Business Combinations under Common Control

Key messages for EFRAG DCL

Objective

1 The purpose of the session is to obtain views from the EFRAG TEG members on the IASB's tentative decisions on its research project *Business Combinations under Common Control* ('BCUCC') in order to prepare for a draft comment letter ('DCL') on a Discussion Paper which will be published in November 2020.

2 Agenda paper 08-03 provides an overview of the BCUCC project. An IASB Board member delivered a presentation to the EFRAG Board in July 2020 and his presentation is provided for background only; the recording of the presentation can be reached here.

3 The IASB's tentative decision on selecting the measurement method is summarised in the illustration in Appendix 1. Appendix 2 to this paper is a summary of previous EFRAG TEG and EFRAG User Panel discussions.

Background

4 The BCUCC project considers how to account for the acquisition of a business under common control in the financial statements of the receiving entity.

5 BCUCC are currently excluded from the scope of IFRS 3 *Business Combinations*. Without specific guidance in IFRS Standards, entities must apply the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop an accounting policy which would result in relevant information for users of financial statements.

6 In practice, there is diversity in the way entities account for BCUCC transactions. Some entities apply by analogy the acquisition method as set out in IFRS 3. Other entities use a predecessor method, by reference to national GAAPs, under which the assets and liabilities of the acquired business are measured at historical carrying amounts. Under the latter approach divergence also exists as to which historical carrying amounts are used (e.g. the amounts in the separate financial statements of the acquired entity or the amounts used when consolidating the entity). Consequently, it is difficult for users to compare the effects of BCUCC on entities' financial positions and financial performance.

7 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 would identify the reporting entity as the acquirer. The focus of the project is how to account for a BCUCC in the financial statements of the receiving entity.

8 The IASB is planning to issue a discussion paper (DP) on BCUCC in November 2020. The comment period for the forthcoming discussion paper is 180 days. The IASB's tentative decisions to be included in the DP are set out in the paragraphs below.

The IASB tentative proposals on the project

9 The EFRAG Secretariat has relied on IASB Staff papers, IASB meetings and IASB tentative decisions in producing this issues paper.

Scope of the BCUCC project

10 According to IFRS 3, BCUCC are business combinations 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.

11 The key components of this description are:

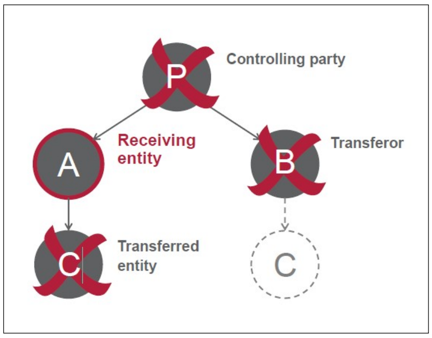
(a) a '**business combination**' is a transaction or other event, as defined in IFRS 3, in which the acquirer obtains control of one or more businesses. In practice, application questions have arisen as to whether particular transactions satisfy that description, for example, some transactions might not meet that definition if they involve transferring a business to a newly established parent entity.

(b) combining entities or businesses are '**under common control**' if they are ultimately controlled by the same party both before and after the business combination regardless of whether such entities and businesses are part of the same consolidated financial statements;

(c) the common control is '**not transitory**' to avoid business combinations at arm's length being structured so that for a short period immediately before the combination, the combining entities or businesses are under common control. While paragraphs B1-B4 in IFRS 3 define the meaning of the terms 'business combination' and 'common control', IFRS 3 does not provide a definition for 'transitory control'.

12 The IASB's preliminary view is that it should develop proposals on all transfers of a business between entities under common control, even if the transfer does not meet the definition of a business combination in IFRS 3. This is because the existing scope exclusion in IFRS 3 may be modified or removed altogether depending on the outcome of this project.

13 The project considers reporting requirements for a receiving entity in a combination under common control, i.e. Entity A in the diagram below[1].



Source: IASB

[1] The diagram focuses on a transfer of an entity but business combinations could be also transfers of a business or a part of an entity that is transferred to the receiving entity.

14 The scope of the BCUCC project should include all transfers of businesses in which all of the combining entities are ultimately controlled by the same party, even if the transfer is:

(a) preceded by an external acquisition or followed by an external sale of one or more of the combining companies (i.e. an acquisition or a sale outside the group); or

(b) conditional on an external sale of the combining companies such as in an initial public offering (i.e. a sale outside the group).

15 The focus of the project is how a receiving entity A should report the combination in its consolidated financial statements and in its individual and separate financial statements if the transferred business is not an entity (e.g. an unincorporated business or an unincorporated branch or other part of an entity).

EFRAG Secretariat analysis

16 EFRAG TEG was generally supportive of the scope. For more details, refer to Appendix 2.

17 The EFRAG Secretariat is supportive of the project because, currently, IFRS *S*tandards do not provide guidance on how to account for these transactions. As a result, there is a lack of comparability due to inconsistent reporting of these transactions.

18 The EFRAG Secretariat agrees with the IASB's preliminary view on scope as this caters for broader transactions compared to business combinations as per IFRS 3 in order to increase comparability.

19 In addition, the EFRAG Secretariat considers that it is useful to establish a principle as to why a BCUCC differs from any other transaction between parties under common control.

20 In terms of the focus of the project, i.e. both consolidated and separate financial statements of the receiving entity, the EFRAG Secretariat informs the IASB that there would be challenges when reporting BCUCC in the separate financial statements. This is because requirements in law of jurisdictions may impact the accounting of BCUCC and so the measurement under the separate financial statements may diverge significantly from that at group level.

Questions for EFRAG TEG

21 Does EFRAG TEG agree with the IASB's preliminary view on the scope of the project? If you disagree with the IASB's tentative decisions, what transactions do you suggest that the IASB should consider and why?

22 Does EFRAG TEG consider that the term 'transitory control' should be defined or not? Please explain.

Measurement method for BCUCC

Considerations in selecting the measurement method

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

23 In 2019, the IASB discussed and concluded that a single measurement approach for all business combinations under common control was not appropriate. This is because the IASB considered that BCUCC are not a homogenous population. Some of the transactions are similar to acquisitions within the scope of IFRS 3 (e.g. when the transaction is initiated and negotiated by the receiving entity in order to benefit that entity), while some are not (e.g. a tax-driven restructuring undertaken by the receiving entity's parent entity in order to benefit the entire group). In addition, the

IASB considered that the benefits of applying an acquisition approach would be different under different circumstances and, accordingly, the relationship between costs and benefits would be different under different circumstances.

B – In principle, acquisition method to be applied if BCUCC affects non-controlling shareholders of the receiving entity

24 In principle, the acquisition method is to be applied for transactions within the scope of the project that affect non-controlling shareholders of a receiving entity (subject to some considerations discussed in paragraph 35 below).

25 The IASB considered that when the non-controlling shareholders of the receiving entity A do not acquire residual interest in the transferred entities or businesses and the controlling party's residual interest is retained as unchanged, there is arguably no acquisition that these shareholders need information about. In addition, identifying an acquirer in such situations may not be possible or may not result in useful information. Therefore, applying a book-value method to such BCUCC will be less costly and will provide users with the information that they need.

26 Consequently, the IASB tentatively decided that a distinction based on whether non-controlling shareholders of the receiving entity A acquire a residual interest in the transferred entities or businesses is a viable approach to use in determining when to apply an acquisition method and when to apply a book-value method to BCUCC transactions.

C – Book-value to be applied to all other BCUCC

27 The IASB tentatively decided that the forthcoming discussion paper should propose a book-value method for all other transactions within the scope of the project, including all combinations between wholly-owned companies. That is, when a current value approach would not be applied, a book-value method should be used.

EFRAG Secretariat analysis

28 Regarding A:

(a) In previous EFRAG TEG discussions, EFRAG TEG agreed that there should not be one measurement method. Refer to Appendix 2 for more details.

(b) The EFRAG Secretariat agrees that there should not be a single measurement approach for all BCUCC because transactions within the scope of the project do not form a single homogenous population only because of common control – some transactions may result in a change in receiving entity ownership interests for the transferred entity while other transactions do not. We note that making an appropriate distinction between different types of BCUCC would help comparability in that similar transactions would be accounted for in a similar way.

(c) The EFRAG Secretariat notes that entities might structure BCUCC transactions differently in order to apply either the acquisition method or the book-value method. However, the existence of non-controlling shareholders is an objective test which will reduce opportunistic behaviours.

29 Regarding B:

(a) In previous EFRAG TEG discussions, EFRAG TEG were generally supportive of the acquisition method when NCI was affected. Refer to Appendix 2 for more details.

(b) The EFRAG Secretariat considers that, in principle applying the acquisition method to BCUCC that are similar to other business combinations that are not under common control thereby increasing comparability and ensuring consistency. Also, the EFRAG Secretariat considers that the presence or absence of non-controlling shareholders is an important factor to consider in assessing whether a transaction is similar to an acquisition in the scope of IFRS 3. This is because when non-controlling shareholders are present, the transaction results in an acquisition of ownership interest in the underlying net assets of the transferred entity or business by those shareholders. Furthermore, non-controlling shareholders would receive useful information on the transaction. Therefore, the EFRAG Secretariat agrees with the IASB's preliminary view.

30 Regarding C:

(a) In previous EFRAG TEG discussions, EFRAG TEG had mixed views. Refer to Appendix 2 for more details.

(b) The book-value method would be applied to all remaining BCUCC that are not in scope of the acquisition method. In principle, the EFRAG Secretariat considers that if the transactions do not affect non-controlling shareholders of a receiving entity, applying a book-value method would provide more useful information to users. This is because such transactions do not result in an acquisition of ownership interest in the underlying net assets by the owners of the combining entities or businesses and hence are not acquisitions. Using a book-value method preserves continuity of reporting in such circumstances. Therefore, the EFRAG Secretariat agrees with the IASB's preliminary view.

Questions for EFRAG TEG

31 Does EFRAG TEG agree with the EFRAG Secretariat's analysis for points A-C? Please explain.

32 If you disagree with the IASB's tentative decisions, please explain your alternative proposal for points A-C?

Trade-off between costs and benefits of information and other practical considerations

A – Acquisition method for the receiving entity's equity instruments that are traded in a public market

33 BCUCC affecting the non-controlling shareholders of the receiving entity are typically subject to laws and regulations to protect the interests of those shareholders and are likely to be similar to the terms of transactions between independent parties. Therefore, the IASB assessed that applying the acquisition method as set out in IFRS 3 without any modification would provide the most useful information to primary users.

34 The IASB tentatively decided to apply a current value approach based on the acquisition method as set out in IFRS 3 to all transactions that affect non-controlling shareholders of the receiving entity if the receiving entity's equity instruments are publicly traded.

B – The exemption from and exception to the acquisition method

35 In order to take into consideration the cost constraint and to limit opportunities for accounting arbitrage that could otherwise arise, e.g., in some cases non-controlling shareholders in a private entity may have access to information about the transaction without having to rely on the entity's general purpose financial statements, the IASB tentatively decided to propose the following.

36 If the receiving entity's equity instruments are **not publicly traded**:

(a) the receiving entity is permitted to apply a book-value method if it has informed all its non-controlling shareholders about it and they do not object (the **exemption** from the acquisition method); or

(b) the receiving entity is required to apply the book-value method if all non-controlling shareholders are related parties to the receiving entity as defined in IAS 24 *Related Party Disclosures* (the **exception** from the acquisition method).

37 The IASB tentative decision on selecting the measurement method is illustrated in Appendix 1.

EFRAG Secretariat analysis

38 EFRAG TEG generally agreed for the acquisition method to be applied to the receiving entity's equity instruments that are publicly traded. EFRAG TEG expressed practical concerns on the exemption. Some considered that a current value approach should be applied to all BCUCC.

39 Regarding A - The EFRAG Secretariat agrees to apply the acquisition method to BCUCC that affect the non-controlling shareholders of the receiving entity A when the receiving entity's equity instruments are traded in a public market. In our view, this will provide useful information to the non-controlling shareholders which otherwise might not be available to them. Applying the acquisition method can also be seen as a way to keep management accountable for how the entity's resources are being used. Additionally, it is a simple and clear distinction for entities to apply and for users to understand.

40 Regarding B:

(a) On the exemption:

(i) The EFRAG Secretariat provides below the advantages and disadvantages of having the exemption and we would like to ask EFRAG TEG's view on whether they support the exemption or not. The EFRAG Secretariat observes that the exemption from the acquisition method provides the receiving entity with a choice on which measurement approach to apply to BCUCC affecting the non-controlling shareholders in a privately-held receiving entity. This will result in similar BCUCC being accounted for using different measurement methods and consequently decrease comparability both within and across entities.

(ii) However, the EFRAG Secretariat acknowledges that the choice would depend on the non-controlling shareholders who would decide what their information needs and the information needs of other stakeholders are and to assess the cost/benefits of going with either approach.

(iii) The EFRAG Secretariat questions the rationale for providing the exemption from the acquisition method. BCUCC transactions qualifying to apply the exemption will still affect NCS[2] and it could be argued that their information needs are not different from NCS in a receiving entity which equity instruments are publicly traded. On the other hand, one could argue that the exemption provides cost/benefit relief if the book-value approach can be used. Additionally, it should be noted that BCUCC are not limited to transfers of entities (where there could be non-controlling shareholders) but also include transfers of unincorporated businesses where it would be hard to determine what the effect would be over the non-controlling shareholders.

(iv) Furthermore, the EFRAG Secretariat questions whether obtaining no objection from the non-controlling shareholders is operationally feasible to apply due to, sometimes, the relatively high number of small shareholders.

[2] Non-controlling shareholders – external shareholders in the receiving entity

(b) On the exception:

(i) The EFRAG Secretariat agrees with the exception and for it being mandatory because related parties may not rely on the receiving entity's financial statements for meeting their information needs to the same extent as, for example, a member of the public or an unrelated private shareholder. Accordingly, costs incurred by private entities held by related parties that apply the book-value method would be less compared to applying the acquisition method.

(ii) In addition, mandatory application would help to minimise opportunities for accounting arbitrage, e.g. related parties, including key management personnel might have access to information other than through the receiving entity's general purpose financial statements or some types of non-controlling shareholders could even have the ability to influence the terms of the transaction and whether it takes place at all if a book-value approach is not applied.

Questions for EFRAG TEG

41 Does EFRAG TEG agree with the EFRAG Secretariat's analysis on A? Please explain.

42 Does EFRAG TEG support the exemption or not? Please explain.

43 Does EFRAG TEG support the exception or not? Please explain.

44 If you disagree with the IASB's tentative decisions, please explain how the costs of applying the acquisition method should be balanced with the benefits for privately-held entities?

Should the exemption from and the exception to the acquisition method be extended to publicly-traded entities?

45 As stated above, if the receiving entity's equity instruments are **not publicly traded**:

(a) the receiving entity is permitted to apply a book-value method if it has informed all its non-controlling shareholders about it and they do not object (the **exemption** from the acquisition method); or

(b) the receiving entity is required apply the book-value method if all non-controlling shareholders are related parties to the receiving entity as defined in IAS 24 *Related Party Disclosures* (the **exception** from the acquisition method).

46 The question arises whether the exemption in paragraph 45 above should be extended to publicly-traded entities.

EFRAG Secretariat analysis

47 EFRAG TEG did not explicitly discuss whether the exemption from and the exception to the acquisition method should also be applicable to publicly-traded entities.

48 The EFRAG Secretariat requests EFRAG TEG's view on whether the exemption from and the exception to the acquisition method should also be applicable to publicly-traded entities.

49 Some thoughts to consider on the exemption are that costs may be lower (compared to applying the acquisition method) and if non-controlling shareholders do not object to BCUCC applying the book-value method for a publicly-traded receiving entity. However, the EFRAG Secretariat refers to paragraph 40(a)(iv) above where it may be operationally difficult to apply this exemption for entities that are not publicly-traded. Therefore, it may be even more difficult for publicly-traded entities because

they often have many more shareholders with regular changes to ownership of shares.

50 The EFRAG Secretariat notes that extending the exemption from the acquisition method to publicly-traded entities will allow the receiving entity A to apply different measurement methods to BCUCC which affect non-controlling shareholders. Consequently, some non-controlling shareholders will be provided with information applying the acquisition method and some will have book value for the same type of BCUCC transactions. This will hinder comparability both within and across entities.

51 Conversely, the EFRAG Secretariat agrees with the exception to the acquisition method for publicly-traded entities. In our view, if all non-controlling shareholders are related parties to the receiving entity, their interests will not be undermined and their informational needs can be met. By extending the exception to publicly-traded entities, we see a cost-benefit relief of having to apply the acquisition method to BCUCC where the non-controlling shareholders' interest are already considered. However, we note that other stakeholders may not have access to relevant information.

Questions for EFRAG TEG

52 Does EFRAG TEG support extending the exemption from the acquisition method to publicly-traded receiving entities? Please explain. If you support, how do you recommend that the IASB should design such an exemption and make it operational?

53 Does EFRAG TEG support extending the exception to the acquisition method to publicly-traded receiving entities? Please explain.

How to apply the acquisition method

54 When a current value approach is used to account for BCUCC, the receiving entity A should apply the acquisition method in IFRS 3 complemented by presenting a **contribution** to the receiving entity's equity when the acquired identifiable net assets exceed the consideration transferred instead of recognising that excess as a gain on a bargain purchase in the statement of profit or loss.

55 Conversely, the IASB concluded that a symmetrical recognition of a **distribution** from the receiving entity, when the consideration transferred in excess of the value received, would be infrequent as it would represent overpayment on the part of the receiving entity. In practice, it would not be possible to identify and reliably measure such an overpayment at the acquisition date and would result in additional costs and complexity in reporting without commensurate benefits in understanding information about BCUCC. Therefore, the IASB decided not to require recognition of a distribution and include the excess consideration in the initial measurement of goodwill.

EFRAG Secretariat analysis

56 The EFRAG Secretariat generally supports the proposed application of the acquisition method to BCUCC that affect the non-controlling shareholders of a publicly traded receiving entity. Considering the nature of the BCUCC, the EFRAG Secretariat agrees with the IASB's tentative decision to recognise a contribution to the receiving entity's equity instead of recognising a gain in the statement of profit or loss. In our view, the difference between the consideration paid and the value of the acquired net assets does not represent actual gain in a transaction where the ultimate controlling party does not change. Recognising a contribution would also not be very common in practice as it would also represent a transfer of wealth from

the controlling party to the non-controlling shareholders, especially when these are unrelated parties.

57 The EFRAG Secretariat also agrees with the IASB's tentative decision not to require recognition of a distribution from the receiving entities equity on the grounds of cost consideration. Possible recognition of a distribution would only increase complexity of reporting the transaction and result in higher costs for preparers. The EFRAG Secretariat is of the view that recognition of a distribution in a BCUCC would be rare as non-controlling shareholders are usually protected by national laws with respect to transfer of wealth from the receiving entity.

58 However, in considering different measurement methods to BCUCC, it is important that the IASB consider what would be the reciprocal accounting in the transferor (entity B) with respect to practical implications and inconsistencies.

Questions for EFRAG TEG

59 Does EFRAG TEG agree with the IASB's preliminary view that it should not develop additional guidance on applying the acquisition method that would require Entity A to recognise a **distribution** of equity as described in paragraph 55? If you disagree, what approach for identifying and measuring a distribution of equity do you recommend and why?

60 Does EFRAG TEG agree with the IASB's tentative view that it should develop additional guidance on applying the acquisition method to require Entity A to recognise any excess fair value of the identifiable assets and liabilities received over the consideration paid as a **contribution** to equity, not as a bargain purchase gain in the statement of profit or loss, as described in paragraph 54?

61 Does EFRAG TEG recommend that the IASB should develop any other additional guidance on applying the acquisition method to BCUCC transactions? If so, what guidance should be developed and why do you think it is necessary?

How to apply a book-value method

62 The IASB tentatively decided that when a book-value method is used to account for BCUCC the method should be applied by the receiving entity A as follows:

(a) **assets and liabilities** received should be measured at the carrying amounts included in the financial statements of the transferred entity; and

(b) **pre-combination information** in primary financial statements should be provided only about the receiving entity i.e. comparative figures should not be restated for all the combining entities;

(c) **consideration paid** in BCUCC:

(i) **consideration paid in the form of assets** should be measured at the carrying amounts of those assets at the date of the combination;

(ii) **consideration paid by incurring liabilities to or assuming liabilities** from the transferor should be measured at the carrying amounts of those liabilities, as determined in accordance with applicable IFRS Standards.

(d) **recognise as a change in equity** any difference between the consideration paid and the carrying amounts of assets and liabilities received. However, the IASB has tentatively decided not to specify in which component or components of equity this difference should be presented;

(e) recognise **transaction costs** as an expense in the statement of profit or loss in the period in which they are incurred. Respectively, 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*.

63 The IASB tentatively decided not to prescribe how the receiving entity should measure the consideration paid in its own shares as it is usually subject to legal requirements which differ between jurisdictions.

EFRAG Secretariat analysis

64 The EFRAG Secretariat is generally supportive of the IASB's tentative decisions on how to apply a book-value method to BCUCC. In particular, we agree with measuring the assets and liabilities received at the carrying amounts of the transferred entity; providing pre-combination information only about the receiving entity; recognising a change in equity for the difference between the consideration pad and the carrying amounts of assets and liabilities received; recognition of transaction costs as an expense in the statement of profit or loss.

65 However, the EFRAG Secretariat have some concerns regarding the application of a book-value method. In particular:

(a) conceptual basis of the measurement approach – we would suggest that the IASB further aligns the book-value method with the measurement bases under the *Conceptual Framework*. We acknowledge that a departure from the guidance in the *Conceptual Framework* is possible, however, it is important to better explain what are the conceptual differences between a transaction under common control (BCUCC) and acquisition of an asset under IFRS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*;

(b) consideration paid in the form of assets – the approach taken by the IASB to measure the consideration paid in the form of assets at their carrying amounts at the date of the combination seems to be inconsistent with the scenario when the entity first sells the asset at fair value and uses the cash proceeds received as consideration in a BCUCC;

(c) impact on equity – the impact on equity under a book-value method might be significant in cases when the consideration paid is at fair value. This impact will also depend on how far in the past the transferred entity C was acquired by the group. The further away the acquisition, the more significant will be the negative impact on the receiving entity A's equity.

Questions for EFRAG TEG

66 Does EFRAG IAWG agree with the IASB preliminary view that, when applying a book-value method, Entity A should measure the assets and liabilities received using the transferred entity's book values? If you disagree, what approach do you suggest and why?

67 Does EFRAG TEG agree with the IASB preliminary view that:

(a) Entity A should not be prescribed how to measure consideration paid in own shares when applying a book-value method; and

(b) when applying a book-value method, Entity A should measure consideration paid:

(i) in assets - at the receiving entity A's book values of those assets at the combination date; and

(ii) by incurring or assuming liabilities - at the amount determined at the combination date using the IFRS Standards applicable for initial recognition of a liability of that type?

68 Does EFRAG TEG agree with the IASB preliminary view that, when applying a book-value method, receiving entity A should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received without prescribing in which component, or components, of

equity the difference should be presented? If you disagree, please explain what your preferred approach would be?

69 Does EFRAG TEG agree with the IASB preliminary view that, when applying a book-value method, Entity A should recognise transaction costs incurred in BCUCC as an expense in the period in which they are incurred, except that the costs of issuing debt or equity securities should be accounted for in accordance with the applicable IFRS Standards? If you disagree, please explain.

70 Does EFRAG TEG agree with the IASB preliminary view that , when applying a book-value method, the receiving entity A should include in its financial statements assets, liabilities, income and expenses of the transferred entity prospectively from the combination date, without restating pre-combination information? If you disagree, what approach do you suggest and why?

Disclosure requirements

Disclosure requirements under the acquisition method

71 When the acquisition method is used to account for BCUCC the receiving entity would apply all disclosure requirements in IFRS 3 and the disclosures suggested in the discussion paper *Business Combinations – Disclosures, Goodwill and Impairment.*

72 Additionally, the IASB tentatively decided that it should provide guidance on applying the disclosure requirements of IFRS 3 and IAS 24 *Related Party Disclosures* to BCUCC. For example, to explain that an entity needs to disclose information about the governance process over the financial terms of the combination.

Disclosure requirements under a book-value method

73 The IASB has tentatively decided that the receiving entity should disclose the following information when a book-value method is used to account for BCUCC:

(a) apply the following disclosure requirements in IFRS 3 and in the discussion paper *Business Combinations – Disclosures, Goodwill and Impairment*:

(i) the disclosure objective of providing information to help users of financial statements to evaluate the nature, the financial effect and the expected benefits of a combination;

(ii) the name and the description of the transferred entity, the combination date, the percentage of voting equity interests transferred to the receiving entity, the primary reasons for the combination and a description of how the receiving entity obtained control;

(iii) the recognised amounts of each major class of assets and liabilities assumed, including information about recognised amounts of liabilities arising from financing activities and defined benefit pension liabilities;

(iv) the carrying amount of non-controlling interest;

(v) the requirement to provide aggregate information for individually immaterial combinations;

(vi) the disclosure requirements for combinations that occur after the end of the reporting period but before the financial statements are authorised for issue;

(vii) the amount and an explanation of any gain or loss that relates to assets and liabilities received if such disclosure is relevant to understanding the combined entity's financial statements; and

(viii) the requirement to disclose whatever additional information is necessary to meet the applicable disclosure objectives.

(b) disclose the amount recognised in equity for the difference between the consideration paid and the carrying amounts of assets and liabilities received, and the component of equity in which that difference is presented.

EFRAG Secretariat analysis

74 The EFRAG Secretariat agrees with the IASB's tentative decisions on disclosure requirements for both the acquisition and a book-value method as those have been aligned with the characteristics of each measurement method.

Questions for EFRAG TEG

75 Does EFRAG TEG agree with the IASB preliminary view that for BCUCC to which the acquisition method applies:

(a) receiving entity A should be required to comply with the disclosure requirements in IFRS 3 and improvements to those requirements that might result from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment;* and

(b) additional guidance should be provided on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 when providing information about BCUCC, particularly information about the terms of the combination?

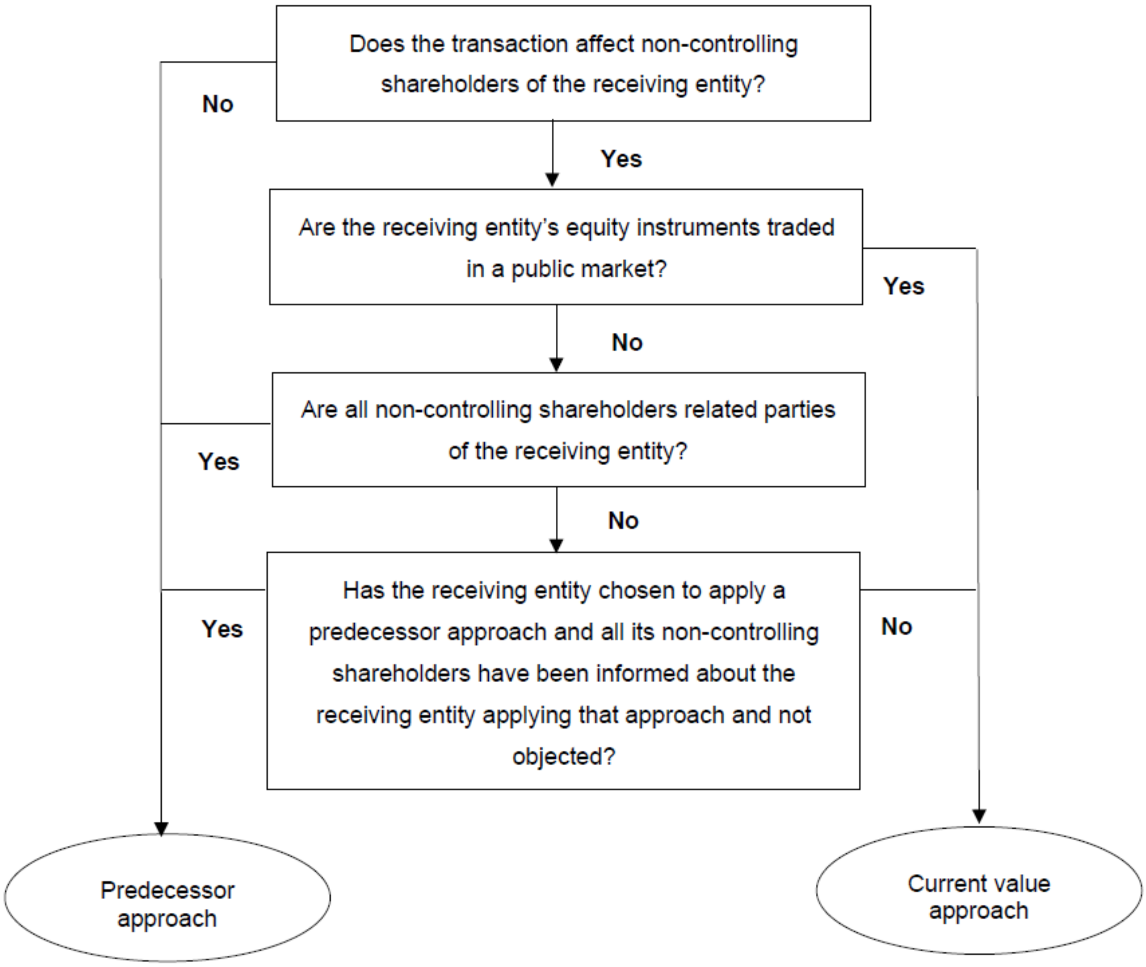
76 Does EFRAG TEG agree with the IASB preliminary view that for BCUCC to which a book-value method applies:

(a) some, but not all, of the disclosure requirements in IFRS 3 are suitable as reflected in paragraph 73;

(b) the disclosure of pre-combination information should not be required; and

(c) receiving entity A should disclose the amount recognised in equity for the difference between the consideration paid and the book values of the assets and liabilities received, together with the component of equity within which that difference is presented?

Appendix 1: Illustration of the IASB's tentative decisions on when a current value approach and a predecessor approach would apply



Source: the IASB

Appendix 2: Preliminary views from EFRAG TEG and EFRAG FIWG

EFRAG TEG preliminary views

Scope of the BCUCC project

1 EFRAG TEG was generally supportive of the scope being broader than just including 'pure' BCUCC transactions. The scope of the project captured various transfers which were dissimilar in nature than simply distinguishing whether the parties were under common control. Suggestion was made to enlarge the scope and consider group restructurings more broadly. It could be also useful to establish a principle as to why a BCUCC differed from any other transaction between parties under common control.

2 EFRAG TEG remarked that when considering BCUCC in the separate financial statements, there might be company law requirements in individual countries that could impact the accounting.

Measurement method for BCUCC

3 EFRAG TEG commented that a book-value method appeared to be the most prevalent in practice. However, selecting a measurement approach for BCUCC would depend on the circumstances. The choice, however, should not be dependent on what a specific user group wanted, because the financial statements were general purpose financial statements.

4 EFRAG TEG noted that there were challenges for trying to develop criteria that unambiguously pointed towards any particular accounting method. Some EFRAG TEG members wanted more flexibility, leaving it to the entity to evaluate what provided more relevant information, whilst other members preferred more prescriptive approach. Suggestion was made that a hierarchy of factors might be considered when selecting an accounting method, with commercial substance taking a leading role.

5 Some EFRAG TEG members commented that there were potential interactions with prudential regulatory requirements, tax laws and insolvency laws. Those members did not consider that any equity was being created in BCUCC, as the equity was already there, and the question was whether to display it or not.

6 The majority of EFRAG TEG supported the premise that acquisition accounting in IFRS 3 was the preferred method for transactions involving NCI. One practical suggestion was to ask shareholders if they agreed to the use of an alternative method to get out of acquisition accounting.

7 One EFRAG TEG member recommend that the IASB should further consider the scoping of a book-value approach as it seems that an entity which has issued bonds and have no listed equity instruments would qualify for a book-value method. This further raises concerns about the lack of relevance of the approach for bond holders.

How to apply the acquisition method

8 The majority of EFRAG TEG members were generally supportive of the IASB's proposals to apply a current value approach based on the acquisition method as set out in IFRS 3 to the particular subset of BCUCC, however, members expressed concerns regarding the practical application of the proposed exemption allowing the receiving entity to apply a predecessor approach when its equity instruments are not publicly traded and its non-controlling shareholders do not object applying that approach. Some members commented that a current value approach should be applied to all BCUCC.

9 EFRAG TEG members considered the IASB proposal to apply the acquisition method and recognise the excess fair value of the acquired identifiable net assets over the fair value of the consideration transferred as a **contribution** to the receiving entity's equity. Members expressed broad support for the proposed application of the acquisition method.

10 Some EFRAG TEG members commented that the IASB should give further consideration to the reciprocal accounting treatment by the transferring entity – whether the transferring entity should show a profit or loss on disposal or should limit any profit or loss by the contribution recognised by the receiving entity.

How to apply a book-value method

11 EFRAG TEG members supported the view that a book-value method would not result in more relevant information than the acquisition method but could be used for cost reasons.

12 Some EFRAG TEG members disagreed with the IASB tentative decision that the receiving entity should use the carrying amounts of assets and liabilities in the financial statements of the transferred entity to account for BCUCC. A few EFRAG TEG members preferred that the receiving entity measure the acquired net assets in a BCUCC at the carrying amounts included in the consolidated financial statements of the transferred entity's controlling party which could be the immediate parent, an intermediate parent or the ultimate parent of the transferred entity for the following reasons:

(a) existing local guidance – which prescribes the receiving entity to use the carrying amounts included in the consolidated financial statements of the transferred entity's controlling party. Members providing this reason noted that there is no sufficient justification to change the established practice;

(b) measurement at the carrying amounts included in the consolidated financial statements will facilitate consolidation; and

(c) ensured continuity at group level reporting.

13 EFRAG TEG expressed broad support for the IASB tentative proposals about how to measure the consideration paid in BCUCC and where in equity the difference between the consideration paid and the carrying amounts of assets and liabilities received should be presented under a book-value method. EFRAG TEG also agreed with the proposals on how transaction costs should reported.

14 A few EFRAG TEG members expressed the concern that a book-value method needed to be compliant with the measurement bases under the *Conceptual Framework*. The application of a book-value method departed from the cost approach and did not fully recognise all of the assets acquired.

15 The proposed application of a book-value method was not aligned with other related IFRS Standards, for example acquisition of fixed assets under IAS 16 *Property, Plant and Equipment*; interaction with IAS 38 *Intangible Assets*. Question was raised why when the consideration paid is at fair value, the excess of the consideration transferred over net assets is not recognised as an asset (i.e. goodwill). In his view, the presumption under the Conceptual Framework is that the full price is paid in exchange for what would meet the definition of an asset. Additionally, applying the proposal in paragraph 62(a) could be misleading in situations where the transferred entity existed a long time before it was acquired by the group. In situations when the consideration transferred is at fair value, this could result in material negative impacts on the equity of the receiving entity which would not depict the economics of the transaction.

16 The proposal under paragraph 62(c) did not make any distinction between a situation where the consideration transferred is at book value or at fair value.

Recognising the acquired net assets at the carrying values in the transferred entity might be different from the price paid. This could create tension between different models applied under IFRS Standards and potentially could result in structuring opportunities.

17 Some EFRAG TEG members agreed with the IASB tentative decision to present pre-combination information in the primary financial statements only about the receiving entity i.e. the comparative figures should not be presented to reflect how they would have been had the transfer taken place at the start of the comparative periods.

18 Two EFRAG TEG members disagreed and commented that the combined financial statements prepared retrospectively might contain different numbers than the first IFRS financial statements following the BCUCC transaction. Additionally, a book-value method is different from the acquisition method under IFRS 3 and does not have to retain the same requirements on pre-combination information.

Disclosure requirements

19 EFRAG TEG expressed support for the disclosure requirements for BCUCC under both the acquisition and a book-value method.

Preliminary views of the EFRAG User Panel

20 EFRAG User Panel members considered the application of three measurement approaches to account for BCUCC in the financial statements of the receiving entity. The following views were expressed:

(a) EFRAG User Panel members generally thought the predecessor method would provide them with the most useful information as the transaction is under common control and determining the consideration might be judgemental. In addition, creditors would likely consider such an approach to be most prudent. However, members did not agree on whether restatement of previous period’s financial statements would result in meaningful information by enabling them to predict the outcome of the transaction;

(b) EFRAG User Panel members generally did not support the application of the acquisition method as it would step-up the values of assets and liabilities, result in recognition of goodwill and internally generated intangible assets thus distorting historical trend analysis for the transferee. However, some members argued that applying the acquisition method would result in BCUCC being accounted for similarly to business combinations not under common control. This was considered an advantage of the acquisition method.