This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. 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. 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.

Summary and analysis of the comment letters received

1 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final comment letter that is presented as agenda paper 03-05A.

Structure of the paper

2 This comment letter analysis contains:

(a) Background;

(b) Summary of respondents;

(c) Summary of respondents' views;

(d) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter and questions to EFRAG TEG; and

(e) Appendix 2 – list of respondents.

Background

3 The IASB published the Discussion Paper DP/2020/2 *Business Combinations under Common Control* ('DP') in November 2020. The DP explores possible reporting requirements for BCUCC transactions in the receiving company's financial statements to reduce diversity in practice and improve transparency of reporting for such transactions. The DP's comment period ends on 1 September 2021.

4 EFRAG published its draft comment letter (DCL) on the DP in February 2021. In its DCL, EFRAG broadly supports the approach proposed by the IASB and is posing several questions to constituents on specific areas such as selecting a measurement method and the application of the acquisition method and a book-value method to BCUCC. EFRAG DCL's comment period ended on 30 July 2021.

Summary of respondents

5 At the time of writing, thirteen comment letters have been received including one draft comment letter. The letters are summarised below in Appendix 1. Appendix 2 provides a list of the respondents including by country and type of respondent. Eight out of the thirteen respondents are National Standard Setters.

Summary of respondents' views

6 The EFRAG Secretariat uses the following to summarise the respondents' views.

Term	No of comment letters	Corresponding %
All	13	100%
Almost all	11-12	85%-99%
Majority	7-10	50%-84%
Many	5-6	38%-49%
Some	2-4	9%-37%
One	1	8%

Question 1

Scope

7 Majority of respondents welcomed the DP's proposals and the IASB's efforts to address the current lack of guidance on the accounting for BCUCC. The project would help reduce diversity in practice and provide users of the receiving company's financial statements with useful information.

8 Majority of respondents welcomed the project's scope as defined in the DP and agreed that the project should also include group restructurings that involved a transfer of a business under common control but did not meet the definition of a business combination in IFRS 3 *Business Combinations.*

9 Furthermore, respondents made the following comments/suggestions with respect to project scope:

(a) to align the definition of BCUCC in the DP with the description of 'combination of entities or businesses under common control' in IFRS 3 in order to avoid confusion for preparers and preparers;

(b) to clarify whether certain types of BCUCC transactions were captured by the scope of the project;

(c) consider whether BCUCC conditional on a sale of the combining entities to an external party, such as in an IPO, should be captured by the scope of the project. Such transactions did not meet the description of "combination of entities under common control" in IFRS 3;

(d) the interaction between the DP's scope and the requirements of IFRS 1, in particular paragraphs D16 and D17 and the 'grandfathering' exemptions provided by Appendix C of IFRS 1, was not clearly defined.

Common control transactions

10 Many respondents agreed with the EFRAG's position on common control transactions. In particular, it was suggested that the IASB should consider the effects of common control transactions on the individual and separate financial statements because:

(a) most of the BCUCC transactions were internal group restructurings and the most prevalent issue was how to account for such transactions in the separate financial statements;

(b) BCUCC were common transactions with companies applying IFRS Standards and many listed companies and had an impact on the individual and separate accounts with material effects on corporate tax, dividends and capital requirements in some jurisdictions;

(c) the DP's proposals would apply to the separate financial statements of the receiving company only if the BCUCC involved a transfer of an unincorporated business. Expanding the scope of the project to include the accounting for BCUCC that involved a transfer of investments in subsidiaries in the separate financial statements would ensure consistency in the accounting for common control transactions regardless of whether it was incorporated or not;

(d) DP's scope should also include accounting for legal mergers between a parent company and its existing subsidiaries in the parent company's separate financial statements.

11 Alternatively, if the IASB confirmed that a transfer of investments in subsidiaries under common control in the separate financial statements must be accounted for in accordance with IAS 27, it should clarify how the cost of the acquired investment should be measured when the consideration paid was different from its fair value, in particular:

(a) the cost of the investment acquired should be measured at fair value of the consideration paid; or

(b) the cost of the investment acquired was its fair value and the difference between the consideration paid and the fair value of the acquired subsidiary should be recognised as an equity contribution or an equity distribution.

Transitory control

12 Some respondents agreed that it was not necessary to clarify the meaning of "transitory control" as it was not relevant for the project: most of the BCUCC transactions were internal group restructurings as well as the definition of BCUCC was wider than the one currently included in IFRS 3.

13 Some respondents commented that it would be helpful to clarify the meaning of 'transitory control' and align the concept with IFRS 3. Removing the reference to 'transitory control' in IFRS 3 could significantly impact the project scope, affect the accounting outcome and create incentives for structuring opportunities.

Unintended consequences of scope definition

14 One respondent commented that the scope as defined in the DP was right. It was important that the focus of the BCUCC project was on transactions being scoped out of IFRS 3. Although, possible future modifications to IFRS Standards relating to common control transactions in the separate financial statement might be reasonable.

15 Two respondents suggested that the IASB should provide:

(a) further explanation about the scope of the DP as it was not clear whether certain transactions under common control would fall within the scope of the project;

(b) additional guidance on the definition of 'group restructurings' to support the appropriate application of the proposals on scope.

Question 2

16 Almost all respondents agreed that neither the acquisition method nor a book-value method should be applied to all BCUCC. There could hardly be one measurement method that would fit all transactions within the scope of the project considering the variety of BCUCC transactions.

The IASB's decision tree

17 Majority of respondents **supported** the IASB's **decision tree** that the acquisition method should apply to BCUCC that affected NCS, subject to the cost benefit trade-off, and that a book-value method should apply in all other cases.

18 Some respondents **did not support** the use of the proposed **decision tree**.

19 Regarding the decision tree, respondents made the following suggestions for the IASB to consider:

(a) to allow for an accounting policy choice for the receiving entity to apply either the acquisition method or a book-value method combined with additional disclosures to meet minimum information needs for all shareholders. This approach might be further linked to the policy choice made when becoming a first-time adopter under the requirements in IFRS 1 and would be acceptable from a cost-benefit perspective while not putting NCS in a disadvantageous position;

(b) to limit the applicability of the acquisition method only to situations where the transaction had an 'economic substance'. The respondent suggested to introduce an opening step to the decision tree relating to the existence of 'economic substance' for the BCUCC transaction and define what 'economic substance' was;

(c) to undertake more analysis to identify circumstances in which applying the acquisition method would be appropriate because depending solely on the existence of NCS criterion risked creating structuring opportunities.

20 Many respondents suggested that the IASB should further clarify and provide guidance on the expression "affect non-controlling shareholders" as it was unclear to various stakeholders and was subject to different interpretations. Many respondents suggested for the IASB to consider the notion of *significance* for the change in ownership interest of the NCS in order to avoid structuring opportunities.

21 Respondents made various suggestions/recommendations for improving the IASB decision tree:

(a) to identify more relevant factors to determine the most appropriate measurement method for BCUCC;

(b) to consider consistency of reporting for BCUCC regardless of the way the transaction had been structured i.e. transactions should result in the same outcome, if their economic substance is identical;

(c) to consider whether it might be useful to apply an option based model as provided by IFRS 1.D16 rather than prescribe when to apply each measurement method;

(d) to be explicitly clear how to identify the acquirer, both when applying the acquisition method and a book-value method;

(e) to allow the application of a book-value method in BCUCC in certain circumstances involving legal reorganisation of activities that were already largely integrated from an operational and financial perspective when the transfer did not affect the operations in terms of business purpose or value creation;

(f) to consider the application of the acquisition method for some BCUCC with wholly-owned companies when the receiving entity would be partly sold shortly after the transaction (without the controlling party losing control);

(g) to provide an option to apply a book-value method if the costs of the acquisition method did not justify the benefits of applying it;

(h) to apply the acquisition method to all BCUCC including combinations between wholly-owned companies and combinations when control proves to be transitory;

(i) to consider the effects of the BCUCC duration over the configuration of the transaction, which might lead to a different measurement depending on whether NCS would be affected.

22 One respondent raised a concern about the concept of 'non-controlling shareholders' used in the DP. In particular, whether financial instruments that met the definition of equity instruments in accordance with IAS 32 would also be taken into account when assessing whether the transaction affected NCS.

23 One respondent noted that the definitions of a receiving company in the DP and the definition of the acquirer in IFRS 3 were not identical which raised uncertainty. Further clarifications were necessary in this respect.

24 Two respondents suggested that the IASB should explain how the criterion 'affect NCS' in the decision tree would apply when the consolidated financial statements were prepared at different levels of receiving companies. It would be impracticable and/or burdensome to treat the same transaction differently at different levels within the same group.

Existing guidance on BCUCC in Europe

25 Four respondents have indicated existing guidance on BCUCC in their jurisdictions. Currently, BCUCC transactions are accounted for applying a mix of a modified acquisition method and a variety of book-value methods.

Question 3

26 Majority of respondents agreed with the IASB proposal to require the application of the acquisition method when the receiving company's shares were traded in a public market.

27 In addition, respondents provided the following comments:

(a) definition of a public market - the definition of a public market in IFRS 10 *Consolidated Financial Statements* was unlikely to be robust enough to drive the selection of a measurement method. There was a risk of divergent interpretation and application in practice;

(b) the receiving company being listed was not sufficient to justify the use of the acquisition method in all cases;

(c) the assumption that shareholders of privately held companies had different means of information about the receiving entity might be too general and might leave an information gap;

(d) to consider the appropriateness of the selected measurement method for BCUCC without including as an overriding argument the cost factor associated with the use of the acquisition method;

(e) to consider the interests of other stakeholders, like lenders and other creditors, when determining the measurement method. The information needs of lenders and other creditors could be the same as the information needs of shareholders of a listed entity.

Related-party exception

28 Five respondents supported the **related-party exception** from applying the acquisition method. However, noted that the exception opened possibilities for structuring BCUCC transaction. Therefore, the following suggestions were made:

(a) to introduce the notion of significance – the exception to be applicable only if NCS which were not related parties were not significant;

(b) further guidance was necessary regarding the practical application of the exception when there were different levels of receiving companies with NCS.

29 Three respondents did not support the related-party exception as the information needs of different related parties could be different given and related parties should not be prevented from information about the economical and material effects of common control transaction.

30 Four respondents agreed with EFRAG that the related-party exception provided by the IASB should be 'permitted' rather than 'required'.

Optional exemption

31 Four respondents agreed with the optional exemption and suggested that the IASB should consider:

(a) whether the exemption should apply also if the receiving company had publicly traded debt instruments;

(b) the practical application of the exemption when there were different levels of receiving companies with NCS;

(c) avoiding situations in which unique NCS, representing a negligible portion of interests in the receiving company's equity, could impose the use of the acquisition method;

(d) lowering the threshold of the optional exemption to 'substantially all' NCS in order to avoid practical difficulties. Such threshold was well-established in IFRS Standards (e.g. IFRS 9) and would reduce the need for interpretation.

32 Four respondents expressed doubts whether the optional exemption was workable in practice. The DP did not clarify how and in what form NCS should be notified, within what timeframe, and whether silence was an indication of consent. The proposed approach might also lead to structuring opportunities and inappropriate accounting outcomes.

33 One respondent commented that the exemption had a fundamental impact on the accounting for BCUCC in all future sets of financial statements which differed from the existing exemption from preparing consolidated financial statements as in that case shareholders could decide whether or not they wished to object each financial year.

34 Suggestion was made to exclude related parties from the NCS when considering the exemption process and step 4 of the decision tree to be amended with the following wording: '*Has the receiving company chosen to use a book-value method, and have its non-controlling shareholders except related parties not objected?*'

EFRAG's modified decision tree

35 Two respondents agreed with EFRAG's proposal to reverse Step 1 and Step 2 of the IASB's decision tree for selecting the measurement method as publicly traded companies normally had NCS and in most cases should use the acquisition method.

36 Two respondents considered EFRAG's proposed modification to expand the scope of the IASB's decision tree and made the following suggestions/comments:

(a) Option 2 - to include receiving companies with publicly traded shares or publicly traded debt instruments, was the most appropriate one as it would not be sensible to treat a transaction differently solely based on the type of instrument that was publicly traded;

(b) Option 2 and Option 3 – one respondent supported both options.

37 Four respondents **did not support** the EFRAG proposed modifications to the IASB's decision tree for the following reasons:

(a) three respondents disagreed to expand the scope of the revised Step 1 as proposed by EFRAG's modified decision tree because:

  - (i) the proposed modifications would be difficult to determine with respect to how broad the scope should be;
  - (ii) debt/asset holders did not have ownership interests in the economic resources of the entity and therefore were not impacted by the BCUCC transaction;
  - (iii) the modifications were based on a distinction between information needs of lenders of publicly traded debt and of lenders of other debt which was not reasonable;

(b) two respondents did not support reversing Step 1 and Step 2 of the IASB's decision tree because:

  - (i) there were no practical differences resulting from the proposed reversal in the decision tree;
  - (ii) swapping Step 1 and Step 2 would lead to undesirable outcome as in certain circumstances the book-value method was conceptually preferable;

Optional exemption under EFRAG's modified decision tree

38 Three respondents agreed with EFRAG that the related-party exception provided by the IASB should be 'permitted' rather than 'required'.

39 Two respondents expressed concerns about the practical application of the optional exemption under the EFRAG's modified decision tree because:

(a) NCS would not get fair value information which they might need to continue accounting for their share of the combined entity;

(b) requesting approval from NCS might be difficult and costly to implement.

Question 4

40 Majority of respondents agreed with the IASB proposal that the optional exemption and the related-party exception to the acquisition method should not apply to publicly traded companies because:

(a) extending the proposal to publicly traded companies would unnecessarily overcomplicate the BCUCC project;

(b) publicly traded companies normally had many shareholders with frequent changes in share ownership;

(c) market regulations would not authorise all NCS of the receiving company to be related parties.

Question 5: Acquisition method

41 Many of the respondents agreed that IASB should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity.

42 Regarding recognising any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity or as a bargain purchase gain in the statement of profit or loss:

	Extent of respondents
In favour of recognition as a bargain purchase gain in profit or loss (consistency with IFRS 3 favoured)	Many
In favour of recognition as contribution to equity – IASB proposal	Many

In favour of gain in profit or loss if there is evidence that the transaction price is the market price in conditions of free competition. Otherwise, recognition as contribution to equity	One

43 Some respondents agreed with EFRAG that the IASB should provide guidance on how to identify the receiving entity (the acquirer) in situations involving a NewCo.

Question 6: Book-value method: Measuring assets and liabilities received using the transferred company's book values

44 Prevailing current practice approaches indicated by respondents were (i) the usage of the controlling party's book values and (ii) the usage of both approaches (i.e., transferred entity's book values and the controlling party's book values).

45 Regarding using the transferred entity's book values or using the controlling party's book values:

	Extent of respondents
In favour of with using the controlling party's carrying amounts	Many
In favour of having an option	Some
In favour of using the transferred entity's carrying amounts (IASB proposal)	Some
Both methods have their own merits. The IASB should perform additional research activities before making any decision in this respect	One

46 Some respondents highlighted that the IASB should develop guidance if the transferred company previously did not apply IFRS or where IFRS figures are not available.

Question 7: Book-value method: Measurement of consideration paid

47 The majority of respondents agreed not to prescribe how the receiving company should measure the consideration paid in its own shares.

48 Regarding consideration paid in assets, many agreed with the IASB proposal to measure at the receiving company's book values of those assets while some respondents favoured measurement at fair value.

49 The majority of respondents agreed with the IASB proposals regarding consideration paid by incurring or assuming liabilities.

Question 8: Book-value method: Any difference between the consideration paid and the book value of the assets and liabilities received to be recognised in equity

50 The majority of respondents agreed to recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received.

51 The majority of respondents agreed with not specifying in which component(s) of equity the difference between consideration paid and assets and liabilities received should be presented.

Question 9: Book-value method: Transaction costs

52 Many respondents agreed with the IASB proposal to generally recognise transaction costs as an expense.

Question 10: Book-value method: Prospective application without restating pre-combination information

53 Regarding prospective versus retrospective application of pre-combination information:

	No. of respondents
In favour of an option to allow either prospective application from combination date or retrospective application (Mixed views on whether retrospective application should be (i) until the beginning of the reporting period or (ii) as if the combining companies have always been combined)	Many
In favour of prospective application from the combination date – IASB proposal	Some
In favour of retrospective restatement of comparative information to be required, except where it is impracticable to do so.	One

54 Regarding current practice:

(a) Some respondents indicated that pre-combination information about the transferred company is provided retrospectively while some other respondents indicated that providing prospective or retrospective information depended on certain methods used or certain conditions.

(b) For those providing retrospective information, some respondents indicated that the information was from the beginning of the reporting period while some other respondents indicated that the information was as if the combining companies have always been combined.

Question 11: Disclosure requirements under the acquisition method

55 Majority of respondents were in general supportive of the disclosure requirements proposed in the IASB`s DP, including the consideration of future disclosure improvement relating to IFRS 3. Moreover, one respondent pointed out that disclosures should be relevant, but not too excessive.

56 Moreover, the respondents stated the following:

(a) one respondent suggested to deliberate whether additional disclosures on the determination of the transaction price would be needed;

(b) one respondent suggested to deliberate additional disclosures, e.g. such on expected synergies, should not be required for sensitivity and reliability reasons;

(c) one respondent suggested to eliminate additional disclosures about the terms of the combination as the provided information may be beyond the general purpose of financial statements.

Question 12: Disclosure requirements under a book-value method

57 Majority of respondents signalled general support for the disclosure requirements proposed in the IASB`s DP for situations where the book-value method would be applicable.

58 Moreover, the respondents stated the following:

(a) one respondent replied that disclosure requirements should provide relevant information to users while not being to excessive;

(b) some respondents did not agree with the DP`s proposal to not require the use of any pre-combination information and to include at least some “as if“ disclosures. One respondent found such information helpful only for group restructuring but not for other transactions;

(c) one respondent stated that a description of how control was obtained would not be relevant and suggested to not require such kind of information;

(d) one respondent noted that – although not specifically mentioned in the DP - IAS 24 would also apply to BCUCCs, where the book-value method is applied.

Question to EFRAG TEG

59 Does EFRAG TEG have comments or questions on the EFRAG Secretariat’s summary in *Appendix 1: Analysis and Summary of Comments* received?

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter

Question 1

> Paragraphs 1.10–1.23 discuss the IASB's preliminary view that it should develop proposals that cover reporting by the receiving company for all transfers of a business under common control (in the Discussion Paper, collectively called business combinations under common control) even if the transfer:
>
> (a) is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or
>
> (b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering.
>
> Do you agree with the IASB's preliminary view on the scope of the proposals it should develop? Why or why not? If you disagree, what transactions do you suggest that the IASB consider and why?

EFRAG's tentative position

> **EFRAG agrees with the scope proposed by the IASB in its Discussion Paper as defined in paragraphs 1.10 to 1.23 of the DP. In particular, EFRAG welcomes that both BCUCC and group restructurings are in the scope of this project.**
>
> **However, EFRAG considers that the IASB should avoid identifying or labelling 'group restructurings' as a BCUCC, particularly when the arrangement does not meet the definition of a business combination in IFRS 3.**
>
> **EFRAG also considers that the IASB should, as result of this project, examine the description of 'combination of entities or businesses under common control' in IFRS 3. In particular, EFRAG recommends consideration of whether there is a need to improve the description (e.g., clarify the meaning of 'transitory control') and/or align it with the definition used in this project.**
>
> **Finally, EFRAG considers that other common control transactions (e.g., transfer of a group of assets that does not meet the definition of a business, acquisition of an interest in an associate or joint venture from an entity under common control in the individual financial statements, and acquisition of equity investments in subsidiaries, associates and joint ventures from entities under common control in the separate financial statements) are important topics that need to be discussed in the future**.

Summary of constituents' comments

Scope of the project

60 Nine respondents welcomed the DP's proposals and the IASB's efforts to address the current lack of guidance on the accounting for BCUCC. The project would help reduce diversity in practice and provide users of the receiving company's financial statements with useful information.

61 Eight respondents welcomed the project's scope as defined in the DP and agreed that the project should also include group restructurings that involved a transfer of a business under common control but did not meet the definition of a business combination in IFRS 3 *Business Combinations*. One respondent further elaborated that not considering group restructurings in the project scope would be counterproductive because such transactions were similar in substance to some BCUCC but structured differently.

62 With respect to the scope definition of the project, respondents further made the following comments/suggestions:

(a) three respondents pointed out that the existence of two definitions of BCUCC, the definition in the DP and the one in IFRS 3, could be confusing for preparers, and some alignment was needed;

(b) four respondents asked for further clarification whether certain types of transactions were captured by the scope of the project, for instance:

(i) a transfer of an ownership interest in an entity under common control which on its own did not constitute a transfer of a business from the transferor's perspective;

(ii) transactions where unrelated parties held an ownership interest in two joint ventures;

(iii) legal mergers from the perspective of receiving company's separate financial statements;

(iv) hives up which involved a transfer of a business to a parent as it was not clear that the receiving company has obtained control of that business because it already controlled the business, through control of its subsidiary;

(v) transactions in which shareholders before and after a restructuring were *exactly* the same and there was no contractual arrangement arranging control. Currently, such transactions were not regarded as BCUCC under IFRS 3 and acquisition accounting was applied;

(c) one respondent agreed with the IASB proposal that all transfers of a business under common control were in scope of the project, however, it doubted whether transactions conditional on a sale of the combining entities to an external party, such as in an IPO, meet the description of "combination of entities under common control" in IFRS 3. These transactions did not occur until a point in time when there was a change of control (i.e. the controlling party or parties before and after the business combination were not the same), therefore, the transaction was not a BCUCC;

(d) the interaction between the DP's scope and the requirements of IFRS 1, in particular paragraphs D16 and D17 and the 'grandfathering' exemptions provided by Appendix C of IFRS 1, was not clearly defined. Clarity was needed when a new company created to effect a group restructuring within an IFRS reporting group should be considered a first-time adopter and, if so, how it should first apply IFRS Standards.

Common control transaction in the separate financial statements

63 Six respondents agreed with the EFRAG's position on common control transactions. In particular, it was suggested that the IASB should consider the effects of common control transactions on the individual and separate financial statements because:

(a) in one jurisdiction, most of the BCUCC transactions were internal group restructurings and the most prevalent issue was how to account for such transactions in the separate financial statements;

(b) in two jurisdictions, BCUCC were common transactions with companies applying IFRS Standards and many listed companies used IFRS Standards in their individual and separate financial statements. Therefore, BCUCC had an impact on the individual and separate accounts with material effects on corporate tax, dividends and capital requirements. The issue was even more important when firms used the equity method in their separate financial statements;

(c) a third jurisdiction called for the IASB to also address the broader issue of transfer pricing.

64 One respondent disagreed with the IASB's approach that the DP's proposals would apply to the separate financial statements of the receiving company only if the BCUCC involved a transfer of an unincorporated business. The DP did not address how to account for a transfer of a business incorporated in a legal entity (investment in a subsidiary received in a BCUCC) in the separate financial statements as such guidance is contained in IAS 27 *Separate Financial Statements*. As there was no substantial difference between the two transfers, the respondent recommended to expand the scope of the project to include the accounting for BCUCC that involved a transfer of investments in subsidiaries in order to ensure consistency in the accounting for common control transactions regardless of whether it was incorporated or not.

65 Alternatively, if the IASB confirmed that this transaction must be accounted for in accordance with IAS 27, then it should clarify how the cost of the acquired investment should be measured when the consideration paid was different from its fair value, in particular:

(a) the cost of the investment acquired should be measured at fair value of the consideration paid; or

(b) the cost of the investment acquired was its fair value and the difference between the consideration paid and the fair value of the acquired subsidiary should be recognised as an equity contribution or an equity distribution.

66 One respondent recommended that DP's scope should also include accounting for legal mergers between a parent company and its existing subsidiaries in the separate financial statements of the parent company. Currently, in one jurisdiction, the predominant practice was to recognise the transaction applying a book-value method (using the parent's company consolidated book values).

Transitory control

Question for EFRAG's constituents

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

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

69 Three respondents agreed that it was not necessary for the project to clarify the meaning of "transitory control". Respondents further commented that:

(a) clarifying the meaning of "transitory control" was not relevant as most of the BCUCC transactions were internal group restructurings;

(b) the definition of BCUCC was wider than the one currently included in IFRS 3.

70 Four respondents commented that it would be helpful to clarify the meaning of 'transitory control' and align the concept with IFRS 3. The following explanations were given:

(a) one respondent considered that a BCUCC in preparation for an IPO deserved to be accounted for using the acquisition method because the transaction was economically an extension of the sale and therefore, applying a book-value method was not appropriate;

(b) removing the reference to 'transitory control' in IFRS 3 could significantly affect the accounting outcome and might create incentives for structuring opportunities. For example, a transfer of a subsidiary to a Newco could differ

significantly depending on whether the transfer occurred before or after the Newco was controlled by the receiving company;

(c) the notion of 'transitory control' should be carefully considered and clarified during the project especially when it could inflict opportunistic behaviour. For instance, when a transfer was preceded or followed by a sale, the transaction might be considered transitory and therefore fall outside the scope exclusion of IFRS 3 (acquisition method not applied) or, alternatively, not transitory and therefore considered as falling within the scope of the BCUCC project (acquisition method applied);

(d) it would be hard to determine the full impact of the proposals on scope unless the meaning of 'transitory' control was defined.

Unintended consequences of scope definition

Question for EFRAG's constituents

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

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

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

72 One respondent commented that the scope as defined in the DP was right. It was important that the focus of the BCUCC project was on transactions being scoped out of IFRS 3. Although, in the future there might be possible modifications to IFRS Standards relating to common control transactions in general as flagged in paragraph 26 of EFRAG's DCL and most specifically relating to reporting such transactions in the separate financial statement.

73 Two respondents suggested that the IASB should provide:

(a) further explanation about the scope of the DP as it was not clear whether transactions such as dissolutions with refund of contributions, share capital reductions, demergers, distributions of dividends when there is a transfer of a business involved and reverses merges (for instance, a subsidiary company absorbs the parent company) would fall within the scope of the project;

(b) additional guidance on the definition of 'group restructurings' to support the appropriate application of the proposals on scope.

Question 2

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

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

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

(b) in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company, subject to the cost–benefit trade-off and other practical considerations discussed in paragraphs 2.35–2.47 of the DP.

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

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

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

EFRAG's tentative position

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

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

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

Summary of constituents' comments

One measurement method does not fit all BCUCC

74 Eleven respondents agreed that neither the acquisition method nor a book-value method should be applied to all BCUCC. There could hardly be one measurement method that would fit all transactions within the scope of the project considering the variety of BCUCC transactions.

The IASB's decision tree

75 Eight respondents **supported** the IASB **decision tree** that the acquisition method should apply to BCUCC that affected NCS, subject to the cost benefit trade-off, and that a book-value method should apply in all other cases.

76 Five respondents suggested that the IASB should further clarify and provide guidance on the expression "affect non-controlling shareholders" as it was unclear to various stakeholders and was subject to different interpretations. Respondents commented that the meaning of 'affect NCS' should be better defined and made the following suggestions:

(a) the driver for selecting the measurement method should be:

(i) the presence of NCS in the receiving company;

(ii) the nature of the relationship with the NCS;

(iii) the change in ownership interest of the NCS as proposed in the DP;

(b) to consider introducing "a materiality criterion" on the presence of NCS in the receiving company in order to avoid structuring opportunities, for example, when NCS held an immaterial interest in the receiving entity for a limited period of time;

(c) to consider the notion of *significance* for the change in ownership interest of the NCS as the proposed decision tree might give rise to structuring opportunities.

77 Four respondents **did not support** the use of the proposed **decision tree**. Two of these respondents considered that the measurement method should reflect the economic substance of the transaction and further elaborated that:

(a) one respondent commented that the proposed decision tree could be useful for most BCUCC where an existing business was transferred to another existing business without substantial changes in the shareholders of the receiving company. However, BCUCC could be different in nature, including BCUCC between wholly-owned companies, and as a result the measurement method should reflect the economic substance of the transaction, taking into account the general prohibition to recognise internally generated goodwill. Not reflecting the substance of the transaction would result in structuring opportunities;

(b) one respondent disagreed with the though process of the decision tree which did not sufficiently investigate the substance of the BCUCC. The respondent also disagreed with the IASB's view that BCUCC always had substance. In their view, some BCUCC had economic substance while others were only group restructurings without any economic substance.

78 One respondent suggested that the IASB should allow for an accounting policy choice for the receiving entity to apply either the acquisition method or a book-value method combined with additional disclosures to meet minimum information needs for all shareholders. This approach might be further linked to the policy choice made when becoming a first-time adopter under the requirements in IFRS 1 and would be acceptable from a cost-benefit perspective while not putting NCS in a disadvantageous position.

79 One respondent suggested to limit the applicability of the acquisition method only to situations where the transaction had an 'economic substance'. The respondent suggested to introduce an opening step to the decision tree relating to the existence of 'economic substance' for the BCUCC transaction and define what 'economic substance' was.

80 One respondent proposed that the IASB decision tree should address only transactions that meet the definition of a business combination and all or almost all group restructurings should be accounted for using a book-value method. The respondent also suggested that the acquisition method should be mandated for companies whose shares are not traded on a public market when the combination affects non-controlling shareholders that (i) were unrelated to the receiving company and (ii) had a significant interest in the receiving company. If these two conditions were not met, the respondent suggested that an accounting policy choice between applying a book-value method and the acquisition method might be appropriate.

81 One respondent questioned the appropriateness of the criterion 'affect NCS' or the receiving company's shares being traded in a public market. The approach taken by the IASB could provide opportunities for structuring BCUCC transactions to avoid the application of a book-value method. The respondent considered that:

(i) a book-value method would provide relevant values when the transfer was under common control both before and after the transaction; and

(ii) the acquisition method should be applied when the consideration paid was in cash or by incurring or assuming liabilities because the application of a book-value method in such situations could negatively impact the equity in the separate financial statements of a company.

Drawing the dividing line

82 One respondent expressed concerns about the operability of the proposed bifurcation criterion 'affecting NCS'. The criterion was seen as insufficiently robust and unreliable to avoid significant application difficulties, interpretations or

counterintuitive accounting outcomes. The respondent acknowledged that the presence of NCS in the receiving company might be considered as an indicator of substance, however, this could not be the only 'bifurcation criterion'. Additional outreach was needed to identify more relevant factors to determine the most appropriate measurement method for BCUCC, for instance:

(a) factors considered in paragraphs 2.18 and 2.19 of DP;

(b) the fact that all BCUCCs were directed by the ultimate controlling party;

(c) the absence of free negotiation between the parties involved in the BCUCC.

83 One respondent commented that drawing the diving line between the acquisition method and a book-value method solely on the existence of NCS risked creating structuring opportunities.

84 One respondent commented that it would be difficult to evaluate the usefulness of the proposed decision tree when the DP was not explicitly clear how the (accounting) acquirer should be identified, both when applying the acquisition method and a book-value method.

85 Five respondents made various comments with respect to the application of a particular measurement method to certain types of BCUCC transactions:

(a) one respondent commented that the decision tree prohibited the use of the acquisition method for some BCUCC transactions such as BCUCC between wholly-owned companies or when the receiving entity would be partly sold shortly the transaction (without the controlling party losing control). Conversely, those transactions would be accounted for applying the acquisition method, if the external sale had taken place just before the BCUCC. It was unclear why such a difference should result in a different accounting treatment;

(b) to consider consistency of reporting for BCUCC regardless of the way the transaction had been structured i.e. transactions should result in the same outcome, if their economic substance is identical;

(c) to consider whether it might be useful to apply an option based model as provided by IFRS 1.D16 rather than prescribe when to apply each measurement method;

(d) one respondent explained that some BCUCC were driven by operational considerations or reorganisation objectives which could support the view that the combination significantly affected the receiving company's NCS. However, other BCUCC only involved legally reorganising activities that were already largely integrated from an operational and financial perspective and the application of a book-value method would be relevant because the transfer was not affecting the operations in terms of business purpose or value creation;

(e) one respondent was in favour of providing an option to apply a book-value method if the costs of the acquisition method did not justify the benefits of applying it;

(f) one respondent suggested to apply the acquisition method to all BCUCC including combinations between wholly-owned companies and combinations when control proves to be transitory;

(g) to consider the effects of the BCUCC duration over the configuration of the transaction, which might lead to a different measurement depending on whether NCS would be affected;

(h) to undertake more analysis to identify circumstances in which applying the acquisition method would be appropriate such as where the price paid was

similar to the one in an arm's length transaction, especially if there were unrelated NCS, even if their holdings were not significant.

86 Two respondents raised a concern about the concept of 'non-controlling shareholders' used in the DP. The definition provided in Appendix A of the DP used the term 'shareholders' referring for simplicity to all holders of the company's equity instruments, as defined in IAS 32 *Financial Instruments: Presentation*. This raised a questions whether less 'plain vanilla' financial instruments that met the definition of equity instruments in accordance with IAS 32 (such as warrants, non-redeemable preferred shares, perpetual bonds, members' shares) would also be taken into account when assessing whether the transaction affected NCS.

87 One respondents noted that the definitions of a receiving company in the DP and the definition of the acquirer in IFRS 3 were not identical. The respondent considered that use of dissimilar definitions raised uncertainty and further clarifications were necessary in this respect.

88 Two respondents suggested that further clarification was necessary to explain how the decision tree would apply when the consolidated financial statements were prepared at different levels of receiving companies i.e. at the level of the immediate receiving company and at the level of its parent companies that did not control the transferred business before the combination. It was questioned whether the criterion 'affect NCS' should be assessed for all receiving companies altogether. For example, if the immediate receiving entity had NCS but another receiving entity at a higher level in the group did not have NCS, would that lead to a different accounting treatment by different receiving entities. It would be impracticable and/or burdensome to treat the same transaction differently at different levels within the same group.

Existing guidance on BCUCC in Europe

Questions for EFRAG's constituents

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

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

(a) *If so, describe the requirements;*

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

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

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

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

91 The following guidance on BCUCC exists in different European jurisdictions:

(a) Denmark – the Danish Financial Statements Act ('DFSA') regulates the accounting for BCUCC by applying a *uniting of interests method*. Under the uniting of interests method:

(i) the consolidated financial statements for the period in which the BCUCC takes place are presented as if the entities had been combined starting from the earliest accounting period presented in the financial statements. However, the entity may decide to consider the uniting of interests as having taken place at the acquisition date;

(ii) the difference between the amount paid as contributed capital and any share premium plus any cash consideration and the equity value of the subsidiary must clearly be added to or deducted from the reserves available for the covering of loss;

(b) The Netherlands - DAS 216.503 establishes how to account for BCUCC in the consolidated financial statements of the acquirer under common control by applying the following methods:

(i) the purchase method - this method may only be applied to BCUCC, if it reflects the (economic) substance of the transaction. It is comparable with the acquisition method under IFRS 3 with a general prohibition to recognise internally generated goodwill;

(ii) the pooling of interests method – is a book-value method that applies retrospectively; and

(iii) the 'carryover accounting' method - is a book-value method that applies prospectively. If the carryover accounting method is used, the carrying amounts of the assets and liabilities are combined on the acquisition date. The comparative figures are not restated.

The difference between the consideration paid by the receiving company and the acquired net assets recognised is treated as:

(iv) positive or negative goodwill under the purchase method; and

(v) contribution to or distribution from equity under both book-value methods (in distributable reserves, e.g. share premium or retained earnings);

(c) Spain - BCUCC are regulated in the National Chart of Accounts according to which:

(i) BCUCC are accounted for applying a book-value method, using the consolidated book values of the parent entity when the consideration is paid in the own shares;

(ii) any difference between the consideration paid and the consolidated book value of assets and liabilities received is recognized in equity;

(d) Portugal - BCUCC are accounted for by applying the acquisition method including situations when the transfer is conditional on a sale of the combining company to an external party. In Portugal, using the acquisition method in BCUCC is particularly common in demerges under common control followed by an IPO or a sales agreement with a private equity fund.

Question 3

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

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

Do you agree? Why or why not?

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

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

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

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

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

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

EFRAG's tentative position

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

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

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

Summary of constituents' comments

92 Eight respondents agreed with the IASB proposal to require the application of the acquisition method when the receiving company's shares were traded in a public market. Furthermore, the following comments were made:

(a) definition of a public market - the definition of a public market in IFRS 10 *Consolidated Financial Statements* was unlikely to be robust enough to drive the selection of a measurement method and there was a risk of divergent interpretation and application in practice. For instance, an over-the-counter (OTC) market was by definition a market where participants trade bilaterally and therefore it might be questionable whether instruments listed on an OTC market were 'publicly traded'. In addition:

(i) recommendation was made to further refine the existing definition and in particular the notion of 'publicly traded';

(ii) remark was made about the assumption that trading in a public market provided protection to NCS might not apply to all non-regulated markets or to all public markets globally.

93 One respondent doubted whether the receiving company being listed was sufficient to justify the use of the acquisition method in all cases, especially in situations where the receiving company was a listed Newco with NCS and acquires a single business. On the other hand, the acquisition method might be relevant for BCUCC when the receiving entity had no NCS, part of a larger group, prepared for an IPO.

94 One respondent commented that the assumption that shareholders of privately held companies had different means of information about the receiving entity might be too general and might leave an information gap.

95 One respondent suggested to consider the appropriateness of the selected measurement method for BCUCC without including as an overriding argument the cost factor associated with the use of the acquisition method.

96 One respondent commented that the interests of other stakeholders, like lenders and other creditors, should also be taken into account when determining the measurement method. The information needs of lenders and other creditors could be the same as the information needs of shareholders of a listed entity.

Related-party exception

97 The following views were expressed with respect to the proposed **related-party exception** from applying the acquisition method:

(a) Five respondents agreed with the related-party exception because in this case it was highly probable that the transaction was not at arm's length and would not resemble a business combination under the scope of IFRS 3. However, it was noted that:

(i) the exception opened possibilities for structuring the BCUCC transaction by introducing NCS that was not a related party for the purpose of applying the acquisition method. Suggestion was made to introduce the notion of significance – the exception to be applicable only if NCS which were not related parties were not significant;

(ii) further guidance was necessary regarding the practical application of the exception when there were different levels of receiving companies with NCS;

(b) three respondents were not convinced by the IASB arguments to introduce the related-party exception as the information needs of different related parties could be different given the broad composition of related parties as defined in IAS 24 *Related Party Disclosures*.

98 Four respondents agreed with EFRAG that the related-party exception provided by the IASB should be 'permitted' rather than 'required'.

Optional exemption

99 The following views were expressed with respect to the proposed **optional exemption** from applying the acquisition method:

(a) two respondents expressed doubts whether the optional exemption was practicable when a single NCS could force the entity to use the acquisition method. The DP did not clarify how and in what form NCS should be notified, within what timeframe, and whether silence was an indication of consent. The proposed approach might lead to structuring opportunities and inappropriate accounting outcomes;

(b) one respondent commented that the exemption had a fundamental impact on the accounting for BCUCC in all future sets of financial statements which differed from the existing exemption from preparing consolidated financial statements as in that case shareholders could decide whether or not they wished to object each financial year;

(c) one respondent suggested that the IASB should carefully consider whether the exemption should apply also if the receiving company had publicly debt instruments. This would not be inconsistent with Step 1 of the decision tree because the exemption's focus was on cost-benefit considerations in light of the information needs of users of financial information. Furthermore, this would align the future requirements with exemptions contained in other IFRS Standards which apply to both companies with publicly debt and equity instruments;

(d) one respondent observed that the optional exemption introduced a "governance rule" that could be difficult to apply in practice (how and when the receiving company should notify its NCS or how much time NCS should be given to raise any objections) and would impair comparability;

(e) three respondents agreed with the optional exemption, however, the respondents suggested that further guidance was necessary:

    (i) regarding the practical application of the exemption when there were different levels of receiving companies with NCS;

    (ii) to avoid situations in which unique NCS, representing a negligible portion of interests in the receiving company's equity, could impose the use of the acquisition method;

    (iii) to lower the threshold of the optional exemption to 'substantially all' NCS in order to avoid practical difficulties. Such threshold was well-established in IFRS Standards (e.g. IFRS 9) and would reduce the need for interpretation;

(f) suggestion was made to exclude related parties from the NCS when considering the exemption process and step 4 of the decision tree to be amended with the following wording: '*Has the receiving company chosen to use a book-value method, and have its non-controlling shareholders except related parties not objected?*'.

EFRAG's modified decision tree

Questions for EFRAG's constituents

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

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

102 Two respondents agreed with EFRAG's proposal to reverse Step 1 and Step 2 of the IASB's decision tree for selecting the measurement method as publicly traded companies normally had NCS and in most cases should use the acquisition method.

103 Two respondents considered EFRAG's proposed modification to expand the scope of the IASB's decision tree and made the following suggestions/comments:

(a) Option 2 - to include receiving companies with publicly traded shares or publicly traded debt instruments, was the most appropriate one as it would not

be sensible to treat a transaction differently solely based on the type of instrument that was publicly traded;

(b) Option 2 and Option 3 – one respondent supported both options.

104 Four respondents **did not support** the EFRAG proposed modifications to the IASB's decision tree for the following reasons:

(a) three respondents disagreed to expand the scope of the revised Step 1 as proposed by EFRAG's modified decision tree because:

(i) the proposed modifications would be difficult to determine with respect to how broad the scope should be. For instance, to expand the scope to include loan providers holding a company's listed bonds or even further to consider other providers of credit such as providers of a loan to an entity that was close to breaking its covenants;

(ii) debt/asset holders did not have ownership interests in the economic resources of the entity and therefore were not impacted by the BCUCC transaction;

(iii) the modifications were based on a distinction between information needs of lenders of publicly traded debt and of lenders of other debt which was not reasonable. The respondent also did not support having a distinction for companies with public accountability;

(b) two respondents did not support reversing Step 1 and Step 2 of the IASB's decision tree because:

(i) there were no practical differences resulting from the proposed reversal in the decision tree which should be an instrument for the best interpretation and application of the DP;

(ii) if a BCUCC did not affect NCS, it was reasonable that a book-value method should be applied since the transaction would not resemble a business combination within the scope of IFRS 3. Swapping Step 1 and Step 2 would mean that all BCUCC where the receiving company had publicly traded shares would be accounted for under the acquisition method which would lead to undesirable outcome. In certain circumstances, the book-value method was conceptually preferable, for example, significant uncertainty in measuring goodwill at an amount that was not evidenced by a transaction price between independent parties.

Optional exemption under EFRAG's modified decision tree

Question for EFRAG's constituents

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

106 One respondent expressed concern that NCS would not get fair value information which they might need to continue accounting for their share of the combined entity when the acquisition method was not applied to the transaction.

107 One respondent commented that requesting approval from NCS might be difficult to implement and costly depending on their number. It suggested that approval from NCS should be limited to certain circumstances and it would be useful if the IASB provided some guidance in this respect.

Related-party exception to be optional

Question for EFRAG's constituents

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

109 Three respondents agreed with EFRAG that the related-party exception provided by the IASB should be 'permitted' rather than 'required'.

110 Two respondents expressed concerns about the practical application of the optional exemption under the EFRAG's modified decision tree because:

(a) NCS would not get fair value information which they might need to continue accounting for their share of the combined entity;

(b) requesting approval from NCS might be difficult and costly to implement.

Question 4

> Paragraphs 2.48–2.54 of the DP discuss suggestions from some stakeholders that the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies. However, in the IASB's preliminary view, publicly traded receiving companies should always apply the acquisition method.
>
> (a) Do you agree that the optional exemption from the acquisition method should not be available for publicly traded receiving companies? Why or why not? If you disagree, in your view, how should such an exemption be designed so that it is workable in practice?
>
> (b) Do you agree that the related-party exception to the acquisition method should not apply to publicly traded receiving companies? Why or why not?

EFRAG's tentative position

> **EFRAG agrees with the IASB that the optional exemption from the acquisition method should not be extended to publicly traded companies. Such companies usually have many non-controlling shareholders that rely on the general purpose financial statements of the receiving company. The non-controlling shareholders of a publicly traded company also change share ownership frequently which could result in potential shareholders being provided with information which was requested by the previous shareholders of the receiving company.**
>
> **Likewise, EFRAG agrees with the IASB that the related-party exception to the acquisition method should not be extended to publicly traded receiving companies. EFRAG is of the view that situations in which all non-controlling shareholders are related parties to the receiving company are not common in Europe and extending the exception will have very limited application, if at all**.

Summary of constituents' comments

111 Nine respondents agreed with the IASB proposal that the optional exemption and the related-party exception to the acquisition method should not apply to publicly traded companies because:

(a) extending the proposal to publicly traded companies would unnecessarily overcomplicate the BCUCC project;

(b) publicly traded companies normally had many shareholders with frequent changes in share ownership;

(c) market regulations would not authorise all NCS of the receiving company to be related parties.

Question 5: Acquisition method

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

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

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

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

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

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

EFRAG's tentative position

EFRAG welcomes the IASB's discussions on the notion of distributions from and contributions to equity but acknowledges that these are difficult to be measured and unlikely to occur in practice. If a distribution from equity occurs, EFRAG agrees that the IASB should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity but rather recognise any difference between the fair value of consideration paid and the fair value of identifiable acquired assets and liabilities entirely as goodwill.

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

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

Summary of constituents' comments

112 Six respondents agreed that the IASB should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity (four NSS, one regulator, one preparer organisation). The following reasons were provided:

(a) four respondents indicated that, even though not impossible, over- or underpayments are unlikely to occur;

(b) the DP proposes to leverage to the maximum possible extent on the existing requirements under IFRS 3 (As per IFRS 3 BC382, in a business combination

in scope of IFRS 3 it is unlikely that an overpayment could be detected at the acquisition date) (one respondent);

(c) there are no new compelling arguments that would change the IASB's conclusion in IFRS 3 whereby identifying and quantifying an overpayment at the acquisition date may be difficult — if not impossible (one respondent);

(d) developing requirements would have widespread consequences on common control transactions in general determining whether they are concluded on arm's length basis or not (one respondent);

(e) developing requirements would imply the need for an analysis of whether an overpayment or underpayment may have occurred, which would be needlessly burdensome for companies and would not be justified (one respondent).

113 Two respondents provided concerns that the current requirements pertaining to goodwill allocation would regularly enable companies to allocate the acquisition to a CGU with pre-existing headroom so that the acquisition may be shielded from impairment in subsequent tests.

(a) one of them suggested to distinguish between goodwill and a true 'overpayment' which can be derived from cash-flow forecasts and calculations needed for the purchase-price allocation. In addition, conceptually, it is necessary that a jointly executed BCUCC and a repayment of capital are shown separately and not as a single BCUCC transaction with an overpayment;

(b) the other respondent indicated that the IASB should make clear that unbundling the distribution will be appropriate in some circumstances or explain why this is not necessary given the existing guidance on determining what is part of the business combination transaction in IFRS 3 paragraphs 51-53 and B50-B62B.

Other special requirements for IASB to develop

114 Three respondents agreed with EFRAG that the IASB should provide guidance on how to identify the receiving entity (the acquirer) in situations involving a NewCo where applying the existing guidance under IFRS 3 might not be relevant.

115 One respondent indicated the following to be further considered by the IASB:

(a) paragraph 15 of IFRS 3 requires an entity to classify or designate the identifiable assets acquired and liabilities assumed on the basis of the contractual terms and economic conditions as they exist at the date of acquisition. This requirement may lead to revisions to the classification and measurement of the transferred entity's financial assets and liabilities at the acquisition date if conditions have changed as a result of the acquisition. This could significantly affect the group's financial reporting for items that, in the respondent's view, have not changed. They suggest the IASB to clarify the prevalence and materiality of this matter in outreach with jurisdictions where BCUCCs frequently occur;

(b) the combining entities may have significant pre-existing relationships mainly because they belong to the same group. The receiving company will be required to apply the requirements in paragraphs 51–52 of IFRS 3 to distinguish the amounts that are not part of the exchange for the acquiree. Applying those requirements could result in recognising 'Day 1' gains or losses in the receiving entity's statement of profit or loss. Should the IASB confirm its preliminary view to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, the respondent suggests the IASB to clarify whether the

fact that the transaction is effected under common control would affect how pre-existing relationships should be accounted for.

Feedback on Questions to Constituents

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

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

116 Regarding recognising any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity or as a bargain purchase gain in the statement of profit or loss:

	No. of respondents
In favour of recognition as a bargain purchase gain in profit or loss (consistent with IFRS 3)	5 NSS
In favour of recognition as contribution to equity – IASB proposal	5 (1 regulator, 1 preparer organisation, 2 NSS, 1 draft comment letter)
In favour of gain in profit or loss if there is evidence that the transaction price is the market price in conditions of free competition. Otherwise, recognition as contribution to equity	1 NSS
No clear response/ no response	2

117 One of the respondents, who agreed with the IASB proposal in the table above, indicated that the receiving company should be required to perform a reassessment, as provided for by IFRS 3.36 regarding bargain purchase gains, as the economic justifications for a bargain purchase gain occurring in a business combination (information asymmetries, forced sales, etc.) are not applicable in the case of a business combination under common control.

118 Reasons provided for favouring recognition as a bargain purchase gain in profit or loss related to being consistent with IFRS 3. Specific reasons were as follows:

(a) consistent with the assumption that BCUCC affecting NCS are similar to business combinations covered by IFRS 3 (one respondent);

(b) any 'negative goodwill' would more frequently arise from the existence of (i) loss-making transferred activities or (ii) assets acquired or liabilities assumed measured at an amount that is not their value at the acquisition date. Also, it would not be relevant to create a misalignment with the requirements in IFRS 3 when combinations are similar (one respondent).

119 Reasons for favouring recognition as contribution to equity:

(a) as BCUCC transactions involve the transfer of a business between two parties that are ultimately controlled by the same party, in substance, any excess better represents a contribution to equity rather than a bargain purchase gain (one respondent).

Question 6: Book-value method: Measuring assets and liabilities received using the transferred company's book values

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

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

EFRAG's tentative position

EFRAG considers that both the use of the carrying amounts in the consolidated financial statements of the transferred company's controlling party and use of the carrying amounts in the financial statements of the transferred company can provide decision-useful information for users. **Nonetheless, before reaching its final view, EFRAG is consulting its constituents on how the receiving company should measure the assets and liabilities received from the transferred company.**

Feedback on Questions to Constituents

EFRAG acknowledges that in some jurisdictions, the local regulator may dictate that a particular method be used. What approach is currently being applied in the financial statements in your jurisdiction? Please provide a description of this approach. Do you agree with using the transferred entity's book values or with using the controlling party's book values? Please explain your reasons why. If you do not agree with either approach, what approach do you suggest and why?

120 [Prevailing] approaches currently applied in various jurisdictions:

(a) Controlling party's book values (three respondents);

(b) Both approaches (using transferred entity's book values and using the controlling party's book values) (three respondents).

121 Regarding using the transferred entity's book values or with using the controlling party's book values:

	No. of respondents
In favour of with using the controlling party's carrying amounts	5 (3 NSS, 2 preparer organisation)
Option: • between the transferred entity's book values and the controlling party's book values • among three book values (i.e., of the transferred company, of the transferring company or of the (ultimate) controlling company)	 • 3 NSS • 1 NSS
In favour of using the transferred entity's carrying amounts (IASB proposal)	3 (1 regulator, 1 user organisation, 1 draft comment letter)
Both methods have their own merits. The IASB should perform additional research activities before making any decision in this respect	1 NSS

122 Reasons for favouring the controlling party's carrying amounts:

(a) in this way the same assets and liabilities would be recorded at the same carrying amount in the different financial statements of the group, thereby minimising impacts (three respondents);

(b) provides a more recent valuation of the assets and liabilities acquired (three respondents);

(c) the financial statements of the transferred company might be prepared in accordance with national accounting principles different from IFRS standards, and thus the DP proposal might be difficult to implement and more costly (three respondents);

(d) increase the complexity of the transaction if transferred company's individual book values are used, since at consolidated level any BCUCC should have no impact (one respondent);

(e) in order not to lose these numbers in a subsequent BCUCC (one respondent);

(f) when businesses are acquired from third parties and subsequently the group agrees to an internal restructuring, the choice of the consolidated value allows a better representation of the accounting succession for reporting the acquisition price of the business between third parties (one respondent);

(g) the DP proposal would create an unnecessary difference with US GAAP (one respondent);

(h) more plausible to refer to the Group's book values prepared under IFRS to enhance comparability, consistency and compliance with IFRS (one respondent).

123 Reasons for having an option of both carrying amounts (i.e., transferred entity's carrying amounts or controlling party's carrying amounts):

(a) it would depend on the specific facts and circumstances of a transaction. In certain situations, the controlling party's book values would provide more useful information to users, for example when those book values are impacted by a recent business combination; are better understood within or outside the group's reporting and potentially less costly to achieve. A strict prohibition to use the controlling party's book values could in our opinion lead to structuring of transactions (one respondent);

(b) it is consistent with current practice. In addition, selection of the option should consider consistent accounting policies, timing of the transaction in relation to when the transferred entity was formed, other transactions such as a spin off after a BCUCC transaction and users of financial statements (one respondent).

124 Regarding the suggestion for an option among three carrying amounts, the respondent indicated that the choice would be on a case-by-case basis, depending on the individual facts and circumstances of the transaction. The reason for suggesting this option was due to observable complexity of BCUCC transactions and the diversity of practical and conceptional arguments for and against the respective alternative approaches.

125 Reasons for favouring the transferred entity's carrying amounts:

(a) there would be uninterrupted historical information about the transferred company (two respondents);

(b) information about transactions and events should be provided from the perspective of the company that preparers financial statements, which in this case is the receiving company. The controlling party's book values would be less appropriate since the controlling party is not – strictly speaking – a party to the combination; (one respondent);

(c) similar information about assets and liabilities of the combining companies, irrespective of how the combination is structured. This would avoid the need to rely on identification of an acquirer (one respondent);

(d) other approaches could lead to a biased outcome (one respondent).

Other comments

126 Three respondents suggested for the IASB to develop guidance for situations where the transferred company previously did not apply IFRS or where IFRS figures are not available (and to explain in which situations IFRS figures would not be available) [1]. It is unclear whether IFRS 1 is applicable in such a situation.

127 If the transferred company's book values are used, this would raise additional questions when the transferee controls one or more other entities - i.e., the transferee is a sub-group of the controlling party, e.g., whether the transferee's assets and liabilities should include assets (such as goodwill, indemnification assets) and liabilities (such as contingent liabilities) that were recognised further to past business combinations applying IFRS 3—such as assets and liabilities being not recognised in the separate financial statements of each individual entity of the sub-group transferred (one respondent).

128 One respondent suggested additional guidance whether or not there is a new initial point of recognition when the assets and liabilities are initially recognised in the receiving company's financial statements, e.g., whether the value of property, plant & equipment and the associated accumulated depreciation is recognised in receiving company's financial statements or just the net book value. In addition, there was a suggestion for the IASB to provide more accounting guidance for group restructurings that are not business combinations.

Question 7: Book-value method: Measurement of consideration paid

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

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

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

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

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

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

[1] Note that paragraph 4.5 of the DP states that the IASB will consider the comments received on the Discussion Paper in deciding whether to confirm its preliminary views and develop detailed proposals on how the receiving company should apply a book-value method. Such future detailed proposals might address, for example, how to determine the book values of the assets and liabilities received when those book values are not readily available.

EFRAG's tentative position

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

Summary of constituents' comments

129 Seven respondents (five NSS, one regulator, one draft comment letter) agreed with EFRAG and thus with the IASB proposal not to prescribe how the receiving company should measure the consideration paid in its own shares.

Reasons provided were as follows:

(a) reporting of the components of equity and the measurement of issued shares for reporting purposes need not be prescribed by IFRS Standards (three respondents);

(b) measurement of issued shares for the purpose of that reporting are often affected local requirements and regulations (two respondents).

130 One of these respondents suggested including specific examples of the application of different methods of measuring consideration paid in own shares.

131 A respondent (preparer organisation) suggested to measure the corresponding issuance of share to the transferring party at the same amount as the assets and liabilities received if the book-value method is applied. This would align with IFRS 2.10 where the value of the received goods determines the corresponding adjustment in equity.

132 Regarding consideration paid in assets:

(a) four respondents favoured measurement at <u>fair value</u> (three NSS, one preparer organisation);

Reasons are as follows:

(i) symmetry is favoured with the liabilities if these are also measured at fair value. Also, local GAAP requires measurement at fair value of the assets (one respondent);

(ii) there are concerns about unintended consequences the IASB proposal could have as to the application of certain IFRS Standards[2]. This is because developing the IASB's preliminary's view would necessitate amending the scope of the aforementioned IFRS Standards to explicitly exclude the disposals of assets when the transfer is performed within the context of a BCUCC. This respondent recommends the IASB to analyse all possible effects of the consequential amendments to the specific IFRS Standards before making any decision;

[2] I.e. IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IFRS 15 *Revenue from Contracts with Customers* or IFRS 9 *Financial Instruments* (when the assets transferred meet the definition of a financial instrument)

(iii) using fair value would not result in any significant measurement uncertainty. It could be costly to apply but (i) it would not be out of the entity's reach; (ii) the same issue arises when the transaction occurs between unrelated parties; (iii) users (such as lenders and potential shareholders) together with the existing NCS may be interested in this information (one respondent);

(iv) it is less appropriate to use book value since it would be a derecognition of assets, and according to the applicable IFRS, it would entail the recognition of the result. It could be possible as well that the BCUCC could be used to hide capital gains or capital gains or losses on assets (one respondent);

(b) five respondents agreed with EFRAG and thus the IASB proposal, i.e., measurement at the receiving company's book values of those assets at the combination date.

(i) Reasons provided were:

- there would be consistent application for both received and transferred items (one respondent);
- this approach is consistent with a model that focuses on book values and is likely to be less costly than measuring the consideration paid in assets at their fair values. Moreover, it avoids any gain or loss on derecognition being recognised in the receiving company's statement of profit or loss (one respondent);

(ii) one of these respondents proposed a clarification that the approach proposed in the DP does not apply to an exchange of non-monetary assets for another under IAS 16.24, where the exchange generally occurs at fair value.

133 Seven respondents agreed with the measurement proposed in the DP, and thus with EFRAG, for consideration by incurring or assuming liabilities.

(a) one of the respondents wondered whether financial liabilities that are assumed to finance a specific asset should be transferred on the same basis as the related assets, i.e., at book values;

(b) another respondent suggested including specific examples for these transactions.

134 One respondent stated that the acquisition method should be followed when the consideration given is in cash or by the issuance of a liability because, from the perspective of the separate financial statements and the preparation of the individual annual accounts, the application of the book value method in these cases can cause a serious equity issue. Therefore, they would like to recommend to the IASB that it analyse the implications of the sale of a business in the absence of accumulated earnings in the receiving company that can absorb the loss of equity that originates due to the difference between the fair value of the consideration given and the preceding book value of the elements that make up the business received.

135 One respondent agreed with EFRAG for the IASB to address any tension between IFRIC 17 *Distributions of Non-cash Assets to Owners* and future requirements for common control transactions.

Feedback on Questions to Constituents

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

136 An example provided of other forms of consideration paid was barter transactions, but the respondent indicated that these are rare in their jurisdiction (one respondent).

137 Two respondents indicated that they were not aware of any other forms of consideration paid apart from those identified in the DP or the most common were those mentioned in the DP.

Question 8: Book-value method: Any difference between the consideration paid and the book value of the assets and liabilities received to be recognised in equity

> Paragraphs 4.44–4.50 discuss the IASB's preliminary views that:
>
> (a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and
>
> (b) the IASB should not prescribe in which component, or components, of equity the receiving company should present that difference.
>
> Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

EFRAG's tentative position

> **EFRAG agrees to recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received.**
>
> **EFRAG also agrees with not specifying in which component(s) of equity the difference between consideration paid and assets and liabilities received should be presented.**

Summary of constituents' comments

138 Eight respondents agreed to recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received (five NSS, one regulator, one preparer organisation, 1 draft comment letter). One of these respondents indicated that this was consistent with the prevailing accounting practice.

Reasons provided were as follows:

(a) the difference between the consideration paid and the book value of the assets and liabilities received may include various components but to recognise these separately would be costly and would result in applying, to some extent, the acquisition method (three respondents);

(b) is consistent with the requirements of IAS 1, which states that transactions with owners acting in their capacity as owners should be reported in the statement of changes in equity (two respondents);

(c) is consistent with the fact that BCUCC accounted for under the book-value method may not to be priced at arm's length and may involve related parties (and therefore include a contribution to or distribution from the receiving company's equity); (one respondent).

139 Nine respondents agreed with not specifying in which component(s) of equity the difference between consideration paid and assets and liabilities received should be presented (six NSS, one regulator, one preparer organisation, 1 draft comment letter).

Reasons provided were as follows:

(a) presentation of components of equity often depends on requirements of local jurisdictions a (three respondents);

(b) this is not normally prescribed by IFRS Standards (two respondents).

140 One respondent stated that they considered whether it should be possible to apply the acquisition method when cash or other assets are issued. Otherwise, it may run the risk of wiping out equity even if the transaction is "paying fair value for fair value".

141 Another respondent indicated that the IFRS standards do distinguish when something is a contribution/distribution of equity or when it is a result. Consequently, they considered that the IASB should provide an analysis of the nature of the equity adjustment.

Question 9: Book-value method: Transaction costs

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

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

EFRAG's tentative position

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

Summary of constituents' comments

142 Six respondents agreed with the IASB proposal and thus with EFRAG on transaction costs.

Reasons provided were as follows:

(a) there is no reason for a book-value method to treat transaction costs differently from the approach required by IFRS 3[3](two respondents);

(b) is consistent with IFRS 3 requirements (three respondents);

(c) the costs incurred represent a separate transaction for services received and are not part of the exchange between the buyer and the seller (two respondents);

(d) from the controlling party's perspective, those costs cannot be related to an equity transaction in circumstances in which the combination does not change its ownership interest in the economic resources of the transferred company (one respondent);

(e) is consistent with current practice (one respondent).

143 However, one of the above respondents indicated that some of its stakeholders asked the IASB to consider an alternative approach to recognise transaction costs within equity. This is because the receiving company recognised within equity any difference between the consideration paid and the book values of the assets and liabilities received. This would be on the basis that paragraph 37 of IAS 32 specifies

[3] IFRS 3 transaction costs other than costs of issuing shares or debt instruments are not deemed part of the exchange between the buyer and the seller for the business but rather as separate transactions in which the buyer pays for the services received.

that '*the transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided*.'

144 One preparer organisation had split views within the organisation. Some preferred capitalising these transaction costs (more understandable towards users as many standards require this) while others agreed with the IASB proposal (capitalising costs would lead to differences in the book values between the receiving entity and the Group.

Question 10: Book-value method: Prospective application without restating pre-combination information

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

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

EFRAG's tentative position

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

Summary of constituents' comments

145 Regarding prospective versus retrospective application of pre-combination information:

	No. of respondents
A – In favour of an option to allow either prospective application from combination date or retrospective application • One of them indicated that any pre-combination disclosure should be in the notes.	5 (3 NSS, 1 preparer organisation, 1 draft comment letter)
Regarding extent of retrospective application preferred: • until the beginning of the reporting period, supplemented by adequate disclosures to explain what has happened.	1 NSS
• As if the combining companies have always been combined	1 NSS
B - In favour of prospective application from the combination date – IASB proposal - However, recommends disclosure of pre-combination information in the notes to its financial statements (consistent with IFRS 3)	2 (1 regulator, 1 NSS)
C – In favour of retrospective restatement of comparative information to be required, except where it is impracticable to do so.	1 NSS

146 One of the respondents who was in favour of an option recommended the IASB to first undertake additional research to identify the sets circumstances in which each

approach would best respond to users' needs. If the IASB's deliberations were to be inconclusive, they recommended the IASB to introduce a policy election.

147 Reasons for **A** in the table above for the option:

(a) due to cost-benefit trade-off (four respondents);

(b) local GAAP provides this choice if the transaction is driven by company law such as a legal merger (one respondent);

(c) in some situations, e.g., IPO, retrospective application even results in more relevant information to users of the financial statements. Retrospective application could be more practical than prospective application, because for business combinations under common control it can be challenging to determine the acquisition date and the accounting acquirer. Prospective application would lead to an additional closing moment including additional audit procedures (one respondent);

(d) loss of information if using prospective application (one respondent);

148 Reasons for **B** in the table above (prospective application):

(a) the proposals should be consistent with the requirements of IFRS 3 (one respondent);

(b) retrospective approach would provide a picture of a group in a period when that group did not exist (one respondent);

149 Reasons for **C** in the table above include benefits outweighing costs and consistent with current practice.

Other comments

150 One respondent would welcome guidance on how to deal with the history of assets and equity reserves of the transferred company (e.g., impairments, reserves which are to be recycled, etc.). For example, it is unclear to us whether pre-combination impairments of the transferred company can be reversed post-combination in the financial statements of the receiving entity.

151 One respondent stated that other issues should be taken into account - for example, to comparative periods, as only the values of the receiving company would be shown for previous periods. In addition, pre-combination information could possibly be required in some jurisdictions on the basis of other laws and regulations (e.g., EU Regulation 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market), which may result in companies being forced to apply both approaches and consequently in incurring additional expenses.

152 Another respondent proposed that the new standard addresses presentation of reserves of transferred company in the financial statements of the receiving company, such as revaluation reserves. This respondent favoured a continuation of the presentation of reserves of the transferred company in the financial statements of the receiving company as it ensures comparability from period to period.

Feedback on Questions to Constituents

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

In your jurisdiction, do you currently provide pre-combination information about the transferred company prospectively as from combination date or retrospectively by restating comparatives? Please explain. If you provide information retrospectively with pre-combination information restated, is it retrospective as from the beginning of the reporting period or as if the combining companies have always been combined? Do you consider that providing pre-combination information about the transferred entity prospectively might be costlier than restating this information?

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

	No. of respondents	Comments
Retrospectively	3 (1 preparer organisation, 1 NSS, 1 draft comment letter)	One of them indicated retrospectively till beginning of reporting period. Also, no comparative information is included as it would be very costly and operationally challenging. Another respondent indicated retrospectively as if the combining companies had always been combined, with pre-combination information restated from the beginning of the earliest period presented.
It depends	2 NSS	Pooling of interests method should be applied retrospectively as if the combining companies have always been combined while the 'carryover accounting method' is prospectively from combination date (one respondent). Pre-combination information is required form the beginning of the reporting period, but only if any of the companies involved entered in the common control during the year the BCUCC is carried out. In the other cases, the combination date is used (one respondent).

154 Based on the table above on current practice, two respondents indicated that retrospective application is from the beginning of the reporting period and two respondents indicated as if the combining companies have always been combined.

155 Regarding whether providing pre-combination information about the transferred entity prospectively might be costlier than restating this information:

(a) one respondent indicated that in some situations, prospective application might be more costly because for business combinations under common control it can be challenging to determine the acquisition date and the accounting acquirer.

Question 11

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

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

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

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

EFRAG's tentative position

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

Summary of constituents' comments

156 In general, nine respondents supported the disclosure requirements proposed in the IASB`s DP for situations where the acquisition method would be applied.

157 Four respondents specifically highlighted that they would be very supportive of the IASB`s preliminary view to also consider future disclosure improvements relating to IFRS 3. Three respondents pointed out that they would welcome further application guidance related to IAS 24 disclosure requirements.

158 Nevertheless, different respondents had certain reservations regarding different parts on the proposed requirements:

(a) one respondent suggested that the IASB should consider, whether additional disclosures on the determination of the transaction price would be needed as BCUCC transaction may not be priced at arm`s length. Another respondent noted that such disclosure should only be required when transaction is not at arms` length;

(b) two respondents were concerned that requiring additional disclosures for acquisitions (e.g. disclosures about expected synergies) would raise questions on commercial sensitivity and reliability of information;

(c) one respondent was of the opinion that IAS 24 and IFRS 3 disclosures by the receiving company would provide appropriate information for users of financial statements. Therefore, the respondent did not see any need to provide additional disclosures about the terms of the combination as those disclosures might relate more to the legal environment than to the company itself. Such information may be beyond the general purpose of financial statements;

(d) one respondent pointed out that the disclosure guidance should also include materiality considerations as discussed in amendments to IAS 1 *Presentation of Financial Statements* as issued on 12 February 2021;

(e) one respondent suggested to consider the application of the ED/2013/3 *Disclosures Requirements in IFRS Standards – A Pilot Approach* and in this context to clearly define objectives and information needs;

(f) one respondent stated that application guidance on IAS 24 and IFRS 3 disclosures should elaborate on transfer pricing and that it is indicative for an arms` length price;

(g) one respondent commented that disclosure requirements should be enough to provide relevant information to users while not being to excessive.

Question 12

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

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

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

(c) the receiving company should disclose:

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

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

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

EFRAG's tentative position

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

Summary of constituents' comments

159 Majority of respondents (nine) expressed general support for the disclosure requirements proposed in the IASB`s DP for situations where a book-value method would applied as well as including any improvements on those requirements resulting from the DP's on *Business Combinations - Disclosures, Goodwill and Impairment*.

160 In general, respondents were supportive of the proposed disclosure requirements under the book-value method. However, different respondents had certain reservations regarding different aspects:

(a) respondents highlighted that it would be difficult to access as the DP would be in the early-stage and the book-value method would not be fully developed;

(b) respondents did not agree with the DP`s proposal to not require the use of any pre-combination information:

(i) two respondents suggested to require at least some disclosures for revenue and profit or loss as if the combination had occurred at the beginning of the year. One of the respondents considered that this information might be useful to users of financial statements and the collection of the data might not be excessively costly for preparers;

(ii) three respondents suggested to require at least some "as if "-disclosures in case of group restructurings. Absent from such kind of transactions the respondent would not object the preliminary view of the IASB;

(iii) two respondents had concerns to not have pre-combination information as those would be very useful from an investor relations perspective or possibly be required by laws and regulations of the jurisdiction, so such information should be allowed, but not required;

(iv) one respondent disagreed and proposed to require retrospective disclosure as long as it is not impracticable;

(c) one respondent stated that a description of how control was obtained would not be relevant as this would mainly relate to

(i) the ultimate controlling party, and

(ii) would lead beyond the legal structure of the transaction;

Thus, the respondent suggested to eliminate such requirement;

(d) two respondents highlighted that – although not specifically mentioned in the DP - IAS 24 also applies to BCUCCs, where the book-value method is applied, as such disclosure would provide useful information;

(e) one respondent replied that disclosure requirements should be enough to provide relevant information to users while not being to excessive.

161 Five respondents highlighted that they would specifically support disclosures on amounts recognised in equity for consideration and book-value differences as well as the disclosure of the component of equity where the difference would be presented.

Other comments raised by constituents

162 One respondent encouraged the IASB to consider the following:

(a) convergence with US GAAP: the requirements in ASC 805 *Business Combinations* substantially do not align with the IASB's preliminary views. Convergence with US GAAP is desirable but is not essential when setting IFRS requirements. Nonetheless, the IASB may consider whether the proposals it may develop could result in significant level playing field issues; and

(b) transition requirements for any IASB's final proposals: The costs of requiring retrospective application for past BCUCCs may exceed the benefits of that application.

Appendix 2 – List of respondents

No	Name	Country	Type of respondent
CL01	DASC	Denmark	National Standard Setter
CL02	DASB	The Netherlands	National Standard Setter
CL03	ESMA	Europe	Regulator
CL04	ESBG	Europe	Preparer organisation
CL05	ICAC	Spain	National Standard Setter
CL06	CNC	Portugal	National Standard Setter
CL07	OIC	Italy	National Standard Setter
CL08	ANC	France	National Standard Setter
CL09	Business Europe	Europe	Preparer organisation
CL10	ASCG	Germany	National Standard Setter
CL11	EFFAS	Europe	User organisation
CL12	PASC	Poland	National Standard Setter
CL13	Draft comment letter received		