 3 *Business Combinations* (i.e., group restructurings that are not business combinations). Instead, the IASB could use the terminology in IFRS 3 "combination of entities or businesses under common control" to encompass all types of transactions in the scope of the project. However, if this description is used, there is a need to improve it (e.g., clarify the meaning of "transitory control") and/or align it with the definition used in this project.

Finally, EFRAG considers that other common control transactions (e.g., transfer of a group of assets that does not meet the definition of a business, acquisition of an interest in an associate or joint venture from an entity under common control, and sale of equity investments between entities under common control in the separate financial statements) are important and comprehensive topics that need to be discussed in the future, including effects on separate financial statements.

Selecting the measurement method

EFRAG agrees that a single measurement approach is not appropriate for all BCUCC. Some BCUCC have common features with business combination within the scope of IFRS 3 and therefore should be accounted for similarly. Other BCUCC are more akin to reallocations of economic resources across the reporting group without changing the ownership interest in those resources.

EFRAG also supports that the acquisition method is applied to BCUCC which affect the non-controlling shareholders of the publicly traded receiving company subject to the cost-benefit and other practical considerations. EFRAG also agrees that a book-value method should be applied to all other BCUCC where the controlling party's ownership interest is unchanged. However, EFRAG recommends the IASB to conceptually align the book-value method with the measurement bases under the *Conceptual Framework* and reconsider the scope of the book-value method for privately-held entities, which have publicly listed debt instruments.

EFRAG considers that establishing an appropriate dividing line between applying the acquisition method and a book-value method to BCUCC is crucial for achieving the project's objectives. EFRAG is consulting its constituents whether the proposed decision tree in the DP should be modified and further extended to also include reference to entities with publicly traded debt, or entities with public accountability. Furthermore, EFRAG notes that selecting the measurement method will depend heavily on the definition of a public market which may not be sufficiently robust. EFRAG suggests that the IASB clarifies the meaning of the term 'traded' as used in the DP.

EFRAG supports the optional exemption from the acquisition method for privately-held entities based on a cost-benefit consideration. EFRAG does not support extending the optional exemption to publicly traded companies because such companies usually have a significant number of non-controlling shareholders whose composition changes frequently and mainly rely on the receiving company's general purpose financial statements for their information needs.

EFRAG also supports the related-party exception to the acquisition method for BCUCC affecting the non-controlling shareholders of a privately-held receiving entity based on a cost-benefit consideration and on information being generally available to related parties without having to rely on general purpose financial statements. However, EFRAG does not support extending the exception to publicly traded companies because situations in which all non-controlling shareholders are related parties to a publicly traded receiving company are not common in Europe and extending the exception will have a very limited application.

Applying the acquisition method

EFRAG welcomes the IASB's discussions on the notion of distributions from and contributions to equity but acknowledges that these are unlikely to occur in practice.

If a distribution from equity occurs in practice, EFRAG agrees that the IASB should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to BCUCC. Instead, EFRAG considers that any difference between the fair value of consideration paid and the fair value of identifiable acquired assets and liabilities should be recognised entirely as goodwill. This would be consistent with IFRS 3 and also result in less complexity and costs.

When the consideration paid is lower than the identifiable acquired assets and liabilities in the business combination, EFRAG understands the rationale for the IASB proposals to recognise the difference in equity as a contribution. EFRAG also supports consistency with the requirements in IFRS 3 (i.e., recognising a gain in profit or loss).

Finally, EFRAG suggests that the IASB provides guidance on identifying the acquirer, both when entities apply the acquisition method and when they apply a book-value method.

Applying the book-value method

EFRAG considers that both the use of the carrying amounts in the consolidated financial statements of the transferred company's controlling party and use of the carrying amounts in the financial statements of the transferred company can provide decision-useful information for users.

In terms of measuring the consideration paid, EFRAG agrees not to prescribe how the receiving company should measure the consideration paid in its own shares. EFRAG also agrees with the measurement proposed in the DP for both consideration paid in assets and consideration paid by incurring or assuming liabilities. However, EFRAG observes that the consideration paid in assets is not consistent with the requirements of IFRIC 17 *Distributions of Non-cash Assets to Owners* on how to measure non-cash assets distributed as dividends. Therefore, EFRAG suggests that the IASB considers allowing the use of fair value measurement for consideration paid in assets as the information may be relevant for creditors and other lenders.

EFRAG agrees to recognise within equity, any difference between the consideration paid and the book value of the assets and liabilities received. EFRAG also agrees with not specifying in which component(s) of equity the difference between consideration paid and assets and liabilities received should be presented as this is commonly addressed via local legislation.

On transaction costs, EFRAG agrees with the reasoning of the treatment of transaction costs under IFRS 3 and considers that the same reasoning can be applied for BCUCC transactions. Therefore, EFRAG agrees with the proposals in the DP for transaction costs.

EFRAG also agrees that the receiving company should include in its financial statements, the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information. This is mainly because of the cost/benefit considerations associated with the book-value method.

Disclosure requirements

EFRAG considers that the proposed disclosure requirements for BCUCC accounted for under both the acquisition method and the book-value method would provide relevant information about the BCUCC transactions.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Ioana Kiss or me.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix 1 - EFRAG's responses to the questions raised in the DP

Contents

Draft Comment Letter ... 1
Re: Business Combinations under Common Control ... 1
Appendix 1 - EFRAG's responses to the questions raised in the DP ... 4
Section 1: Objective, Scope and Focus ... 4
Section 2: Selecting the measurement method ... 8
Section 3: Applying the acquisition method ... 18
Section 4: Applying a book-value method ... 22
Section 5: Disclosure requirements ... 30
Appendix 2 – EFRAG's proposed diagram for selecting a measurement method for BCUCC and group restructurings ... 34

Section 1: Objective, Scope and Focus

Notes to constituents – Summary of proposals in the DP

Background

1 *IFRS 3 Business Combinations outlines the accounting when an acquirer obtains control of a business. Such business combinations are accounted for using the 'acquisition method', which requires:*

(a) *identifying the acquirer and determining the acquisition date;*

(b) *recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree (largely measured at their fair values); and*

(c) *recognising and measuring goodwill or a gain from a bargain purchase.*

2 *Paragraph 2 of IFRS 3 excludes from its scope "combinations of entities or businesses under common control" and paragraph B1 of IFRS 3 describes them as a "business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory".*

3 *In the absence of a specifically applicable IFRS Standard, the receiving company is required to develop its own accounting policy for BCUCC, applying the requirements on selecting accounting policies in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*

4 *In paragraph 1.6 of the* Discussion Paper DP/2020/2 *Business Combinations under Common Control (DP), the IASB acknowledges that the absence of a specifically applicable IFRS Standard has resulted in diversity in practice (e.g., in some cases entities use the acquisition method set out in IFRS 3, whereas in other cases, entities use some type of book-value method).*

Transactions within the scope of the project

5 *In paragraphs 1.12 to 1.16 of the DP, the IASB notes that its project covers, for the receiving company, all transfers of a business under common control, even when the transfer is:*

(a) *preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or*

(b) *conditional on a sale of the combining companies to an external party, such as in an initial public offering.*

6 *It is worth noting from the above that the so-called "group restructurings" or "capital reorganisations" (e.g., transactions that involve the transferring of a business to a newly established parent company) are in the scope of the project. These transactions involve a transfer of a business under common control but do not meet the definition of a business combination in IFRS 3*[1]*. This means that the scope of the IASB's project is wider than the scope exclusion in IFRS 3 on combinations of entities or businesses under common control.*

7 *It is also worth noting that the IASB proposals would not only apply to the consolidated financial statements of an entity but would also apply to the individual and separate financial statements of the receiving company in certain cases (e.g. if the combination involves the transfer of an unincorporated business).*

8 *For the transactions under the scope of the project, which are currently not addressed by IFRS Standards, the IASB is exploring possible reporting requirements for a receiving company in order to reduce diversity in practice and improve the transparency of reporting these combinations. The ultimate goal is to fill a 'gap' in IFRS Standards on the transactions identified above.*

Transactions not within the scope of the project

9 *In paragraph 1.13 of the DP, the IASB explains that the project is not considering reporting requirements for other types of transactions under common control that do not involve the transfer of a business (e.g., transfers of assets). In Appendix B of the DP, the IASB provides two transactions that are outside the scope of the project:*

(a) *a transfer of a company that does not have a business; and*

(b) *a transfer of an associate.*

10 *Finally, in paragraph 1.23 of the DP, the IASB notes that the project is not addressing how a receiving company should report in its separate financial statements an investment in a subsidiary received in a business combination under common control. That topic is addressed by IAS 27 Separate Financial Statements.*

Question 1

Paragraphs 1.10–1.23 discuss the IASB's preliminary view that it should develop proposals that cover reporting by the receiving company for all transfers of a business under common control (in the Discussion Paper, collectively called business combinations under common control) even if the transfer:

(a) is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or

(b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering.

[1] Transactions that involve the transferring of a business to a newly established parent company are unlikely to meet the definition of a business combination under common control due to questions on whether control of the new company is transitory.

Do you agree with the IASB's preliminary view on the scope of the proposals it should develop? Why or why not? If you disagree, what transactions do you suggest that the IASB consider and why?

EFRAG's response

EFRAG agrees with the scope proposed by the IASB in its Discussion Paper as defined in paragraphs 1.10 to 1.23 of the DP. In particular, EFRAG welcomes that both BCUCC and group restructurings are in the scope of this project.

However, EFRAG considers that the IASB should avoid identifying or labelling "group restructurings" as a BCUCC, particularly when the arrangement does not meet the definition of a business combination in IFRS 3.

EFRAG also considers that the IASB should, as result of this project, examine the description of "combination of entities or businesses under common control" in IFRS 3. In particular, EFRAG recommends consideration of whether there is a need to improve the description (e.g., clarify the meaning of "transitory control") and/or align it with the definition used in this project.

Finally, EFRAG considers that other common control transactions (e.g., transfer of a group of assets that does not meet the definition of a business, acquisition of an interest in an associate or joint venture from an entity under common control in the individual financial statements, and acquisition of equity investments in subsidiaries, associates and joint ventures from entities under common control in the separate financial statements) are important topics that need to be discussed in the future.

General comments

11 EFRAG welcomes the IASB's discussion paper on BCUCC and supports the general objective of the DP to provide users of financial statements with information that is more relevant and comparable.

12 EFRAG agrees that there is a need to address the existing diversity in practice in the way entities account for BCUCC transactions and the difficulties for users of financial statements in comparing the effects of BCUCC on entities' financial position and financial performance.

Definition of business combinations under common control

13 In paragraph 1.15 of the DP, the IASB refers to BCUCC as those that involve the transfer of a business under common control, even if the transfer is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies (i.e., the receiving company and the transferred company) to an external party; or is conditional on a sale of the combining companies to an external party.

14 In the DP, the notion of BCUCC is different from and wider than the notion of "combinations of entities or businesses under common control" in IFRS 3. This is because the definition of BCUCC in the DP also includes transfers of a business under common control when the transfer does not meet the description of a business combination in IFRS 3 (such as in group restructurings).

15 This approach has the advantage of addressing a wider range of transfers of businesses (e.g., group restructurings) and avoids past discussions on the description of combinations of entities or businesses under common control in IFRS 3 (e.g., Transitory common control, IFRIC Update—March 2006). However, this approach has the disadvantage of creating two definitions of a BCUCC in IFRS Standards, with one of them (from the DP) including transfers of a business under common control even when the transfer does not meet the definition of a business

combination in IFRS 3. EFRAG is concerned that this will be confusing to stakeholders.

16 Therefore, EFRAG considers that it would be useful to:

(a) have both BCUCC and group restructurings in the scope of this project but avoid identifying or labelling group restructurings that are not a business combination as a BCUCC. More specifically, when the arrangement does not meet the definition of a business combination in IFRS 3 (e.g., when a business is transferred to a new established parent company and the latter does not meet the definition of a business), EFRAG considers that such transactions should be labelled, defined and analysed separately in this project; and

(b) examine the description of "combination of entities or businesses under common control" in IFRS 3, in particular whether there is a need to clarify the existing definition (e.g., clarify the meaning of "transitory control") and/or align it with the definition used in this project.

17 Finally, EFRAG suggests that the IASB uses the terms "entities" or "businesses" rather than "companies" in the DP, as the transfer of businesses may involve a transfer of an unincorporated business (for example, a business operated by an individual person and not within a corporate structure) or of a business that was an unincorporated branch or other part of a company, rather than an entire company.

Question to Constituents

18 Some stakeholders have raised questions about the meaning of 'transitory control', for example, in submissions to the IFRS Interpretations Committee. The IASB avoids the discussion on transitory control by including in the scope all transfers of business under common control.

19 Do you consider that it is important to clarify the meaning of "transitory control" for BCUCC, even if in the DP, the IASB addresses the issue by including in the scope all transfers of business under common control?

Transactions within the scope of the project

20 EFRAG agrees with the scope proposed by the IASB in its DP as defined in paragraphs 1.10 to 1.23 of the DP.

21 In particular, EFRAG welcomes that group restructurings in which control remains within the original group (e.g., transfer of a business into a newly formed entities), are within the scope of the project. This is because many questions arise where a common control transaction involves the establishment of a new parent entity within the group (e.g., IFRS Interpretation discussions on "transitory common control", "business combinations involving newly formed entities" and "factors affecting the identification of the acquirer").

22 Nonetheless, EFRAG notes that 'group restructurings' is not a defined term and that the description used in paragraph 1.15 of the DP is very generic. EFRAG would welcome more guidance that would describe the type of transactions that it would include (e.g., demergers, such as a spin-off of a subsidiary or business).

Transactions outside the scope of the project

23 EFRAG notes that "common control transactions" is a wide notion that encompasses more than business combinations. For example, it includes:

(a) the transfer of a group of assets that does not meet the definition of a business;

(b) the transfer of an associate to an entity in the same group; and

(c) acquisition of equity investments in subsidiaries, associates and joint ventures from entities under common control in the separate financial statements, particularly when considering the IASB's proposals on BCUCC that involve the transfer of an unincorporated business.

24 Common control transactions may have a significant impact in the receiving company's financial statements, particularly in its separate financial statements, as these transactions may not be subject to market forces (e.g., contribution or sale of assets for a low price between entities within the same group).

25 For these transactions, an entity has to apply the general principles in IFRS Standards, including IAS 24 *Related Party Disclosures* for common control transactions. This raises measurement questions, including those related to contributions or distributions of equity.

26 Therefore, consideration should be given in the future as to whether IFRS Standards need to be modified when dealing with common control transactions such as:

(a) a transfer of a group of assets that does not meet the definition of a business (*the revised definition of a 'business' in IFRS 3 issued on 22 October 2018 (with effective date 1 January 2020) might result in fewer transactions being accounted for as a transfer of a business as opposed to group of assets. The tension between the definition of a 'business' and group of assets, including exercising judgement in a different way, might create structuring opportunities*);

(b) acquisition of an interest in an associate or joint venture from an entity under common control (*IFRIC Update—May 2013: IAS 28 Investments in Associates and Joint Ventures and IFRS 3 Business Combinations—Associates and common control*); and

(c) sale of equity investments (subsidiaries, associates and joint ventures) between entities under common control in the separate financial statements (EFRAG's Discussion Paper Separate Financial Statements).

27 EFRAG sees this DP as a first step in that direction as the conclusions the IASB reaches on this project may have implications for the analysis of the accounting for other transactions under common control and the broader issues of transfer pricing.

28 For example, whether it is appropriate to recognise any assets transferred or services rendered between group entities at their fair values rather than at the transaction price. Or whether such assets transferred or services rendered should be accounted for at the predecessor value.

Question to Constituents

29 Do you consider that the definition of BCUCC as described in the DP:

(a) results in transactions being included in the scope of the project that should not be within the scope; and

(b) are there transactions outside the scope of the project that should be within the scope?

Section 2: Selecting the measurement method

Main considerations in selecting the measurement method

Notes to constituents – Summary of proposals in the DP

30 In paragraph 2.15 of the DP, the IASB explains that when selecting the measurement method to be used for BCUCC, the IASB considered:

(a) *whether and when BCUCC are similar to business combinations within the scope of IFRS 3; and*

(b) *what information would be most useful to users of the receiving company's financial statements subject to cost–benefit trade-off and other practical considerations.*

31 *In its deliberations as described in paragraph 2.16 of the DP, the IASB rejected the view that all BCUCC are different in substance from business combinations within the scope of IFRS 3 and should be accounted for differently. The IASB argued that BCUCC always have economic substance for the receiving company because the receiving company gains control of a business it did not previously control, similar to a business combination within the scope of IFRS 3.*

32 *Furthermore, in paragraph 2.17 of the DP, the IASB elaborates that some BCUCC result in a change in the ultimate ownership interests in the economic resources transferred in the combination, just as occurs in business combinations within the scope of IFRS 3. Specifically, this occurs when the receiving company has non-controlling shareholders that acquire an ownership interest in economic resources that they did not previously have. In those circumstances, whilst ultimate control is retained by the controlling party, its ownership interest in the transferred business is reduced. Hence, such a BCUCC has a substantive effect on both the receiving company and its shareholders and is not a mere reallocation of economic resources within the group.*

33 *Therefore, the IASB's view in paragraph 2.20 of the DP is that a transfer to the non-controlling shareholders of the receiving company of ownership interest in the economic resources of the transferred company has a widespread effect on how similar the combination is to a business combination within the scope of IFRS 3. Consequently, when such a transfer occurs, that transaction is similar to business combinations within the scope of IFRS 3 and should be accounted for similarly. Therefore, the IASB decided to set the dividing line between applying the acquisition method and a book-value method on whether the transfer affects the non-controlling shareholders of the receiving company or not.*

34 *Additionally, the composition of users who rely on the receiving company's financial statements for meeting their information is similar to the composition of users in a business combination covered by IFRS 3. Therefore, to the extent BCUCC are similar to business combinations covered by IFRS 3, the acquisition method should be applied.*

35 *Consequently, the IASB's tentative view is that the acquisition method should be applied to BCUCC that affect non-controlling shareholders of the receiving company, subject to the cost-benefit trade-off and other practical considerations (see question 3). In all other BCUCC that do not affect non-controlling shareholders of the receiving company, a book-value method should be applied, including all combinations between wholly-owned companies.*

Question 2

Paragraphs 2.15–2.34 of the DP discuss the IASB's preliminary views that:

(a) neither the acquisition method nor a book-value method should be applied to all business combinations under common control.

Do you agree? Why or why not? If you disagree, which method do you think should be applied to all such combinations and why?

(b) in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving

company, subject to the cost–benefit trade-off and other practical considerations discussed in paragraphs 2.35–2.47 of the DP.

Do you agree? Why or why not? If you disagree, in your view, when should the acquisition method be applied and why?

(c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly-owned companies.

Do you agree? Why or why not? If you disagree, in your view, when should a book-value method be applied and why?

EFRAG's response

EFRAG agrees that a single measurement approach is not appropriate for all BCUCC. Some BCUCC have features in common with business combination within the scope of IFRS 3 and therefore should be accounted for similarly. Other BCUCC are more akin to reallocations of economic resources across the reporting group without changing the ownership interest in those resources.

EFRAG supports the application of the acquisition method to BCUCC that affect the non-controlling shareholders of the receiving company, subject to the cost-benefit and other practical considerations. EFRAG agrees that a change in the ownership interest of the non-controlling shareholders results in a transaction similar to a business combination within the scope of IFRS 3. Additionally, applying the acquisition method to BCUCC when the non-controlling shareholders of the receiving company are affected by the transfer is objective and well understood.

Finally, EFRAG considers that applying a book-value method to all other BCUCC where ownership interest of the controlling party is unchanged would produce more relevant information about the transaction at lower costs. EFRAG further recommends that the IASB reconsiders the application of the book-value method in situations when a private entity has publicly listed debt instruments as suggested in paragraph 64.

Neither acquisition method nor book-value method applied to all BCUCC

36 EFRAG supports the use of more than one measurement method and considers that a single measurement approach is not appropriate for all BCUCC. BCUCC transactions are usually governed by the controlling party and may have a different economic substance. EFRAG notes that although the ultimate controlling party retains control over the transferred business, in some BCUCC transactions the ownership interest of the controlling party might change as a result of the transfer. Therefore, it is necessary to consider the different economic substance of those transactions in order to apply an appropriate measurement method.

37 EFRAG is of the view that the application of the acquisition method is appropriate when the substance of the BCUCC transactions is similar to business combinations within the scope of IFRS 3, for example, when the ownership interest of the ultimate controlling party has changed. The application of the acquisition method to such BCUCC transactions will result in similar transactions being accounted for in a similar manner. Additionally, the acquisition method is already described in IFRS 3 and is well understood by both users and preparers. However, EFRAG observes that the application of the acquisition method may be costly to apply and a cost-benefit trade-off should be considered.

38 In other BCUCC transactions, where non-controlling shareholders are not affected and there is only a transfer of economic resources within the reporting group and no change of ownership interest of the controlling party, a book-value method would be more appropriate to apply. Such transactions represent simple reallocation of

resources within the group and book values will provide more relevant information to users of the receiving company's financial statements. A book-value method allows users to continue performing a trend analysis of the combining companies. EFRAG also observes that a book-value method, as described in the DP, would generally be less costly to apply to BCUCC transactions than the acquisition method.

39 EFRAG acknowledges that there is a need to have a clear dividing line between when to apply the acquisition method and when to apply a book-value method to BCUCC transactions. It is also important that this dividing line appropriately distinguishes between BCUCC with different economic substance and an appropriate measurement method is applied to each BCUCC.

40 However, EFRAG cautions that the dual measurement approach proposed in the DP might create structuring opportunities for entities to apply either the acquisition method or a book-value method. For example, for the purpose of applying particular measurement method to a BCUCC, an entity might introduce minority shareholders who would hold only a few shares with a pre-agreed deal to buy those shares back afterwards.

41 Furthermore, EFRAG observes that, in practice, regulators or local law may enforce certain accounting treatment as to whether book values or fair values are used for BCUCC. This creates potential tension between BCUCC requirements in IFRS Standards and existing regulatory requirements and local law, such as tax and insolvency laws.

Acquisition method to be applied if BCUCC affects non-controlling shareholders of the receiving entity

42 EFRAG supports the application of the acquisition method to BCUCC where there are non-controlling shareholders in the receiving company. This will result in similar accounting applied to similar transactions both under common control and acquisitions within the scope of IFRS 3, thereby increasing comparability in reporting.

43 EFRAG agrees that when there is a change in the ownership interest of the non-controlling shareholders in the transferred business, the BCUCC is similar in substance to a business combination within the scope of IFRS 3. Applying the acquisition method to such combinations will provide more relevant information to users of the receiving company's financial statements.

44 Furthermore, applying the acquisition method to BCUCC when the non-controlling shareholders of the receiving company are affected by the transfer is objective and easy to use in practice.

Book-value to be applied to all other BCUCC

45 EFRAG agrees with applying a book-value method to BCUCC transactions where there are no non-controlling shareholders of the receiving company. In those transactions, the controlling party is the only existing shareholder of the receiving company and neither its control over the combining companies nor its ownership interest changes.

46 Additionally, in a BCUCC where there are no non-controlling shareholders of the receiving company, a book-value method is likely to produce relevant information for users of the receiving company's financial statements at minimal costs. Furthermore, because the controlling party controls the receiving company, it does not need to rely on the receiving company's general purpose financial statements to meet its information needs. Therefore, applying a book-value method would provide more relevant information about the economic substance of the transactions.

47 However, EFRAG recommends that the IASB should further consider the application of any book-value method. In particular, under the proposals in the DP, a privately-held entity which has listed debt instruments would qualify to apply a book-value method in a BCUCC. This raises concerns about the lack of relevance of the approach for debt holders.

48 Finally, EFRAG suggests that the IASB either further aligns the book-value method with the measurement bases under the *Conceptual Framework* or explains the conceptual differences if there is a departure from the *Conceptual Framework*. EFRAG acknowledges that a departure from the *Conceptual Framework* is possible, however, it is important to explain the conceptual differences between a transaction under common control (BCUCC) and acquisition of an asset under IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

Questions to Constituents

49 Do you agree that a single measurement approach is not appropriate for all BCUCC? Based on the pros and cons of applying the acquisition method (described in paragraph 37) and a book-value method (described in paragraph 38), do constituents support these two methods being applied to particular subset of BCUCC?

50 In your jurisdiction, are there any requirements on how to account for BCUCC?

(a) If so, describe the requirements;

(b) If not, what is the current practice in your jurisdiction?

(c) For (a) and (b) above, where is the difference between the consideration paid by the receiving company and the acquired net assets recognised when:

(i) the consideration paid is higher than the acquired net assets; and

(ii) the consideration paid is lower than the acquired net assets?

The cost–benefit trade-off and other practical considerations for combinations that affect non-controlling shareholders

Notes to constituents – Summary of proposals in the DP

51 Having tentatively decided that the acquisition method should be applied to BCUCC that affect non-controlling shareholders of the receiving company, the IASB further considered whether that method should be applied to all or only to some such combinations.

52 First, the IASB reached the preliminary view that the acquisition method should be applied to BCUCC if the receiving company's shares are traded in a public market. In paragraph 2.39 of the DP, the IASB explains that minimum listing requirements or capital markets regulations would typically prevent the listing of shares when the ownership interest of non-controlling shareholders in the company is insignificant. In this way quantitative considerations will be applied indirectly without having to set an arbitrary threshold that would create opportunities for accounting arbitrage. A similar condition is already used in IFRS Standards to determine which information must be provided in some specific cases.

53 Second, in paragraph 2.40 of the DP, the IASB considered how to weigh the benefits of applying the acquisition method against the costs if the receiving company's shares are not publicly traded. For privately-held companies, the benefits of applying the acquisition method might not outweigh the costs if non-controlling shareholders hold an insignificant ownership interest in the company and they do not necessarily rely on the company's financial statements to meet their information needs.

54 *Therefore, the IASB tentatively decided to allow privately held companies to 'opt out' from the acquisition method and to apply a book-value method instead. For combinations that affect non-controlling shareholders in privately held companies, the DP proposes to provide:*

(a) *an optional **exemption** from the acquisition method - the receiving company should be permitted to use a book-value method rather than the acquisition method if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected; and*

(b) *a related-party **exception** to the acquisition method - the receiving company should be required to use a book-value method rather than the acquisition method if all of its non-controlling shareholders are related parties of the company, as defined in IAS 24 Related Party Disclosures.*

55 *In paragraph 2.43 of the DP, the IASB explains that the optional exemption is designed in a way which would lead to a more appropriate trade-off between benefits and costs than simply requiring companies to seek explicit consent for the use of a book-value method. At the same time, it allows non-controlling shareholders to require the use of the acquisition method when they consider that fair value information is important to them.*

56 *On the related-party exception, in paragraph 2.45 of the DP, the IASB argues that a privately held receiving company whose non-controlling shareholders are related parties might not need to rely on its general purpose financial statements to meet their information needs, hence, the benefits of applying the acquisition method in those cases might not justify the costs. Additionally, requiring a book-value method in those cases would prevent structuring opportunities by issuing shares to related parties in order to obtain a particular accounting outcome.*

Question 3

Paragraphs 2.35–2.47 of the DP discuss the cost–benefit trade-off and other practical considerations for business combinations under common control that affect non-controlling shareholders of the receiving company:

(a) In the IASB's preliminary view, the acquisition method should be required if the receiving company's shares are traded in a public market.

Do you agree? Why or why not?

(b) In the IASB's preliminary view, if the receiving company's shares are privately held:

(i) the receiving company should be permitted to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected (the optional exemption from the acquisition method).

Do you agree with this exemption? Why or why not? Do you believe that the exemption will be workable in practice? If not, in your view, how should such an exemption be designed so that it is workable in practice?

(ii) the receiving company should be required to use a book-value method if all of its non-controlling shareholders are related parties of the company (the related-party exception to the acquisition method).

Do you agree with this exception? Why or why not?

(c) If you disagree with the optional exemption (Question 3(b)(i)) or the related-party exception (Question 3(b)(ii)), in your view, how should the benefits of applying the acquisition method be balanced against the costs of applying that method for privately held companies?

EFRAG's response

EFRAG considers that establishing an appropriate dividing line between applying the acquisition method and a book-value method to BCUCC is very important for achieving the project's objectives. The decision tree currently proposed by the IASB applies a measurement method depending on whether the receiving entity's equity instruments are traded in a public market. EFRAG considers that the decision tree can be modified to reverse Step 1 and Step 2 and expand the scope of entities (e.g., with publicly traded debt or with public accountability). Furthermore, EFRAG notes that selecting the measurement method will depend heavily on the definition of a public market which may not be robust enough to distinguish between BCUCC transactions with different economic substance. EFRAG also suggests that the IASB clarifies the meaning of the term 'traded' as used in the DP. Therefore, EFRAG is consulting its constituents to determine the best way to set a dividing line between the two measurement methods suggested in the DP.

EFRAG supports the optional exemption from the acquisition method for privately-held entities because it will provide cost relief to such entities from applying the acquisition method. EFRAG acknowledges that a similar concept exists in IFRS Standards for providing disclosures, however, not for measurement purposes. EFRAG questions whether cost-benefit consideration is a sufficient conceptual basis for the exemption, which suggests selecting a measurement method based on the decision taken by the non-controlling shareholders of the receiving entity.

EFRAG supports the related-party exception to the acquisition method for BCUCC affecting the non-controlling shareholders of a privately-held receiving entity. However, EFRAG is consulting its constituents on whether the related-party exception should be optional rather than required.

Acquisition method for publicly traded receiving company

57 EFRAG observes that establishing an appropriate dividing line as to when to apply the acquisition method or a book-value method to BCUCC is conceptually very important when recommending a measurement approach for BCUCC transactions.

58 The DP includes a decision tree to help companies select whether to apply the acquisition method or a book-value method to a BCUCC, where:

(a) Step 1 of the decision tree establishes whether the receiving company has non-controlling shareholders; and

(b) Step 2 makes further reference to whether the receiving company's equity instruments are publicly traded.

59 EFRAG acknowledges that a reference to publicly-traded shares is already used in IFRS Standards to determine what information should be disclosed. However, the use of publicly-traded shares has not been applied for selecting a measurement method.

60 Furthermore, EFRAG notes that the selection of a measurement method as described in the DP will depend on the definition of a public market. The description of a public market used in the DP is consistent with the one used in IFRS Standards – 'a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets'. However, EFRAG recommends that the IASB further consider whether the description of a public market is robust enough for creating the dividing line between when to apply the acquisition method and when to apply a book-value method because the description of a public market currently refers to both regulated and non-regulated (over-the-counter) markets. Furthermore, EFRAG suggests that the IASB clarifies the meaning of the term 'traded' as used in the DP.

61 EFRAG also considers that the decision tree on when to apply the acquisition method or the book-value method should be better explained and supported with further examples. For instance, illustrating the accounting in case of a listed entity effecting a carve-out with the intention to have a NewCo listed on a public market.

62 EFRAG is of the view that reversing the order of Step 1 and Step 2 in the decision tree will result in a more relevant outcome as entities with shares traded in a public market typically have non-controlling interest and users' needs for BCUCC are the same as those for business combinations within the scope of IFRS 3. Thus, it is more relevant and logical to start with Step 2. For this reason, EFRAG proposes a revised decision tree where the order of Step 1 and Step 2 is swapped. Appendix 2 provides an illustration of the proposed new decision tree as suggested in this paragraph.

63 In accordance with EFRAG's proposed decision tree, entities that have shares traded in a public market would always apply the acquisition method. Public companies usually have significant number of non-controlling shareholders for whom the acquisition method will provide relevant information. Conversely, if the receiving company is privately-held, it often has limited number of non-controlling shareholders. Those non-controlling shareholders might not be dependent on the general purpose financial statements and be able to obtain the information they need in a different way. In accordance with EFRAG's proposed decision tree, the book-value method could be only applied by privately-held entities, which would be a more pragmatic approach and provide a better balance between the costs and usefulness of information.

64 In addition to reversing the order of Step 1 and Step 2 of the decision tree, EFRAG suggests that the scope of Step 1 be modified by considering the following options:

(a) Option 1 - Step 1 to include only receiving companies with publicly traded shares as suggested in the IASB's DP ('publicly traded shares' option); or

(b) Option 2 - Step 1 to include receiving companies with publicly traded shares or publicly traded debt instruments[2] ('publicly traded shares or debt' option). This option is based on the fact that receiving companies with publicly traded shares or publicly traded debt have accountability to investors that warrant the same information being provided for the transaction. EFRAG proposed revised decision tree is included in Appendix 2; or

(c) Option 3 – Step 1 to include receiving companies with publicly traded shares or publicly traded debt instruments or hold assets in a fiduciary capacity ('public accountability' option). This option tries to extend the scope of Step 1 by considering public interest entities which have wider public objectives; however, they are not necessarily entities with instruments traded in a public market. Because of their economic importance, such entities are usually scrutinised by local laws that impose strict accounting requirements.

Questions to Constituents

65 Do you agree with EFRAG's suggestion in paragraph 62 to reverse the order of Step 1 and Step 2 of the decision tree when selecting the measurement method for BCUCC?

66 Considering the options provided in paragraph 64 on how to modify the scope of the IASB's decision tree for selecting the measurement method for BCUCC, which option do you prefer? Please explain what your main considerations are for selecting that particular option.

[2] In line with the definition of publicly traded company under the IAS Regulation.

Optional exemption from the acquisition method

67 EFRAG supports the optional exemption from the acquisition method for privately-held entities with existing non-controlling shareholders because it will result in less costs for those entities compared to applying the acquisition method to BCUCC.

68 EFRAG observes that the condition that non-controlling shareholders did not object the receiving company providing book value information for the transfer is similar to provisions already existing in IFRS Standards. This condition, which relates to providing disclosures, has been tested and has proven to be workable in practice. However, EFRAG questions whether cost-benefit consideration is a sufficient conceptual basis for the exemption, considering that it will determine a measurement method for BCUCC based on a decision taken by the non-controlling shareholders.

Question to Constituents

69 Considering the proposed options to modify the IASB's decision tree as explained in paragraphs 62 and 64, do you consider that applying the optional exemption from the acquisition method, in particular, requesting approval from non-controlling shareholders would raise any concerns? Please explain.

Related-party exception to the acquisition method

70 EFRAG supports the related-party exception to the acquisition method for BCUCC affecting the non-controlling shareholders of a privately-held receiving entity based on a cost-benefit consideration and information being generally available to related parties without them having to rely on general purpose financial statements.

71 However, EFRAG observes that in certain situations in which all the non-controlling shareholders are also related parties to the receiving company, it is possible that these non-controlling shareholders do not have the information they need about the transaction, for example, investors with significant influence over the reporting entity.

Question to Constituents

72 Considering the arguments in paragraph 71, do you agree that the related-party exception provided by the IASB should be rather 'permitted' under the proposals and not 'required'? If you disagree, please explain.

Extending the exemption and exception to publicly traded companies

Notes to constituents – Summary of proposals in the DP

73 The DP further explores whether the optional exemption and the related-party exception from applying the acquisition method should also apply to publicly traded companies.

74 Paragraph 2.50 of the DP acknowledges that for publicly traded companies, the optional exemption might be more difficult to apply as such companies often have many shareholders which frequently change their share ownership compared to privately held companies which are likely to have a more stable ownership.

75 Extending the application of the optional exemption to publicly traded companies might also be more difficult to justify on cost-benefit grounds because non-controlling shareholders in a publicly traded receiving company are likely to hold a significant ownership interest in that company and would need to rely on its financial statements. Furthermore, those non-controlling shareholders are likely to change more often than in a privately held company, therefore, the non-controlling

shareholders who will use the information about the combination might not be the same as the shareholders who were consulted by the receiving company whether to use a book-value method.

76 Consequently, paragraph 2.52 of the DP suggests that extending the optional exemption from the acquisition method to publicly traded companies, would require the exemption for privately held companies to be designed in a different way to achieve the appropriate accounting outcomes and be operational.

77 The DP also explores the possibility of extending the related-party exception to publicly traded companies. Paragraph 2.53 of the DP suggests that the related-party exception may have little practical application for publicly traded companies because listing requirements or capital market regulations often limit how many shares of a publicly traded company can be held by related parties to the receiving company. It will be, therefore, unusual for all the non-controlling shareholders of a publicly traded receiving company to be related parties of that company.

Question 4

Paragraphs 2.48–2.54 of the DP discuss suggestions from some stakeholders that the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies. However, in the IASB's preliminary view, publicly traded receiving companies should always apply the acquisition method.

(a) Do you agree that the optional exemption from the acquisition method should not be available for publicly traded receiving companies? Why or why not? If you disagree, in your view, how should such an exemption be designed so that it is workable in practice?

(b) Do you agree that the related-party exception to the acquisition method should not apply to publicly traded receiving companies? Why or why not?

EFRAG's response

EFRAG agrees with the IASB that the optional exemption from the acquisition method should not be extended to publicly traded companies. Such companies usually have many non-controlling shareholders that rely on the general purpose financial statements of the receiving company. The non-controlling shareholders of a publicly traded company also change share ownership frequently which could result in potential shareholders being provided with information which was requested by the previous shareholders of the receiving company.

Likewise, EFRAG agrees with the IASB that the related-party exception to the acquisition method should not be extended to publicly traded receiving companies. EFRAG is of the view that situations in which all non-controlling shareholders are related parties to the receiving company are not common in Europe and extending the exception will have very limited application, if at all.

78 EFRAG agrees with the IASB's proposal not to extend the optional exemption from the acquisition method to publicly traded receiving companies with non-controlling shareholders because:

(a) publicly traded receiving companies usually have a large number of non-controlling shareholder that rely on general purpose financial statements of the receiving company. Therefore, extending the optional exemption to publicly traded companies would result in potential non-controlling shareholders being provided with information based on the decision taken by consulting the previous non-controlling shareholders of the receiving company;

(b) it might be more difficult to operationalise the optional exemption from the acquisition method compared to privately-held receiving companies. Publicly traded receiving companies usually have a larger number of external non-controlling shareholders which could change regularly and it would be difficult to trace and obtain consent from non-controlling shareholders regarding what measurement method to be used; and

(c) extending the optional exemption to publicly traded companies with non-controlling shareholders will allow different measurement methods to be used for similar BCUCC. Consequently, some non-controlling shareholders will be provided with fair value information and some non-controlling shareholders will have book value for the same type of BCUCC transaction. This will reduce comparability within and across entities.

79 Similarly, EFRAG agrees with the IASB's proposal not to extend the related-party exception to the acquisition method to publicly traded receiving companies. EFRAG notes that situations when all non-controlling shareholders are related parties to a publicly traded receiving company are not common in Europe and extending the exception will have very limited application, if applied at all.

80 Furthermore, EFRAG's proposed options to modify of the scope of the decision tree as explained in paragraph 64, would make the exception complex to apply for publicly traded receiving companies.

Section 3: Applying the acquisition method

Notes to constituents – Summary of proposals in the DP

81 In paragraph 3.6 of the DP, in a business combination under common control, the receiving company and the transferring company might not have been involved in deciding how much consideration is paid. Instead, the controlling party might have determined the amount of consideration. Any difference between that amount and the amount that would have been paid to an unrelated party in an arm's length transaction indicates that the combination includes an additional component—a transaction with the owners acting in their capacity as owners which may indicate the existence of a distribution from equity or a contribution to equity.

Distributions from equity

82 A distribution from equity is when the fair value of consideration paid by the receiving company is higher than in an arm's length transaction.

83 Similar to IFRS 3, the IASB considers that overpayment is unlikely to be detectable or known at the acquisition date and that the measurement of overpayment would be difficult, if not impossible, to quantify. Also, IASB research for this project and stakeholder input suggest that distributions to the controlling party are unlikely to occur in such combinations because many jurisdictions have legal requirements and regulations that are designed to protect the interests of non-controlling shareholders.[3]

84 Therefore, in paragraph 3.14 of the DP, the IASB reached the preliminary view that it should not develop a requirement for the receiving company to identify, measure and recognise a distribution to the controlling party when applying the acquisition method.

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[3] Any distribution from equity would transfer wealth from those non-controlling shareholders to the transferring company, and ultimately to the controlling party.

85 Instead, if the consideration paid is greater than the identifiable acquired assets and liabilities, it is initially included in goodwill recognised in a business combination and is addressed through subsequent testing of goodwill for impairment.

86 The IASB is considering possible improvements to IFRS 3 in the IASB's Discussion Paper Business Combinations - Disclosures, Goodwill and Impairment, including improved disclosure requirements designed to help investors and analysts understand whether the price paid in a business combination was reasonable. This would also provide useful information for BCUCC transactions.

Contributions to equity

87 A contribution to equity is when the fair value of the consideration paid by the receiving company is lower than in an arm's length transaction.

88 As stated in paragraph 81 above, the controlling party might have determined the amount of consideration. Therefore, the amount may be different from the full amount of the contribution to equity (i.e., considering an arm's length transaction between unrelated parties). In addition, determining the full amount of the contribution would be difficult. As a result, as per paragraph 3.19 of the DP, the IASB has reached the preliminary view that it should develop a requirement for the receiving company in a business combination under common control to recognise any excess of the fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, rather than as a gain in the statement of profit or loss.

Question 5

Paragraphs 3.11–3.20 discuss how to apply the acquisition method to business combinations under common control.

(a) In the IASB's preliminary view, it should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach for identifying and measuring a distribution from equity do you recommend and why? In particular, do you recommend either of the two approaches discussed in Appendix C or do you have a different recommendation?

(b) In the IASB's preliminary view, it should develop a requirement for the receiving company to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, not as a bargain purchase gain in the statement of profit or loss, when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach do you recommend and why?

(c) Do you recommend that the IASB develop any other special requirements for the receiving company on how to apply the acquisition method to business combinations under common control? If so, what requirements should be developed and why are any such requirements needed?

EFRAG's response

EFRAG welcomes the IASB's discussions on the notion of distributions from and contributions to equity but acknowledges that these are difficult to be measured and unlikely to occur in practice. If a distribution from equity occurs, EFRAG agrees that the IASB should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity but rather recognise

any difference between the fair value of consideration paid and the fair value of identifiable acquired assets and liabilities entirely as goodwill.

When the consideration paid is lower than the identifiable assets and liabilities acquired in the business combination, EFRAG understands the rationale for the IASB proposals to recognise the difference in equity as a contribution. EFRAG also supports consistency with the requirements in IFRS 3 (i.e., recognising a gain in profit or loss). However, EFRAG is consulting its constituents on the treatment of contributions to equity, before reaching its final view.

Moreover, EFRAG suggests that the IASB provides further guidance on identifying the acquirer, both when entities apply the acquisition method and when they apply a book-value method, particularly when the transaction involves a NewCo.

Distributions from equity

89 EFRAG welcomes the IASB's discussions on the notion of distributions from equity. However, EFRAG considers that these distributions would be unlikely in practice when an entity applies the acquisition method as non-controlling shareholders are affected. In such circumstances, EFRAG considers that the consideration paid is expected to be priced at arm's length. Thus, EFRAG considers that entities should apply the acquisition method in full when applying the acquisition method to BCUCCs.

90 In the unlikely event that a distribution from equity occurs, EFRAG agrees with the IASB's tentative decision not to develop a requirement for the receiving company to identify, measure and recognise a distribution from equity. EFRAG considers that any difference between the fair value of consideration paid and the fair value of identifiable acquired assets and liabilities should be recognised entirely as goodwill (i.e., no support for recognising a distribution resulting from the excess between the fair value of the consideration paid and the fair value of the acquired business). EFRAG supports the difference being recognised as goodwill for the following reasons:

(a) recognition of a distribution from equity would only increase complexity of reporting the transaction and result in higher costs for preparers compared to the excess being recognised as goodwill. The calculation of the distribution would be too complex and judgemental thus questioning the relevance and reliability of the results;

(b) this treatment is consistent with IFRS 3 whereby goodwill is initially recognised and then subsequently tested for impairment. Therefore, any excess consideration paid over the identifiable acquired assets and liabilities would be subsequently addressed via the goodwill impairment testing; and

(c) dividing the excess between a distribution from equity and goodwill would result in significant judgement, e.g., an overpayment is unlikely to be evident or known at the acquisition date and that the overpayment would be difficult, if not impossible, to quantify.

Contributions to equity

91 EFRAG welcomes the IASB's discussions on the notion of contributions to equity. However, EFRAG considers that these contributions are unlikely to occur in practice because the controlling party is unlikely to allow a transfer of wealth to non-controlling shareholders. EFRAG also acknowledges it would be difficult to measure a full amount of this contribution to equity.

92 EFRAG considers two alternatives when applying the acquisition method to BCUCCs:

(a) Alternative 1 relates to the IASB's proposals in the DP; while

(b) Alternative 2 relates to consistency with the requirements in IFRS 3.

Alternative 1

93 As mentioned above, since measuring the full amount of the contribution to equity is complex, EFRAG understands the rationale for the IASB's proposals to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity (i.e., only a portion of the contribution is recognised).

94 Reasons considered for a portion of the contribution to be recognised as part of equity are as follows:

(a) This should not be recognised as a gain in the statement of profit or loss because, the difference between the consideration paid and the fair value of identifiable acquired assets and liabilities does not represent an actual gain in a transaction where the ultimate controlling party does not change;

(b) Recognition within equity instead of in the statement of profit or loss would minimise any management structuring opportunities; and

(c) This portion not being recognised as a bargain purchase gain in the statement of profit or loss is consistent with paragraph 106 of IAS 1 *Presentation of Financial Statements*. That is, these BCUCC are transactions with owners acting in their capacity as owners and based on IAS 1 requirements should be reported in the receiving entity's statement of changes in equity.

Alternative 2

95 However, EFRAG notes that there may be transactions that are at arm's length and lead to the recognition of a bargain purchase. For example, the receiving company may expect future losses from the acquired company because the business is loss-making or because of internal restructuring. Therefore, in such circumstances, an entity would incorrectly recognise the gain from a bargain purchase directly in equity.

96 Considering all these challenges, EFRAG also supports consistency with IFRS 3 when applying the acquisition method to BCUCCs, i.e., recognising a gain in profit or loss (without recognition of a contribution).

Any other special requirements

97 EFRAG notes that the DP is focused on the receiving entity and appears to assume that the receiving entity is always the acquirer under the requirements in IFRS 3. However, EFRAG observes that identifying the acquirer, particularly in cases that involve a NewCo, might be challenging. Therefore, EFRAG considers that it would be useful to have guidance on identifying the receiving entity (the acquirer) in BCUCC when the acquisition method is applied. Likewise, identifying the receiving entity (the acquirer) is relevant for a BCUCC to which a book-value method is applied, in particular, when providing pre-combination information about the combining entities in the transaction.

98 Furthermore, EFRAG considers that further developing relevant definitions for both distributions from equity and contributions to equity would be useful in order to clearly understand the concepts being considered under the acquisition method.

Questions to Constituents

99 Which of the two alternatives do you consider will provide the most useful information? Please explain.

100 If neither, which other approach do you recommend and why?

Section 4: Applying a book-value method

Measuring the assets and liabilities received

Notes to constituents – Summary of proposals in the DP

101 As per paragraph 4.13 of the DP, using the transferred company's book values to measure the assets and liabilities received in BCUCC would:

(a) *provide uninterrupted historical information about the transferred company, that is useful in analysing trends;*

(b) *present the perspective of the combining companies, rather than the perspective of the controlling party; and*

(c) *provide information about the assets and liabilities of the combining companies, on a consistent basis.*

102 The IASB's view is that, from a conceptual standpoint, using the transferred company's book values is more appropriate than using the controlling party's book values because the controlling party is not a party to the combination of the receiving company with the transferred company.

103 Footnote 29 of the DP states that the book values of the assets and liabilities received might need to be adjusted to align them with the receiving company's accounting policies. Therefore, if the transferred company does not produce financial statements based on IFRS Standards for example, the book values of the transferred entity may need to be adjusted applying IFRS 10.

Question 6

Paragraphs 4.10–4.19 discuss the IASB's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should measure the assets and liabilities received using the transferred company's book values.

Do you agree with the IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

EFRAG's response

EFRAG considers that both the use of the carrying amounts in the consolidated financial statements of the transferred company's controlling party and use of the carrying amounts in the financial statements of the transferred company can provide decision-useful information for users.

Nonetheless, before reaching its final view, EFRAG is consulting its constituents on how the receiving company should measure the assets and liabilities received from the transferred company.

104 There are two possible approaches that EFRAG is aware of to measure the assets and liabilities received by the receiving company:

(a) Carrying amounts included in the financial statements of the transferred company (as suggested by the DP); or

(b) Carrying amounts included in the consolidated financial statements of the transferred company's controlling party (or ultimate controlling parties).

105 The advantages of using the transferred company's book values (the IASB's preferred option), when compared to that of the controlling party, are that this approach:

(a) provides uninterrupted historical information about the transferred company, that is useful in analysing trends;

(b) treats the assets and liabilities of the combining companies on the same basis. That is, continued measurement at book values previously reported by the transferred company;

(c) reflects the view that the ownership within a group has simply been moved from one part of the group to another (no significant incremental value of the group); and

(d) is consistent with the Conceptual Framework which focuses on information about transactions and events from the perspective of the company that prepares the financial statements. In this case, it could be argued that the controlling party is not a party to the transaction.

106 Disadvantages of using the transferred company's book values, when compared to that of the controlling party, are that:

(a) this approach does not provide a more recent valuation of the assets and liabilities acquired;

(b) this approach does not take into consideration the perspective of the controlling party as the transaction does not change the controlling party's control over the assets and liabilities received;

(c) the transferred company may not have prepared its financial statements in accordance with IFRS Standards or may not have prepared any financial statements at all. Therefore, the book values of the transferred company may have to be adjusted to align with the receiving company's accounting policies applying IFRS 10; and

(d) using the book values of the controlling party would enable consistent accounting policies within the group.

Questions to Constituents

107 EFRAG acknowledges that in some jurisdictions, the local regulator may dictate that a particular method be used. What approach is currently being applied in the financial statements in your jurisdiction? Please provide a description of this approach.

108 Do you agree with using the transferred entity's book values or with using the controlling party's book values? Please explain your reasons why.

109 If you do not agree with either approach, what approach do you suggest and why?

Measuring the consideration paid

Notes to constituents – Summary of proposals in the DP

110 IASB's research indicates that consideration is usually paid in cash or in the receiving company's own shares, but sometimes in non-cash assets or by incurring or assuming liabilities.

Consideration paid in own shares

111 Consideration paid in the receiving company's own shares could be measured for example at fair value or at par value (where available). Measurement of the consideration paid in the form of own shares would affect presentation within the receiving entity's equity but would not affect the total carrying amount of the entity's equity or any assets, liabilities, income or expenses recognised by the receiving entity.

112 In paragraph 4.21 of the DP, the IASB notes that their research indicated that when a book-value method is applied in practice and the consideration paid is in own shares, the consideration is measured at their par value or a nominal value.

113 The DP suggests that the difference between consideration paid in shares and the book value of the assets and liabilities received should be recognised within equity. This difference could affect amounts reported within components of the receiving company's equity.

114 The measurement of issued shares and reporting of components within a reporting company's equity are often affected by national requirements and regulations. These are generally not prescribed in IFRS Standards. Also, the measurement of the consideration paid in own shares would not affect the receiving company's assets, liabilities, income or expenses or its total equity. For those reasons, as per paragraph 4.28 of the DP, the IASB has reached a preliminary view that it should not prescribe how to measure the consideration paid in the receiving company's own shares.

Consideration paid in assets

115 The IASB has reached the view that the benefits of measuring the consideration paid in assets at the fair value of those assets may not outweigh the costs of doing so for the following reasons.

116 Measuring the consideration paid in assets at their fair values could be costly and could involve significant measurement uncertainty. In addition, measuring the consideration paid in assets at their book values, rather than at their fair values, would be more consistent with measuring the assets and liabilities received at their book values. Also, information about the gain or loss on disposal may be of limited use to users of the receiving company's financial statements.

117 Therefore, as per paragraph 4.36 of the DP, the IASB's preliminary view is that the receiving company should measure the consideration paid in assets at the receiving company's book values of those assets at the combination date.

Consideration paid by incurring or assuming liabilities

118 The IASB has not identified convincing reasons to require the consideration paid by incurring or assuming liabilities to always be measured at fair value. Instead, the IASB has reached a preliminary view that such consideration should be measured at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards as per paragraph 4.42 of the DP. As a result, in some cases, the applicable IFRS Standard would require measuring the liability at fair value.

Question 7

Paragraphs 4.20–4.43 discuss the IASB's preliminary views that:

(a) the IASB should not prescribe how the receiving company should measure the consideration paid in its own shares when applying a book-value method to a business combination under common control; and

(b) when applying that method, the receiving company should measure the consideration paid as follows:

  (i) consideration paid in assets—at the receiving company's book values of those assets at the combination date; and

  (ii) consideration paid by incurring or assuming liabilities—at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards.

Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

EFRAG's response

EFRAG agrees with the IASB proposal to not prescribe how the receiving company should measure the consideration paid in its own shares.

In addition, EFRAG agrees with the measurement proposed in the DP for consideration paid in assets and consideration paid by incurring or assuming liabilities. However, EFRAG observes that the consideration paid in assets is not consistent with the requirements of IFRIC 17 *Distributions of Non-cash Assets to Owners* on how to measure non-cash assets distributed as dividends. Therefore, EFRAG suggests that the IASB considers allowing the use of fair value measurement for consideration paid in assets as the information may be relevant for creditors and other lenders.

Consideration paid in own shares

119 EFRAG agrees with the IASB proposal to not prescribe how the receiving company should measure the consideration paid in its own shares. EFRAG agrees with the IASB that the reporting of components within a reporting company's equity and the measurement of issued shares for the purpose of that reporting are often affected by national requirements and regulations, and are generally not prescribed in IFRS Standards.

Consideration paid in assets

120 EFRAG agrees with the IASB's preliminary view that consideration paid in the form of assets would be measured at the receiving entity's book values of those assets at the combination date. This is consistent with the measurement approach which focuses on book value rather than fair value. In addition, it is likely to be less costly and burdensome to use book value rather than fair value.

121 EFRAG notes that the approach taken by the IASB to measure the consideration paid in the form of assets at their book values at the date of the combination may appear to be inconsistent with a scenario where the entity first sells the asset at fair value and uses the cash proceeds received as consideration in a BCUCC. However, EFRAG considers that these are two different situations because the transaction in the form of assets is not a disposal of assets while if the entity first sells the assets, there would be a disposal of these assets.

122 Furthermore, EFRAG acknowledges that measuring the consideration paid in assets at fair value could be costly and involve significant measurement uncertainty. However, EFRAG suggests that the IASB considers allowing the use of fair value measurement, particularly in light of IFRIC 17 *Distributions of Non-cash Assets to Owners*, where an entity has to measure a liability to distribute non-cash assets as a dividend at the fair value of the net assets to be distributed (even if IFRIC 17 does not currently apply to common control transactions).

Consideration paid by incurring or assuming liabilities

123 EFRAG agrees with the IASB's proposals to measure the carrying amounts of those liabilities determined at the combination date in accordance with applicable IFRS Standards as this would provide the most useful information about those liabilities in such BCUCC transactions. Furthermore, it would ensure consistency as IFRS Standards would continue to be applied to subsequent measurement of those liabilities.

Other comments

124 EFRAG considers that the consideration paid in BCUCC can take additional forms such as exchange of interests in businesses in a group restructuring. The receiving entity may exchange an existing business in order to obtain the transferred company. In this case, EFRAG questions how the consideration would be measured.

Question to Constituents

125 Are there other forms of consideration paid apart from those identified in the DP, e.g., consideration paid in the form of a transfer of an unincorporated business, and how common are these forms of payment?

Reporting the difference between the consideration paid and book value of assets and liabilities received

Notes to constituents – Summary of proposals in the DP

126 The IASB's research on the project indicates that, in practice, when applying a book-value method, any difference between the consideration paid and the book value of the assets and liabilities received in a BCUCC is typically recognised within the receiving company's equity.

127 The IASB has also reached the view that recognising that difference in the receiving company's equity is more appropriate than recognising it as an asset, liability, income or expense. The IASB's reasons include that, in accordance with the IASB's preliminary views, a book-value method would be applied BCUCC which might not be subject to any regulations applicable to related party transactions (see paragraphs 2.28–2.29 of the DP) and which might therefore include a contribution to or distribution from the receiving company's equity.

128 In terms of presentation in equity, IFRS Standards generally do not prescribe within which component of equity particular amounts should be presented. Often, the presentation of components of equity depends on national laws, regulations or other requirements in particular jurisdictions. Accordingly, as per paragraph 4.49 of the DP, the Board has reached the preliminary view that it should not prescribe within which component of equity the receiving company should present any difference between the consideration paid and the book value of the assets and liabilities received.

Question 8

Paragraphs 4.44–4.50 discuss the IASB's preliminary views that:

(a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and

(b) the IASB should not prescribe in which component, or components, of equity the receiving company should present that difference.

Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

EFRAG's response

EFRAG agrees to recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received.

EFRAG also agrees with not specifying in which component(s) of equity the difference between consideration paid and assets and liabilities received should be presented.

129 Not all of the difference arising from applying the book-value method necessarily constitutes a contribution to or a distribution from the receiving company's equity nor an income or expense. The difference may include one or more of the following:

(a) the difference between the consideration paid and what would have been paid in an arm's length transaction, i.e., constituting a contribution to or a distribution from the receiving company's equity;

(b) any unrecognised goodwill (pre-existing goodwill in the transferred company and any synergies). However, EFRAG considers that, since the consideration paid may not be priced at arm's length, recognising any goodwill might result in measuring goodwill at an arbitrary amount that does not provide useful information; and

(c) other factors, such as measurement differences arising from measuring assets and liabilities received at their book values rather than their fair values and the effects of how the consideration paid is measured under a book-value method.

130 However, EFRAG does not support disaggregating these components as it is likely to be complex and costly. EFRAG considers it more appropriate to recognise any difference (between the consideration paid and the book value of the assets and liabilities received) within equity:

(a) based on cost-benefit considerations, since the book-value method should only be applied to particular BCUCC;

(b) BCUCC involves related parties, these transactions may include a contribution to or distribution from the receiving company's equity;

(c) this is consistent with the Conceptual Framework, paragraph F4.4(b) that states that "*income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants*"; and

(d) this is also consistent with IAS 1 which states that transactions with owners acting in their capacity as owners should be reported in the receiving entity's statement of changes in equity.

131 EFRAG also agrees with not specifying in which component or components of equity the difference between consideration paid and assets and liabilities received should be presented. This is because allocation to components of equity is not generally prescribed under IFRS Standards and such specification is commonly addressed by local legislation.

132 However, EFRAG considers that the impact on equity might be significant in cases where the consideration paid is at fair value. This impact will also depend on how far in the past the transferred entity was acquired by the controlling party. The longer the time since the acquisition, the more significant will be the negative impact on the receiving entity's equity.

Reporting transaction costs

Notes to constituents – Summary of proposals in the DP

133 *Based on paragraph 4.55 of the DP, the IASB has identified no reason for the book-value method to treat transaction costs differently from the approach required by IFRS 3.*

134 *Under IFRS 3, acquisition-related costs incurred are separate transactions in which the buyer pays for services received. These costs are not part of the exchange between the buyer and the seller of the busines. Accordingly, the costs of those services received and consumed during the period should be recognised as expenses (except for costs to issue shares or debt instruments).[4]*

135 *In addition, the IASB has indicated that book-value methods typically use the same approach for transaction costs.*

Question 9

Paragraphs 4.51–4.56 discuss the IASB's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.

Do you agree with the IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

EFRAG's response

EFRAG agrees with the IASB's preliminary view that transaction costs should be recognised as an expense when incurred except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.

136 Transaction costs may include advisory, legal, accounting and other professional fees for BCUCC transactions.

137 The IASB's proposal is consistent with the requirement for transaction costs under IFRS 3. The IASB's rationale in developing IFRS 3 was that costs are not part of the exchange between the buyer and the seller for the business. Rather, they are separate transactions in which the buyer pays for the services received. EFRAG agrees with this reasoning.

138 Therefore, EFRAG agrees to recognise transaction costs incurred in BCUCC as an expense in the period in which they are incurred and to recognise costs related to the issue of debt or equity instruments in accordance with IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*.

[4] Paragraphs BC365–BC370 of the Basis for Conclusions to IFRS 3.

Providing pre-combination information

Notes to constituents – Summary of proposals in the DP

139 From a practical perspective, the IASB noted that the retrospective approach[5] would be more costly to apply than a prospective approach[6]. Furthermore, the two approaches would provide different information only in the period in which the combination occurs and in the following period. Differences between the approaches would not cause differences in financial statements for later periods.

140 The IASB has also concluded that the benefits of information provided by a retrospective approach may be limited and may not outweigh the costs of providing that information. Accordingly, the IASB has reached the preliminary view that the receiving company should combine the transferred company's assets, liabilities, income and expenses prospectively from the combination date.

Question 10

Paragraphs 4.57–4.65 discuss the IASB's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information.

Do you agree with the IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

EFRAG's response

EFRAG agrees with the IASB proposals that the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information.

141 EFRAG acknowledges that currently, the local requirements/regulation of some jurisdictions require restatement of comparatives, while others do not. Therefore, the IASB proposals may change current reporting practice in some jurisdictions. However, EFRAG agrees that one of the key reasons for the IASB to propose a book-value method is based on a cost-benefit consideration. Therefore, prospective presentation of information of the transferred company could be seen to be consistent with the cost-benefit approach as retrospective application may be more costly. Furthermore, this presentation is consistent with the requirements in IFRS 3.

142 Therefore, EFRAG agrees with the IASB proposals.

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[5] That is, the receiving company's financial statements are prepared as if the combining companies had always been combined, with pre-combination information restated to include the transferred company's assets, liabilities, income and expenses from the beginning of the earliest period presented.

[6] That is, the receiving company's financial statements are prepared from the date of the combination without restating pre-combination information.

Questions to Constituents

143 EFRAG notes that the IASB proposal that the receiving entity should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information might create tension with current reporting requirements in some jurisdictions and be costly and difficult to apply in practice.

144 In your jurisdiction, do you currently provide pre-combination information about the transferred company prospectively as from combination date or retrospectively by restating comparatives? Please explain.

145 If you provide information retrospectively with pre-combination information restated, is it retrospective as from the beginning of the reporting period or as if the combining companies have always been combined?

146 Do you consider that providing pre-combination information about the transferred entity prospectively might be costlier than restating this information?

Section 5: Disclosure requirements

Disclosure when applying the acquisition method

Notes to constituents – Summary of proposals in the DP

147 The IASB reached a preliminary view that the acquisition method should be applied to BCUCC that affect non-controlling shareholders of the receiving company as discussed in Section 2 of the DP. The reason for its preliminary view is that BCUCC that affect non-controlling shareholders of the receiving company are similar to business combinations within the scope of IFRS 3. Furthermore, the composition of users of the receiving company's financial statements and their information needs are also similar to those in a business combination within the scope of IFRS 3. Consequently, the IASB's preliminary view is that the disclosure requirements in IFRS 3, together with possible improvements to those requirements set out in the Discussion Paper Business Combinations - Disclosures, Goodwill and Impairment, should also apply to BCUCC when the acquisition method is applied.

148 In reaching its preliminary view, the IASB also considered each of the disclosure requirements in IFRS 3 and each possible improvement to those requirements discussed in the Discussion Paper Business Combinations - Disclosures, Goodwill. The IASB has found no reason to exclude any of those requirements or any of those improvements for BCUCC when the acquisition method is used.

149 The IASB further considered whether additional information should be required for BCUCC because such combinations involve related parties and may not be priced at arm's length. For example, the amount of the consideration paid might differ from the amount that would have been paid to an unrelated party in an arm's length transaction. However, the IASB concluded that possible improvements to the IFRS 3 disclosure requirements as discussed in the Discussion Paper Business Combinations - Disclosures, Goodwill would help address the issue. Such possible improvements include the disclosure of additional information to help users of the financial statements assess whether the price paid in a business combination was reasonable, such as information about expected synergies.

150 Finally, IAS 24 applies to BCUCC. It requires the disclosure of information about the nature of the related party relationship, the amount of the consideration paid and any outstanding balances. If related party transactions were made on arm's length terms, IAS 24 requires that such disclosures are made only if those terms can be substantiated. The IASB concluded that it should provide application guidance to

help companies apply those disclosure requirements to BCUCC such as disclose information about governance process over the terms of the combination.

Question 11

Paragraphs 5.5–5.12 of the DP discuss the IASB's preliminary views that for business combinations under common control to which the acquisition method applies:

(a) the receiving company should be required to comply with the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations - Disclosures, Goodwill and Impairment*; and

(b) the IASB should provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 *Related Party Disclosures* when providing information about these combinations, particularly information about the terms of the combination.

Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

EFRAG's response

EFRAG supports the proposed disclosure requirements for BCUCC accounted for under the acquisition method. In EFRAG's view, the proposed disclosures will provide relevant information to users of financial statements about the business combination under common control.

151 EFRAG supports the proposed disclosure requirements for BCUCC accounted for under the acquisition method. In situations where BCUCC have similar substance to a business combination within the scope of IFRS 3, users of financial statements will be provided with similar information about the transaction. EFRAG considers that this will result in relevant information about the BCUCC.

Disclosure when applying a book-value method

Notes to constituents – Summary of proposals in the DP

152 The IASB preliminary decided to apply a book-value method to all BCUCC that do not affect non-controlling shareholders of the receiving company, and some combinations that affect such shareholders in specified circumstances as discussed in paragraphs 51-56. That is because such combination may not be similar to business combinations within the scope of IFRS 3. Furthermore, if there are no non-controlling shareholders in the receiving company, the composition of users that rely on the receiving company's financial statements for their information needs is also different from business combinations covered by IFRS 3.

153 In identifying possible disclosure requirements for BCUCC to which a book-value method would be applied, the IASB started by considering the disclosure requirements in IFRS 3. However, based on the differences in both common user information needs and the cost-benefit trade-off, as well as the differences between how a book-value method and the acquisition method would be applied, the IASB's preliminary view is that only some of the disclosure requirements in IFRS 3 would be appropriate when a book-value method applies, similarly only the related possible improvements to those disclosure requirements would be appropriate for these combinations.

154 The specific information needed to meet the requirements in IFRS 3 might differ from the information needed to be provided for BCUCC. Therefore, the IASB

reached the preliminary view that when a book-value method is used, companies should be required to disclose:

(a) *the name and a description of the transferred company, the combination date, the percentage of voting equity interests transferred to the receiving company, the primary reasons for the combination and a description of how the receiving company obtained control (paragraphs B64(a)–(d) of IFRS 3);*

(b) *the recognised amounts of each major class of assets received and liabilities assumed, including information about recognised amounts of liabilities arising from financing activities and defined benefit pension liabilities (paragraph B64(i) of IFRS 3 and the related preliminary view in the Discussion Paper Business Combinations - Disclosures, Goodwill and Impairment);*

(c) *the carrying amount of any non-controlling interest in the transferred company (paragraph B64(o) of IFRS 3);*

(d) *aggregate information for individually immaterial combinations that are material collectively (paragraph B65 of IFRS 3);*

(e) *information about combinations that occur after the end of the reporting period but before the financial statements are authorised for issue (paragraph B66 of IFRS 3);*

(f) *the amount and an explanation of any gain or loss recognised in the current reporting period that relates to assets and liabilities received in a business combination under common control that occurred in the current or previous reporting period, if such disclosure is relevant to understanding the receiving company's financial statements (paragraph B67(e) of IFRS 3); and*

(g) *whatever additional information is necessary to meet the disclosure requirements (paragraph 63 of IFRS 3).*

155 However, the IASB's view is that other disclosures required by IFRS 3 should not be required for BCUCC to which a book-value method is applied. For example, disclosure of the combination-date fair value of the consideration transferred, such as the fair value of non-monetary assets transferred. This is because applying a book-value method would not require fair value measurement and the costs of disclosing such information would outweigh the benefits. Furthermore, paragraph 5.21 of the Discussion Paper summarises those disclosure requirements which should not be required for BCUCC to which a book-value method applies.

156 Additionally, the IASB concluded that disclosure of pre-combination information for BCUCC to which a book-value method applies should not be required. This is because the benefits of the disclosure of pre-combination information when a book-value method is applied would not outweigh the costs.

157 Finally, the IASB's preliminary view is that the receiving company should disclose the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received, together with the component, or components, of equity that includes this difference.

Question 12

Paragraphs 5.13–5.28 of the DP discuss the IASB's preliminary views that for business combinations under common control to which a book-value method applies:

(a) some, but not all, of the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations - Disclosures, Goodwill and Impairment*, are appropriate (as summarised in paragraphs 5.17 and 5.19) of the DP;

(b) the IASB should not require the disclosure of pre-combination information; and

(c) the receiving company should disclose:

(i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and

(ii) the component, or components, of equity that includes this difference.

Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

EFRAG's response

EFRAG considers that the proposed disclosure requirements for BCUCC accounted for under the book-value method would provide relevant information about the transaction considering the specificities of BCUCC.

158 EFRAG supports the proposed disclosure requirements for BCUCC accounted for under the book-value method. The proposed disclosures would provide relevant information about the transaction considering the specificities of the BCUCC.

Appendix 2 – EFRAG's proposed diagram for selecting a measurement method for BCUCC and group restructurings