BUSINESS TRANSFERS UNDER COMMON CONTROL

POTENTIAL IMPACT OF THE IASB'S PROPOSALS

EFRAG SECRETARIAT BRIEFING, APRIL 2021

This Briefing is issued by the Secretariat of the European Financial Reporting Advisory Group (‘EFRAG’).

The publication of Briefings is part of EFRAG’s strategy to stimulate debate within Europe and clarify the IASB discussions on *Business Combinations under Common Control*. The views expressed in this Briefing are those of the EFRAG Secretariat and have not been approved by either EFRAG TEG or the EFRAG Board. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Any views expressed in this Briefing are tentative and reflect EFRAG Secretariat’s understanding of how the proposals included in the IASB’s discussion paper *Business Combinations under Common Control* might be applied. Given that a Discussion Paper does not provide the level of detail to be found in an Exposure Draft or Standard, others may assess the outcomes differently.

Due to the nature of the Briefing, the EFRAG Secretariat has not included questions to constituents. However, constituents may express their views on the topic when responding to the EFRAG draft comment letter. EFRAG will develop its final views after considering the feedback received from its constituents.

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Executive Summary

IASB's DP *Business Combinations under Common Control*

ES1 IFRS 3 *Business Combinations* outlines the accounting for mergers and acquisitions (i.e. business combinations). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.

ES2 However, IFRS 3 does not specify how to account for combinations of businesses under common control. The IASB's research project on *Business Combinations under Common Control* (BCUCC) is focused on filling this gap in IFRS Standards to improve the comparability and transparency of reporting these combinations.

ES3 On 30 November 2020, the IASB published the Discussion Paper *Business Combinations under Common Control* (DP). The DP explores possible reporting requirements for a receiving company in a business combination under common control that would reduce diversity in practice and improve the transparency of reporting these combinations. The DP has a comment period of 270 days and a comment deadline on 1 September 2021.

EFRAG work on BCUCC

ES4 In 2011, EFRAG highlighted the importance of having guidance on BCUCC and published the Discussion Paper *Accounting for Business Combinations under Common Control* jointly with the Organismo Italiano di Contabilita (OIC) (EFRAG/OIC DP). The scope of the EFRAG/OIC DP was limited to BCUCC in the consolidated financial statements of the acquirer.

ES5 More recently and shortly after the publication of the IASB's DP, EFRAG issued its draft comment letter (EFRAG DCL), where it welcomes the IASB's DP and the IASB's efforts to explore possible reporting requirements for BCUCC. Comments on the EFRAG DCL are welcome by 30 July 2021. The EFRAG DCL is available here.

Objective and structure of this Briefing

ES6 The objective of this Briefing is to stimulate debate on the outcome of the IASB's proposals when applied to specific transfers of businesses under common control, particularly those that raise questions about the application of IFRS Standards. Such debate will help EFRAG to assess the impact of the IASB proposals and its costs and benefits.

ES7 This Briefing starts by providing background information in Chapter 1: *Background*.

ES8 In Chapter 2: *Scope of the Project*, the EFRAG Secretariat focuses its analysis on the scope of the IASB project, particularly which transactions under common control fall within the scope of the IASB's DP on BCUCC.

ES9 Finally, in Chapter 3: *Applying the IASB Proposals*, the EFRAG Secretariat considers the application of the IASB's proposals. Firstly, the EFRAG Secretariat assesses the outcome of the IASB proposals when applied to different transactions. Subsequently, the EFRAG Secretariat assesses how the IASB's proposals would apply to questions raised to the IFRS Interpretations Committee. This builds on the previous assessments on the scope of the project (paragraph 2.7 of chapter 1) and the outcome of the IASB proposals (paragraph 3.13 of Chapter 2).

CHAPTER 1: BACKGROUND

IASB's work on Business Combinations under Common Control

1.1 In 2012, the IASB added the project on BCUCC to its research agenda as BCUCC are currently excluded from the scope of IFRS 3. The absence of a specifically applicable IFRS Standard created diversity in practice when preparing financial statements.

1.2 From 2014 to 2016, the IASB staff conducted several research and outreach activities to better understand the accounting practices for BCUCC.

1.3 In 2016, the IASB decided that the scope of the project should include transactions under common control in which the reporting entity obtains control of one or more businesses, this is irrespective of whether IFRS 3 would identify the reporting entity as the acquirer.

1.4 The IASB's project is focused on how to account for a BCUCC in the financial statements of the receiving company. The objective is to explore possible reporting requirements for BCUCC in order to reduce diversity in practice, improve transparency of reporting for BCUCC and provide relevant and comparable information to users of financial statements.

1.5 The IASB published the DP on 30 November 2020 with a comment period of 270 days and a deadline of 1 September 2021.

EFRAG's work on Business Combinations under Common Control

EFRAG proactive work in 2011

1.6 In 2011, a working group was set up by EFRAG in co-operation with the OIC in order to develop a discussion paper to stimulate debate at an early stage in the standard setting process.

1.7 EFRAG's joint Discussion Paper *Accounting for Business Combinations under Common Control* with the OIC's was issued in October 2011. The scope of the EFRAG/OIC DP was limited to BCUCC in the consolidated financial statements of the acquirer. The EFRAG/OIC DP is available here.

1.8 Comment letters were received from respondents within and outside Europe, which demonstrated the importance of, and interest in, this initiative.

1.9 In addition, EFRAG together with a number of National Standard Setters, organised four outreach events in Europe. The consolidated feedback on those events can be found here.

1.10 After considering the comments received on their DP, EFRAG and the OIC issued in December 2012 a feedback statement on the DP. This presented the analysis of comment letters received, together with EFRAG's and the OIC's responses to the issues raised by respondents. The feedback on the comments is available here.

EFRAG Draft Comment Letter

1.11 In February 2021, EFRAG issued its draft comment letter on the IASB's DP, where it welcomes the IASB's efforts to explore possible reporting requirements for BCUCC.

1.12 EFRAG notes that often-complex structures and arrangements under common control raise considerable challenges for financial reporting. As IFRS Standards are currently silent on how the entity receiving a business in a BCUCC should account for the transaction, there is diversity in practice which warrants attention.

The objective of this Briefing

1.13 The objective of this Briefing is to stimulate debate on the impact of the IASB's proposals when applied to specific transfers of businesses under common control, particularly those that raise questions about the application of IFRS Standards.

1.14 Such debate will help EFRAG to assess the impact of the IASB proposals and its costs and benefits.

1.15 In this Briefing, the EFRAG Secretariat considers the requirements in IFRS 3 and the IASB proposals included in the DP as currently drafted.

CHAPTER 2: SCOPE OF THE PROJECT

In this chapter, the EFRAG Secretariat focuses its analysis on the scope of the IASB's project. Specifically, the EFRAG Secretariat assesses which transactions under common control fall within the scope of the IASB's DP on BCUCC.

The scope of the BCUCC project as described by the IASB

2.1 In its DP, the IASB has reached the preliminary view that the BCUCC project should fill a 'gap' in IFRS Standards and cover all transfers of businesses under common control. This means all transfers in which all of the combining companies are ultimately controlled by the same party, irrespective of whether 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.

2.2 The proposed reporting requirements are developed from the perspective of the receiving company which obtains control of the transferred business. The receiving company can be both the immediate receiving company or a parent company of that immediate receiving company that did not control the transferee before the combination.

2.3 In general, the project is addressing how to report BCUCC in the receiving company's consolidated financial statements. However, in some cases (e.g. if the combination involves the transfer of an unincorporated business) the possible reporting requirements would also apply to other types of financial statements such as the separate or individual financial statements.

EFRAG preliminary comments on scope

2.4 EFRAG supports the proposed scope of the discussion paper to include all transfers of businesses under common control, including 'group restructurings'. However, EFRAG considers that the IASB should better define 'group restructurings' without labelling them as BCUCC when they do not meet the definition of a business combination in IFRS 3.

2.5 EFRAG suggests that the IASB should consider whether there is a need to improve the description of 'combination of entities or businesses under common control' in IFRS 3 (e.g., by clarifying the meaning of 'transitory control') and/or aligning it with the definition used in the DP.

2.6 EFRAG also suggests that the IASB considers common control transactions conceptually in a future project, including the effects on the separate financial statements.

Assessing which transactions are within the scope of the project

2.7 In the table below, the EFRAG Secretariat assesses which transactions under common control fall within the scope of the IASB's DP. All the transactions are between entities that are ultimately controlled by the same party (or parties).

Description of the transaction	Is it in the scope of the project?
Transfer of a group of assets that do not meet the definition of a business	❌ **No**, it is not within the scope of the project because it does not involve a transfer of a business (in accordance with paragraph 1.16 of the DP).
A transfer of an associate	❌ **No**, it is not within the scope of the project. The transfer of an associate is within the scope of IAS 28 *Investments in Associates and Joint Ventures.*
A transfer of a group of assets that constitutes a business (i.e., unincorporated business).	**Yes**, it is within the scope of the project. It would apply to consolidated, separate or individual financial statements of the receiving company.
A transfer of a subsidiary that is a business (i.e. in a separate legal entity).	**Yes**, it is within the scope of the project. However, the proposals would not apply to the separate financial statements of the receiving company. Transfer of an investment in a subsidiary is within the scope of IAS 27 *Separate Financial Statements.*
A business combination under common control that involves the formation of a new entity (Newco). This Newco is a legal shell that does not have a business. This can be due to internal restructuring or to facilitate the sale of part of an organisation (i.e. the transfer of the business under common control is followed by a sale of one or more of the combining companies to an external party), for example via an IPO of Newco.	**Yes**, it is within the scope of the project (group restructuring).
A business combination under common control that is preceded by an external acquisition.	**Yes**, it is within the scope of the project, regardless of whether control is transitory.
A business combination under common control that is followed by a sale to an external party.	**Yes**, it is within the scope of the project, regardless of whether control is transitory.
A BCUCC followed by a legal merger, where two subsidiaries that are legal entities are merged into one legal entity. In such situations, one of the legal entities ceases to exist as a separate legal entity and the survivor 'absorbs' all of the assets, liabilities	The transfer of a subsidiary that is a business to the receiving company is within the scope of the project, however, the proposals would not apply to the separate financial statements of the receiving company.

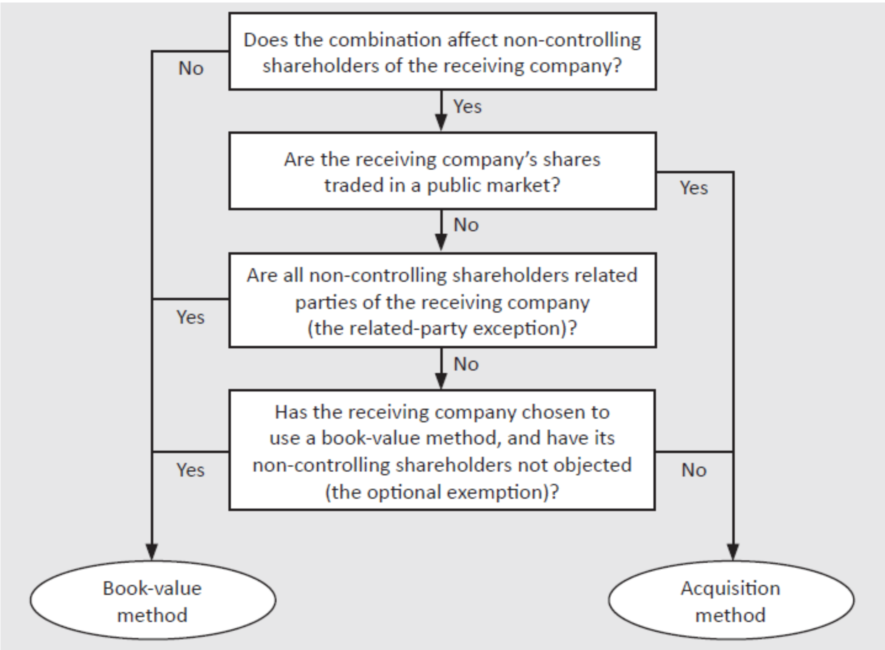
Description of the transaction	Is it in the scope of the project?
and activities of the entity that ceased to exist.	The legal merger that results from the legal absorption of the assets, liabilities and activities to the receiving company is not within the scope of the project.
Business combination between two different joint ventures that have the same shareholders. For example, entity A (a joint venture) is transferred to entity B (also a joint venture) and both are jointly controlled by the same shareholders.	**No**, it does not seem to be in the scope of the project. The DP does not provide specific guidance on the transfer of businesses involving entities that are jointly controlled by the same shareholders.
Transfer of interest in a joint venture within a group	**No,** it is not within the scope of the project. Transfer of a joint venture is within the scope of IAS 28.

In this chapter, the EFRAG Secretariat focuses on the application of the IASB's proposals. First, the EFRAG Secretariat assesses the outcome of the IASB's proposals when applied to different transactions. Subsequently, the EFRAG Secretariat assesses the application of the IASB's proposals to questions raised to the IFRS Interpretations Committee. This assessment builds on the previous assessments on the scope of the project (paragraph 2.7 of chapter 2) and the outcome of the IASB's proposals (paragraph 3.13 of Chapter 3).

Identification of key proposals included in the DP

3.1 In its DP, the IASB is proposing to fill the 'gap' in IFRS Standards when reporting BCUCC by the receiving company. The scope of the DP is wider than the scope exclusion in IFRS 3 for BCUCC.

3.2 The IASB is proposing to require the application of the acquisition method as described in IFRS 3 to BCUCC when the non-controlling shareholders (NCS) in the receiving company are affected by the transactions, subject to the cost benefit trade-off (related-party exception to the acquisition method and the optional exemption from the acquisition method). A book-value method should be applied to all other BCUCC, including all combinations between wholly-owned companies. The diagram below summarises the IASB's proposed approach.



3.3 When applying the acquisition method to BCUCC, the IASB is proposing that the receiving company applies the requirements in IFRS 3, except that the receiving company would be required to recognise any 'gain' from a bargain purchase as a contribution to equity and not as a gain in the statement of profit or loss.

3.4 When applying a book-value method to BCUCC, the IASB is proposing the following requirements:

a) *measurement of assets and liabilities received* - using the transferred company's book values;

b) *measurement of consideration paid*:

(i) *in its own shares* – the receiving company should not be prescribed on how to measure the consideration paid in its own shares;

(ii) *in assets* – at the receiving company's book values of those assets at the combination date;

(iii) *by incurring or assuming liabilities* – at the amount determined on initial recognition of the liabilities at the combination date applying IFRS Standards.

c) *reporting the difference between the consideration paid and the book value of the assets and liabilities received* – the receiving company should record this difference in equity. However, the IASB's preliminary view is that it should not prescribe in which component(s) of equity;

d) *reporting transaction costs* – the receiving company should expense the transactions costs as incurred except costs of issuing shares or debt instruments which should be accounted for in accordance with the applicable IFRS Standards;

e) *providing pre-combination information* – the receiving company should include the transferred company in its financial statements from the combination date, without restating pre-combination information.

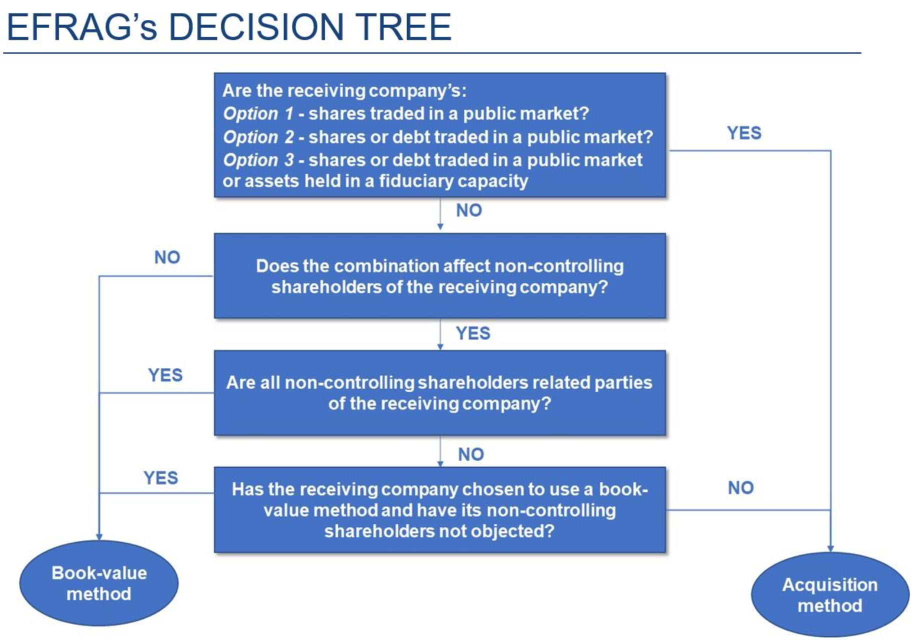
Key comments included in EFRAG DCL

3.5 EFRAG agrees that a single measurement method is not appropriate for all BCUCC. EFRAG also supports the application of the acquisition method to BCUCC that affect the NCS of the receiving company (with limited exceptions). However, EFRAG proposes a few modifications to the IASB's decision tree on when to apply each method. EFRAG is consulting constituents on two possible modifications:

a) Reversing Step 1 and Step 2 of the IASB's diagram; and

b) Expanding the scope of entities included in the proposed new Step 1 (three different options).

3.6 More specifically:



3.7 EFRAG cautions that the selection of the measurement method relies on the definition of a 'public market,' which includes both regulated and unregulated markets. EFRAG suggests that the IASB clarifies the meaning of the term 'traded'.

3.8 In relation to the acquisition method, EFRAG supports the optional exemption and the related-party exception to the acquisition method for privately-held entities with NCS. However, EFRAG is consulting constituents on whether the related-party exception should be optional rather than mandatory.

3.9 EFRAG generally agrees with the IASB's proposals on how to apply the acquisition method. More specifically, 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.

3.10 However, EFRAG is consulting constituents on whether to recognise a contribution to equity when the consideration paid is lower than the identifiable acquired assets and liabilities measured at fair value. EFRAG indicated the following alternatives:

a) Alternative 1 - support the rationale for the IASB proposals to recognise the difference in equity as a contribution to equity; or

b) Alternative 2 - support consistency with the requirements in IFRS 3 and recognise the difference as a gain in profit or loss.

3.11 EFRAG also generally agrees with the IASB's proposals on how to apply a book-value method. However, EFRAG is consulting constituents on:

a) *measurement of assets and liabilities received*: whether the carrying amounts in the consolidated financial statements of the transferor or the carrying amounts in the financial statements of the transferred company provide more relevant information for users;

b) *pre-combination information*: whether prospective reporting of the BCUCC is in conflict with current practice or with current reporting requirements in some jurisdictions and whether a retrospective approach would provide more useful information.

Assessing the outcome of the IASB proposals when applied to different transactions

3.12 The table below includes transactions which are within the scope of the DP as identified in paragraph 2.7 and summarises the EFRAG Secretariat's assessment of which measurement method to apply according to the decision tree in the IASB's DP. Given that a DP does not provide the level of detail to be found in an Exposure Draft or Standard, others may assess the outcomes differently.

3.13 In this Briefing, the EFRAG Secretariat considers both the requirements in IFRS 3 and the IASB proposals included in the DP. All the transactions are between entities that are ultimately controlled by the same party (or parties).

Description of the transaction	EFRAG Secretariat's assessment of the outcome
Transfer of a group of assets that constitutes a business (i.e., an unincorporated business)	The entity would have to go through the proposed decision tree in the DP (paragraph 2.55 of the DP): • If the receiving company is wholly-owned (no NCS),

Description of the transaction	EFRAG Secretariat's assessment of the outcome
	then it should apply a **book-value method.** • If the receiving company's shares are traded in a public market and it therefore has NCS, then it should apply the **acquisition method** in accordance with IFRS 3. However, the company shall present any gain from a bargain purchase as a contribution to equity. • If the receiving company is privately held, has NCS and all NCS are the entity's related parties, then it should apply the **book-value method**. • If the receiving company is privately held, has NCS and all of its NCS are not related parties of the company, then the entity has **an option** to apply the book-value method**,** if NCS have not objected. The DP's proposals will apply to the consolidated, separate or individual financial statements of the receiving company.
A transfer of a subsidiary that is a business (i.e. a separate legal entity)	The measurement methods applied are the same as explained above (case of the transfer of unincorporated business). However, the DP's proposals will only apply to the consolidated financial statements of the receiving company and not to its separate financial statements. The accounting for a transfer of an investment in a subsidiary in a BCUCC is within the scope of IAS 27 *Separate Financial Statements*.
A transfer of a business that involves the formation of a new entity (Newco) that it is just a legal shell and does not have a business. This transaction is to facilitate, in the future, the sale of part of the organisation to an external party (but **not an IPO**).	The entity would have to go through the proposed decision tree in the DP: • If the Newco is wholly-owned (no NCS), then it should apply the **book-value method**. The Newco will be identified as the receiving company because the legal structure of the transaction is considered when determining the acquirer under the book-value method. • In the unlikely event of a privately held Newco which has NCS and its NCS are all related parties, then the Newco should apply the **book-value method**. • If the Newco is privately held, has NCS and all of its NCS are not related parties of the Newco, then it should apply the **acquisition method** in accordance with IFRS 3, if its NCS objects to using a book-value method. If the Newco applies the acquisition method, it will need to identify the acquirer and present a gain from a bargain purchase within equity. The Newco would apply IFRS 3 even if the Newco is not a business itself. Nonetheless, the Newco may opt for the exemption provided by the IASB, where the receiving company (Newco) can apply a book-value method, if NCS have not objected.
A group plans to spin off two of its subsidiaries using a new entity ('Newco'). Newco will acquire these subsidiaries for cash from the parent company (Entity A)	The entity would have to go through the proposed decision tree in the DP. Assuming that the transfer of the business takes place just a moment before the IPO, then if there are no NCS

Description of the transaction	EFRAG Secretariat's assessment of the outcome
only on condition of the occurrence of Newco's initial public offering (IPO). The cash paid by Newco to Entity A to acquire the subsidiaries is raised through the IPO. After the IPO occurs, Entity A loses control of Newco. If the IPO does not take place, Newco will not acquire the subsidiaries.	in the Newco, the company would apply the **book-value method**. However, questions may raise if Entity A retains control after the IPO. This is because the Newco will have NCS as soon as the IPO actually takes place (raising questions on the link between the two events).
A business combination under common control that is preceded by an external acquisition.	The entity would have to go through the proposed decision tree in the DP: • If the receiving company is wholly owned (no NCS), then it should apply a **book-value method**. • If the receiving company's shares are traded in a public market and it therefore has NCS, then it should apply the **acquisition method** in IFRS 3. However, the entity shall present a gain from a bargain purchase within equity. • If the receiving company is privately held, has NCS and all the NCS are the entity's related parties, then it should apply the **book-value method**. • If the receiving company is privately held, has NCS and all of its NCS are not related parties of the company, then the receiving company has to apply the **acquisition method** but has an optional exemption and can apply the **book-value method** if NCS have not objected.
A business combination under common control that is followed by a sale to an external party.	The entity would have to go through the proposed decision tree in the DP: • If the receiving company is wholly-owned (no NCS), then it should apply a **book-value method**. • If the receiving company's shares are traded in a public market and it therefore has NCS, then it should apply the **acquisition method** in IFRS 3 to measure the unincorporated business. However, the entity shall present a gain from a bargain purchase within equity. • If the receiving company is privately held, has NCS and all the NCS are the entity's related parties, then it should apply a **book-value method**. • If the receiving company is privately held, has NCS and all of its NCS are not related parties of the company, then entity has to apply the **acquisition method** but has an optional exemption and can apply the **book-value method** if NCS have not objected.
A BCUCC followed by legal merger, where two subsidiaries that are legal entities are merged into one legal entity. In such situations, one of the legal entities ceases to exist as a separate legal entity and the survivor 'absorbs' all of the assets, liabilities and activities of the entity that ceased to exist.	The DP focuses only on the transfer of a business to the receiving company. The proposals would not apply to separate financial statements of the receiving company. When accounting for the transfer of the business, the entity would have to follow the proposed decision tree in the DP:

Description of the transaction	EFRAG Secretariat's assessment of the outcome
	• If the receiving company is wholly-owned (no NCS), then it should apply a **book-value method**. • If the receiving company's shares are traded in a public market and it therefore has NCS, then it should apply the **acquisition method** in IFRS 3 to measure the transaction. However, the entity shall present a gain from a bargain purchase within equity. • If the receiving company is privately held, has NCS and all the NCS are the entity's related parties, then it should apply the **book-value method**. • If the receiving company is privately held, has NCS and all of its NCS are not related parties of the company, then entity has to apply the **acquisition method** but has an optional exemption and can apply the **book-value method** if NCS have not objected.

The receiving company

3.14 Finally, we note that for the transactions mentioned above where an entity applies the book-value method, the accounting policies of the transferred company would have to be aligned with the accounting policies of the receiving company.

3.15 For example, if **Entity A** is a subsidiary and a parent at the same time, it would apply IFRS Standards in its (sub)consolidated financial statements. If there is a BCUCC with another subsidiary of the group (**Entity B**) that prepares its financial statements under local GAAP, the accounting policies of the transferred company **(Entity B)** would have to be aligned with the accounting policies of the receiving company (**Entity A**).

3.16 Finally, in accordance with paragraph 4.64 of the DP, the IASB has reached the view that "it should not develop application guidance on identifying the receiving company when applying a book-value method that considers factors other than the legal structure of the transaction". That is, when applying the book-value method, the legal structure of the transaction will determine which company is the receiving company for accounting purposes.

Transitory control

3.17 In the DP, the IASB does not consider whether control is transitory when defining its scope or when selecting a measurement method. In accordance with paragraph 1.16 of the DP, "the IASB has not yet considered whether to clarify the meaning of 'transitory control' because the outcome of this project could lead to the Board modifying or removing the scope exclusion in IFRS 3". Therefore, applying the IASB's preliminary views to the transactions mentioned above, a combination can be within the scope of the project regardless of whether control is transitory or not.

3.18 Nonetheless, it is worth noting that in accordance with the current IFRS 3, if control is considered transitory in any of the transactions included above, then the transaction is in the scope of IFRS 3 and the acquisition method has to be applied. An example would be a transfer of a business under common control that is preceded by an external acquisition.

3.19 If IFRS 3 is not changed in the future, this may create a scope conflict as both IFRS 3 and the DP seem to apply to transactions where control is transitory. Depending on the outcome of the BCUCC project, the IASB could modify or remove the scope exclusion in IFRS 3 for BCUCC. However, at this stage of the project it is undetermined whether scenarios that involve transitory control would fall in the scope of IFRS 3 or in the scope of the proposals in the BCUCC project.

Combinations that affect non-controlling shareholders of the receiving company

3.20 One key aspect of the IASB's proposals, is the notion of whether the receiving company has NCS that are affected by the combination. This notion is key, particularly when deciding on which method to use and when. The relevance of this notion can be seen in the IASB's decision tree in paragraph 2.55 of the DP, which starts with the question: *"Does the combination affect non-controlling shareholders of the receiving company?".*

3.21 In paragraph 2.20 of the DP, the IASB further explains the notion of combinations that affect NCS. More specifically, it refers to combinations that "result in a substantive change in the ownership interests in the economic resources of the transferred company".

3.22 The EFRAG Secretariat notes that affecting NCS may not be exactly the same as having NCS. The receiving company may have NCS which are not affected by the combination (when considering the definition in paragraph 2.20 of the DP). For example, the receiving company may have NCS which are also present in the transferring company. These NCS of the receiving company are not affected by the BCUCC when there is no change in their ownership interests in the economic resources of the transferred company.

3.23 The EFRAG Secretariat notes that in the table above, we have assumed that the NCS of the receiving company are not present in the transferring company. If the receiving company has NCS which are also present in the transferring company, the reporting entity would have to assess whether:

a) the NCS are not affected by the BCUCC; and

b) all NCS are related parties of the receiving company (the related-party exception).

3.24 Nonetheless, the EFRAG Secretariat acknowledges that questions may be raised on the notion of "affect non-controlling shareholders" as it could be seen from a wider perspective. For example, whether it affects relative position of NCS in the priority of claims of the receiving company (i.e. 'waterfall').

Do the IASB's proposals address the questions sent to the IFRS Interpretations Committee?

3.25 In this Briefing, the EFRAG Secretariat considers the requirements in IFRS 3 and the IASB proposals included in the DP as currently drafted.

3.26 The table below explores whether the DP's proposals help to resolve the questions sent to the IFRS Interpretations Committee regarding common control transactions. Given that a DP does not provide the level of detail to be found in an Exposure Draft or Standard, others may make a different assessment of whether the proposals address the questions sent to the IFRS Interpretations Committee.

Questions sent to the IFRS Interpretations Committee	Do the IASB's proposals address the questions sent to IFRS Interpretations Committee?
March 2006, Transitory Common Control The Interpretations Committee (the Committee) considered an issue regarding whether a reorganisation involving the formation of a new entity to facilitate the sale of part of an organisation is a business combination within the scope of IFRS 3. It was suggested to the Committee that, because control of the new entity is transitory, a combination involving that newly formed entity would be within the scope of IFRS 3. The Committee noted that, to be consistent, the question of whether the entities or businesses are under common control applies to the combining entities that existed before the combination, excluding the newly formed entity. Accordingly, the Committee decided not to add this topic to its agenda. The Committee also considered a request for guidance on how to apply IFRS 3 to reorganisations in which control remains within the original group. The Committee decided not to add this topic to the agenda, since it was unlikely that it would reach agreement in a reasonable period, in the light of existing diversity in practice and the explicit exclusion of common control transactions from the scope of IFRS 3.	These reorganisations are in the scope of the DP (as mentioned above, in the DP the IASB does not consider the issue of transitory control) and the entity would have to apply the proposed decision tree in the DP. • If the receiving company is wholly-owned (no NCS), it applies a **book-value method** and the difference between the consideration paid and the book values of the net assets acquired will be presented within equity; • If the receiving company has NCS (which is unlikely if the receiving company is the Newco), then it applies the acquisition method in accordance with IFRS 3. However, the entity would recognise a gain from a bargain purchase within equity. However, it is worth noting that if an entity assesses that control is transitory, in accordance with IFRS 3, it would be required to apply the acquisition method in accordance with IFRS 3. If IFRS 3 is not changed in the future, this could be seen as a scope conflict (as already detailed above).
January 2010, Combined financial statements and redefining the reporting entity The Committee received a request for guidance on whether a reporting entity may, in accordance with IFRS Standards, present financial statements that include a selection of entities that are under common control, rather than being restricted to a parent/subsidiary relationship as defined by IAS 27. The Committee noted that the ability to include entities within a set of IFRS financial statements depends on the interpretation of 'reporting entity' in the context of common control. The Committee noted that in December 2007 the IASB added a project to its research agenda to examine the definition of common control and the methods of accounting for BCUCC in the acquirer's consolidated and separate financial statements. The Committee also noted that describing the reporting entity is the objective of Phase D of the IASB's Conceptual Framework project. The Committee also received a request for guidance on whether a reporting entity may, in accordance with IFRS Standards, be redefined to exclude from comparative periods entities/businesses that have been carved-out of	The IASB DP focuses on all transfers of businesses under common control (i.e. companies or businesses that are ultimately controlled by the same party, both before and after the combination) by the receiving company. This DP does not focus on either the concept of 'reporting entity' or on the ability to include entities within a set of IFRS financial statements. However, the *Conceptual Framework* issued in 2018 discusses the reporting entity concept, including preparing financial statements for entities that are not all linked by a parent-subsidiary relationship.

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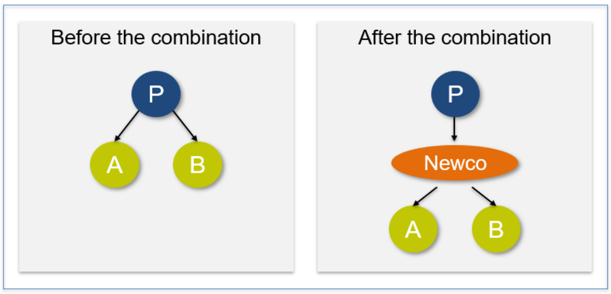
a group. The Committee noted that the Board's common control project referred to above will also consider the accounting for demergers, such as the spin-off of a subsidiary or business. Consequently, the Committee decided not to add these issues to its agenda.	
January 2010, Presentation of comparatives when applying the 'pooling of interests' method The Committee received a request for guidance on the presentation of comparatives when applying the 'pooling of interests' method for business combinations between entities under common control when preparing financial statements in accordance with IFRS. The Committee noted that IFRS 3 excludes from its scope 'a combination of entities or businesses under common control'. The Committee noted that resolving the issue would require interpreting the interaction of multiple IFRSs. Consequently, the Committee decided not to add this issue to its agenda.	The DP provides guidance on the presentation of comparatives when applying the book-value method. In accordance with the DP, 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.
September 2011, Business combinations involving newly formed entities: Factors affecting identification of the acquirer: The Committee received a request for guidance on the circumstances or factors that are relevant when identifying an acquirer in a business combination under IFRS 3. More specifically, the submitter described a fact pattern in which a group plans to spin off two of its subsidiaries using a new entity ('Newco'). Newco will acquire these subsidiaries for cash from the parent company (Entity P) only on condition of the occurrence of Newco's initial public offering (IPO). The cash paid by Newco to Entity P to acquire the subsidiaries is raised through the IPO. After the IPO occurs, Entity P loses control of Newco. If the IPO does not take place, Newco will not acquire the subsidiaries. The Committee observed that the accounting for a fact pattern involving the creation of a newly formed entity is too broad to be addressed through an interpretation or through an annual improvement. The Committee determined that the specific fact pattern submitted would be better considered within the context of a broader project on accounting for common control transactions, which the IASB is planning to address at a later stage. Consequently, the Interpretations Committee decided not to add the issue to its agenda and recommended the IASB to consider the fact pattern described in the submission as part of its project on common control transactions.	In the DP, the IASB proposes that if a book-value method is applied to the combination, the legal structure of the transaction is followed to identify the receiving company (paragraphs 4.63-64 of the DP). If the acquisition method is applied to a BCUCC, the guidance in IFRS 3 applies. In terms of the accounting for the transaction described, the entity would have to follow the proposed decision tree in the DP. 

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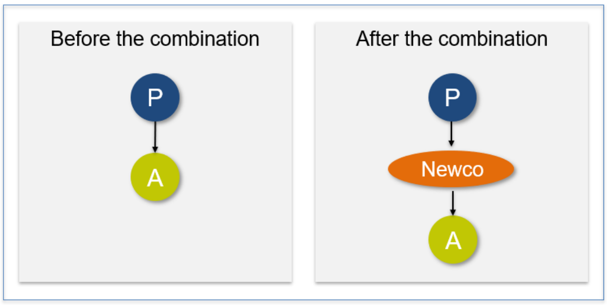
September 2011, Business combinations and common control transactions The Committee received a request for guidance on accounting for common control transactions. More specifically, the submission describes a fact pattern that illustrates a type of common control transaction in which the parent company (Entity P), which is wholly owned by Shareholder A, transfers a business (Business A) to a new entity (referred to as 'Newco') also wholly owned by Shareholder A. The submission requests clarification on (a) the accounting at the time of the transfer of the business to Newco; and (b) whether an initial public offering (IPO) of Newco, which might occur after the transfer of Business A to Newco, is considered to be relevant in analysing the transaction under IFRS 3. The Committee observed that the accounting for common control transactions is too broad to be addressed through an interpretation or through an annual improvement. The Committee determined that the specific fact pattern submitted would be better considered within the context of a broader project on accounting for common control transactions, which the IASB is planning to address at a later stage. Consequently, the Committee decided not to add the issue to its agenda and recommended the IASB to consider the fact pattern described in the submission as part of its project on common control transactions.	The common control transaction as described in the submission would fall within the scope of the DP. Under the proposed requirements, if the Newco is wholly-owned (no NCS), then it should apply a **book-value method**, regardless of whether the Newco constitutes a business or not. In such a case, the accounting policies of the transferred company would have to be aligned with the accounting policies of the receiving company (see paragraph 3.15 above). If the transaction only takes place if there is an IPO, then please see above. 
May 2013, IAS 28 and IFRS 3 —Associates and common control In October 2012, the Committee received a request seeking clarification of the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control. The submitter's question is whether it is appropriate to apply the scope exemption for BCUCC, which is set out in IFRS 3 *Business Combinations*, by analogy to the acquisition of an interest in an associate or joint venture under common control. The Committee observed that paragraph 32 of IAS 28 *Investments in Associates and Joint Ventures* has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between acquisition of an investment under common control and acquisition of an investment from an entity that is not under common control. The Committee also observed that paragraph 10 of IAS 8	The accounting for an acquisition of an interest in an associate or joint venture from an entity under common control is out of the scope of the DP.

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Accounting Policies, Changes in Accounting Estimates and Errors requires management to use its judgement in developing and applying an accounting policy only in the absence of a Standard that specifically applies to a transaction. The Committee also observed that paragraph 26 of IAS 28 states that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 *Consolidated Financial Statements*. That paragraph further states that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture. The Interpretations Committee also observed that paragraph 2(c) of IFRS 3 states that IFRS 3 does not apply to a combination of entities or businesses under common control. The Interpretations Committee observed that some might read these paragraphs as contradicting the guidance in paragraph 32 of IAS 28, and so potentially leading to a lack of clarity. The Interpretations Committee was specifically concerned that this lack of clarity has led to diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control. The Interpretations Committee noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of broader projects on accounting for BCUCC and the equity method of accounting. The Interpretations Committee also noted that the IASB, in its May 2012 meeting, added a project on accounting for BCUCC as one of the priority research projects. Consequently, the Interpretations Committee decided not to take this issue onto its agenda.	

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