

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.

Business Combinations under Common Control Cover Note

Objective

- 1 The objective of the session is to discuss and agree to recommend to the EFRAG Board a draft comment letter on the Discussion Paper DP/2020/2 *Business Combinations under Common Control*, issued by the IASB on 30 November 2020 (the 'DP').

Previous EFRAG TEG discussions

EFRAG Draft Comment Letter

- 2 EFRAG TEG discussed the key messages for EFRAG's Draft Comment Letter (the 'DCL') at its 2 December 2020 meeting. EFRAG TEG's views and concerns are addressed in the EFRAG's DCL and have been summarised below.
- 3 The approved BCUCC project planning is provided in Appendix 1.

Scope (paragraphs 12 to 29 of EFRAG's DCL)

- 4 EFRAG TEG supported the general objective of the DP to provide users with information which is relevant and comparable. However, EFRAG TEG doubted whether the guidance resulted in relevant information for some users, for instance – investors in listed debt of a privately-held entity.
- 5 EFRAG TEG discussed why associates and joint ventures under common control were not considered in scope of the DP. EFRAG's DCL calls for a separate project which will conceptually address common control transactions.
- 6 The revised definition of a 'business' in IFRS 3 *Business Combinations* might result in fewer transactions being accounted for as a business combination including exercising judgement in a different way, therefore creating room for structuring opportunities.

Selecting a measurement method (paragraphs 38 to 81 of EFRAG's DCL)

- 7 EFRAG TEG discussed the decision tree when applying the acquisition method and a book-value method to BCUCC transactions. Following the EFRAG TEG discussion in December, EFRAG Secretariat is proposing that EFRAG TEG consider two possible alternatives when establishing the dividing line between the measurement methods suggested in the DP.

How to apply the acquisition method (paragraphs 90 to 96 of EFRAG's DCL)

- 8 EFRAG TEG broadly supported the application of the acquisition method to BCUCC. However, EFRAG TEG did not agree with introducing new guidance on recognition and measurement of distribution from equity.

BCUCC – Cover Note

- 9 EFRAG TEG also suggested that further guidance was needed when the transaction price was not at fair value.

How to apply a book-value method (paragraphs 101 to 141 of EFRAG's DCL)

- 10 EFRAG TEG generally supported the application of the book-value method to BCUCC. However, suggestion was made to include a question to constituents on the measurement of acquired net assets when the book-value method is applied.

- 11 EFRAG TEG also suggested that EFRAG's DCL should include a question to constituents on whether pre-combination information should be provided because in reorganisations it was considered useful to provide such information.

Disclosures (paragraphs 148 to 158 of EFRAG's DCL)

- 12 EFRAG TEG generally supported the proposed disclosure requirements for BCUCC under both the acquisition and a book-value method.

Agenda Papers

- 13 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 01-02 – *EFRAG's Draft Comment Letter on BCUCC*; and
 - (b) Agenda paper 01-03 – the IASB's DP/2020/2 *Business Combinations under Common Control* – for background only.

Appendix 1: BCUCC project planning

<i>Date</i>	<i>Meeting</i>	<i>Topic</i>
13 January 2021	EFRAG TEG	Discuss and recommend EFRAG's DCL on the DP
19 - 20 January 2021	EFRAG TEG	To discuss and recommend EFRAG's DCL on the DP (tentative fall-back session if needed)
3 February 2021	EFRAG Board	Approve EFRAG's DCL
End of July 2021		Proposal for EFRAG comment period deadline
August 2021	EFRAG TEG	Discuss and recommend EFRAG's FCL ¹ on the DP
1 September 2021		IASB comment period deadline
7 September 2021	EFRAG Board	Approve EFRAG's FCL

¹ Final Comment Letter