

STAFF PAPER

February 2020

IASB® Meeting

Project	Business Combinations under Common Control		
Paper topic	Cover paper		
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Purpose of this paper

1. This paper:
 - (a) introduces the papers to be discussed at this month's meeting (paragraphs 4–6); and
 - (b) sets out next steps in the Business Combinations under Common Control research project (paragraphs 7–8).
2. Appendix A provides an illustration of the International Accounting Standards Board's (Board) tentative decisions on when the acquisition method and the predecessor approach would apply to transactions within the scope of the project.
3. Appendix B provides a summary of the Board's tentative decisions on the measurement approaches to transactions within the scope of the project.

Papers for this meeting

4. At this month's meeting, the staff will present the following Agenda Papers:
 - (a) Agenda Paper 23A *Disclosure* (paragraph 5); and
 - (b) Agenda Paper 23B *Due process* (paragraph 6).

Agenda Paper 23A Disclosure

5. This paper discusses what information about business combinations under common control should be disclosed. This topic completes the Board's discussion of reporting business combinations under common control if the Board decides to publish a discussion paper for this project. The paper asks the Board for decisions.

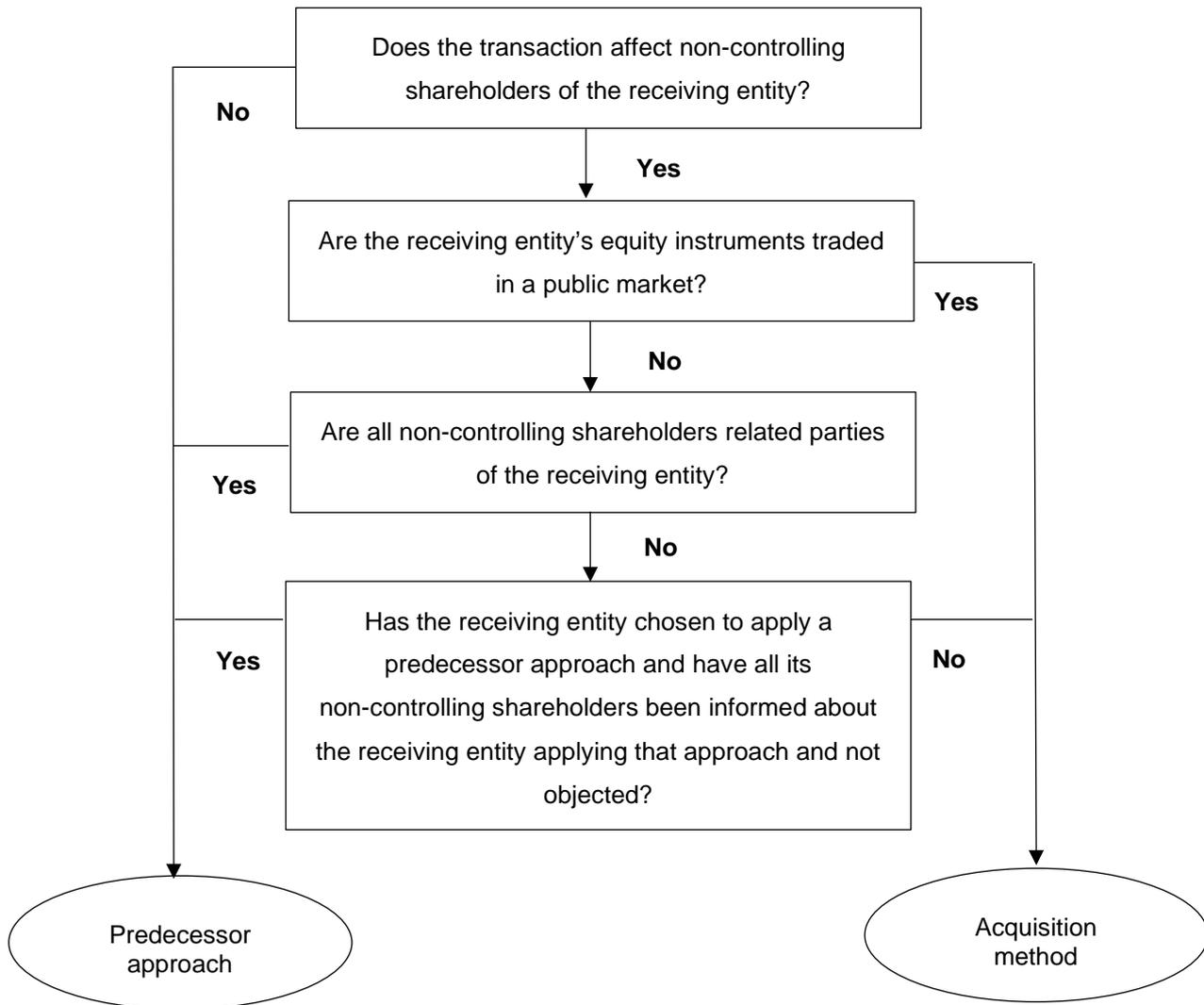
Agenda Paper 23B Due process

6. This paper asks the Board:
 - (a) what type of consultation document to publish for the project;
 - (b) what comment period the Board wishes to set for that document; and
 - (c) whether the Board gives the staff permission to begin the balloting process for that document.

Next steps

7. If the Board agrees with the staff recommendations at this month's meeting and gives the staff the permission to begin the balloting process, the staff will commence that process.
8. Based on the Board's publication pipeline and workload, the staff expect the publication of the consultation document around the end of June 2020.

Appendix A—Illustration of the Board’s tentative decisions on when the acquisition method and the predecessor approach would apply



Appendix B—Summary of the Board’s tentative decisions on measurement approaches

Topic	Summary of tentative decisions
<p>When each measurement approach would apply</p>	<p>In April 2019, the Board tentatively decided that it need not pursue a single measurement approach for all transactions within the scope of the project.</p> <p>The Board also directed the staff to continue developing measurement approaches for transactions within the scope of the project by considering:</p> <ul style="list-style-type: none"> (a) whether and how transactions within the scope of the project can be different from business combinations that are not under common control; (b) what information would be useful to various primary users of the receiving entity’s financial statements; (c) whether the benefits of providing particular information would justify the costs of providing that information; and (d) complexity and structuring opportunities that could arise under various approaches. <p>In September 2019, the Board tentatively decided that:</p> <ul style="list-style-type: none"> (a) a current value approach based on the acquisition method set out in IFRS 3 <i>Business Combination</i> should be required for transactions that affect non-controlling shareholders of a receiving entity unless equity instruments of the receiving entity are not traded in a public market and one of the following conditions applies: <ul style="list-style-type: none"> (i) all non-controlling shareholders are the receiving entity’s related parties; or (ii) the receiving entity chooses to apply a predecessor approach and all its non-controlling shareholders have been informed about, and not objected to, the receiving entity applying that approach. (b) a predecessor approach should be required for all other transactions within the scope of the project.
<p>Applying the acquisition method</p>	<p>In December 2019, the Board tentatively decided that a current value approach would be the acquisition method set out in IFRS 3 except that a receiving entity would be required to recognise any excess fair value of the acquired identifiable net assets over the fair value of the consideration transferred as an increase in the receiving entity’s equity (contribution), not as a gain on a bargain purchase in the statement of profit or loss.</p>

Topic	Summary of tentative decisions
	The Board also tentatively decided not to require the receiving entity to identify, measure and recognise a distribution.
Applying the predecessor approach	<p>In October 2019 and January 2020, the Board tentatively decided that applying a predecessor approach a receiving entity would:</p> <ul style="list-style-type: none"> (a) measure consideration paid: <ul style="list-style-type: none"> (i) in the form of assets, at the carrying amounts of those assets at the date of the combination; and (ii) in the form of liabilities incurred to or assumed from the transferor, at the carrying amounts of those liabilities determined in accordance with applicable IFRS Standards on the initial recognition of those liabilities at the date of combination; (b) recognise and measure assets and liabilities received at the carrying amounts included in the financial statements of the transferred entity; (c) recognise as a change in equity any difference between the consideration paid and the carrying amounts of assets and liabilities received; (d) recognise transaction costs as an expense in the statement of profit or loss in the period in which they are incurred and recognise the costs to issue debt or equity instruments in accordance with IAS 32 <i>Financial Instruments: Presentation</i> and IFRS 9 <i>Financial Instruments</i>; and (e) provide pre-combination information in the primary financial statements about the receiving entity only. <p>The Board tentatively decided not to prescribe:</p> <ul style="list-style-type: none"> (a) how a receiving entity would measure consideration paid in its own shares; and (b) in which component or components of its equity a receiving entity would present any difference between the consideration paid and the carrying amounts of assets and liabilities received.