

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

Planning outreach activities on BCUCC Cover Note

Objective

- 1 The purpose of this session is to seek EFRAG TEG and EFRAG CFSS views on planning outreach activities on BCUCC project in anticipation of the upcoming discussion paper on the project. The feedback received will be discussed at the Accounting Standards Advisory Forum (ASAF) meeting in October 2020.

Background

- 2 In 2016, the IASB added the BCUCC project to its research agenda and decided that the scope of the project should include transactions under common control in which the reporting entity obtains control of one or more businesses, regardless of whether IFRS 3 *Business Combinations* would identify the reporting entity as the acquirer. The focus of the project is how the receiving entity account for a BCUCC typically in its consolidated financial statements.
- 3 The IASB preliminary proposals on the project require an entity to apply:
 - (a) The **acquisition method** to all transactions that affect non-controlling shareholders of the receiving entity except when the receiving entity's equity instruments are not publicly traded and one of the following conditions applies:
 - (i) all non-controlling shareholders are related parties to the receiving entity; or
 - (ii) the receiving entity chooses to apply a predecessor approach and all its non-controlling shareholders have been informed about and do not object it; and
 - (b) A **book-value method** in all other cases.
- 4 When applying the acquisition method, entity will apply the acquisition method as set out in IFRS 3, except that excess net assets are recognised as a **contribution** to the receiving entity's equity instead of recognising that excess as a gain on a bargain purchase in the statement of profit or loss.
- 5 Applying a single form of a book-value method is to be specified in IFRS Standards.
- 6 The IASB is planning to issue a discussion paper (DP) on BCUCC in November 2020. The comment period for the DP will be set at the IASB meeting at the end of September.

IASB staff's tentative outreach plans

- 7 The IASB staff is planning to conduct outreach activities on the project with:

- (a) **Users of financial statements** – the aim is to hold one-on-one and small group discussions with users familiar with BCUCC transactions and discuss real-life examples to develop understanding of whether the IASB’s preliminary views would result in better information about BCUCC;
- (b) **Securities regulators and standard setters** – to conduct educational meetings to introduce preliminary views on the project and seek support in organising jurisdictional stakeholder engagement; and
- (c) **Preparers and auditors** – to target companies that undertook BCUCC transactions and seek feedback on costs and operational aspects of implementing the preliminary proposals and in particular, understanding the challenges that entities face applying the exemption from the acquisition method and applying a book-value method.

EFRAG outreach activities

- 8 In March 2020, EFRAG Secretariat performed a survey based on a questionnaire distributed to EFRAG CFSS members seeking their views on existing guidance and possible outreach activities on the BCUCC project. The results of the survey were discussed at the EFRAG TEG-CFSS meeting in July.
- 9 In general, the survey received limited feedback. Respondents to the survey indicated that majority of BCUCC transactions would be presented in the separate financial statements of the receiving entity which were prepared under local GAAP. Respondents found it difficult to estimate how common and frequent were such transactions when the receiving entity would have to report under IFRS Standards. Half of the respondents indicated that there was a local GAAP that provided guidance on BCUCC in their jurisdictions. The local guidance was either based on pooling of interest method arising from IAS 22 *Business Combinations* or was some type of predecessor method.
- 10 During the July EFRAG TEG-CFSS meeting, EFRAG Secretariat received indication from some jurisdictions interested in conducting outreach activities on the BCUCC project. Portuguese, Italian and Spanish national standard-setters commented that the tentative BCUCC proposals would have a direct and a significant impact in their jurisdictions and expressed interest to conduct outreach activities on the project along with EFRAG.
- 11 Currently, EFRAG Secretariat is planning to discuss the BCUCC proposal with EFRAG FIWG and EFRAG IAWG and deliver a key messages issues paper to EFRAG TEG’s consideration in October. Alongside this in October, EFRAG Secretariat is planning to start outreach activities on the project with national standard-setters, users and preparers interested in the project. After the discussion paper on the project is published EFRAG is planning to discuss the proposals with the EFRAG User Panel and possibly with the EFRAG Academic Panel.

Questions for EFRAG TEG-CFSS

- 12 How would you like to provide views on the BCUCC Discussion Paper?
- 13 Would you be willing to assist in identifying sample transactions and organising stakeholder engagement in your jurisdictions?
- 14 Do you have suggestions on how to facilitate effective engagement with stakeholders?
- 15 Do you have other advice and suggestions?

Agenda Papers

- 16 In addition to this cover note, agenda paper 07-02 – *ASAF BCUCC* – has been provided for the session.