STAFF PAPER

December 2021

IASB® meeting

Project	Business Combinations under Common Control
Paper topic	Overview of the feedback

CONTACT(S)	Richard Brown	rbrown@ifrs.org
	Zicheng Wang	zwang@ifrs.org

Introduction and purpose

1. The International Accounting Standards Board (IASB) published its Discussion Paper *Business Combinations under Common Control* (Discussion Paper) in November 2020, with a comment letter deadline of 1 September 2021.

2. The purpose of this meeting is to provide the IASB with an overview of feedback on the Discussion Paper and detailed summaries of feedback on selected topics from the Discussion Paper.

3. This paper sets out:

   (a) the discussion plan for this meeting;

   (b) a summary of stakeholder engagement activities performed; and

   (c) a high-level summary of feedback.

Structure of this paper

4. The paper is structured as follows:

   (a) background (paragraphs 5–9);

   (b) discussion plan (paragraphs 10–12);

   (c) overview of feedback (paragraphs 13–33);

(d) next steps (paragraph 3434);

(e) question for the IASB;

(f) Appendix A—Sources of feedback; and

(g) Appendix B—quantifying feedback.

Background

5. IFRS 3 *Business Combinations* excludes business combinations under common control ('BCUCC') from its scope. In the absence of a specifically applicable IFRS Standard that applies to BCUCCs, receiving entities[1] apply IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop an accounting policy for BCUCCs. As a result, entities account for BCUCCs using the acquisition method as set out in IFRS 3 (by analogy) or using a form of book-value method (often by reference to national accounting frameworks).

6. The table below summarises some of the differences in reporting practice for BCUCCs:

	Acquisition method	**Book-value method**
How does a receiving entity measure the assets and liabilities of the transferred entity received in the BCUCC?	Fair value, with limited exceptions	Book value—various book values are used in practice, for example those reported: - by the transferred company; or - by the controlling party.
Does the receiving entity recognise all identifiable assets and liabilities of the transferred entity received in the combination?	Yes, with limited exceptions	No—only assets and liabilities already recognised before the combination

[1] Entities to which control of a business is transferred in a BCUCC.

Does the receiving entity recognise goodwill as a result of the combination?	Yes, unless the combination results in a gain	No
From which date does the receiving entity include in its financial statements the assets, liabilities, income and expenses of the transferred entity?	From the date of the combination	Various approaches are applied—for example, including assets, liabilities, income and expenses of the transferred entity: - from the date of the combination; or - from the beginning of the earliest period presented.

7. Stakeholders, notably regulators, expressed concerns about this diversity when responding to the IASB's 2011 and 2015 agenda consultations. The diversity can make it difficult for users of financial statements (users) to understand how a BCUCC affected the receiving entity and to compare entities that undertake similar transactions.

8. The project's objective is to explore possible reporting requirements for a receiving entity that would reduce diversity and improve transparency in reporting BCUCCs.

9. The Discussion Paper outlines the IASB's preliminary views on:

   (a) the project's objective, scope and focus;

   (b) selection of the measurement method;

   (c) how to apply the acquisition method;

   (d) how to apply a book-value method; and

   (e) disclosure requirements.

Discussion plan

10. At this meeting we are providing:

    (a) a high-level summary of feedback on the Discussion Paper (included in this agenda paper); and

(b) detailed feedback summaries on the IASB's preliminary views on:

(i) the project's scope (Agenda Papers 23A); and

(ii) selection of the measurement method, including:

1. the principle (Agenda Paper 23B);
2. other considerations (Agenda Paper 23C); and
3. user feedback (Agenda Paper 23D).

(c) a review of relevant academic literature (Agenda Paper 23E).

11. During the meeting, we will discuss each Agenda Paper in turn. We are not asking the IASB to make decisions during the meeting. However, in each paper, we ask IASB members to comment on any feedback that was unclear, that provides new information, or that needs further research.

12. At a future meeting, we will provide detailed feedback summaries on the IASB's preliminary views on:

(a) how to apply the acquisition method;

(b) how to apply a book-value method; and

(c) disclosure requirements.

Overview of feedback

13. The IASB received feedback on its preliminary views from outreach meetings and comment letters. We also reviewed relevant academic literature. Appendix A provides further information on the sources of feedback and Appendix B explains how we quantified the feedback.

Scope[2]

14. Almost all respondents agree that the project should cover the receiving entity's reporting for all transfers of businesses under common control —that is, they do not

[2] Agenda Paper 23A provides further details on the feedback.

say any transaction should be removed from the project's scope or disagree with covering the receiving entity's reporting.

15. Most respondents suggest also covering:

(a) the receiving entity's reporting in its separate financial statements for an investment in a subsidiary received in a common control transaction;

(b) the reporting by other entities—most commonly the transferring entity; and/or

(c) other common control transactions (such as transfers of investments in associates between entities under common control).

16. Some respondents suggest covering the matters discussed in paragraph 15 by expanding the scope of the BCUCC project whilst others suggest covering these matters in a separate project(s) to avoid delaying the BCUCC project.

Selecting the measurement method[3]

Whether to apply one method

17. Most respondents agree with the preliminary view that neither the acquisition method nor a book-value method should be applied to all BCUCCs. Some respondents (including most respondents from China) disagree and say a book-value method should be applied to all BCUCCs. A few respondents report mixed views within their organisation/jurisdiction or do not express a clear view.

BCUCCs that affect NCS

18. Many respondents agree with the preliminary view that, in principle, the acquisition method should be applied if a BCUCC affects non-controlling shareholders of the receiving entity (NCS), subject to the cost-benefit trade-off and other practical considerations (the NCS principle). Additionally, some respondents agree with the NCS principle overall but suggest modifying it such that a receiving entity would apply a book-value method if affected NCS are insignificant.

[3] Agenda Papers 23B–23D provide further details on the feedback.

19. Many respondents disagree, of which:

    (a) some say a book-value method should be applied to all BCUCCs (as mentioned in paragraph 171717);

    (b) some say the receiving entity should apply either the acquisition method or a book-value method to BCUCCs that affect NCS (or to all BCUCCs[4]) depending on the substance of the BCUCC; and

    (c) some say the receiving entity should have a choice between applying the acquisition method or a book-value method to BCUCCs that affect NCS (or to all BCUCCs).

20. Almost all users we conducted outreach with were asked about specific scenarios rather than the underlying principle (see Agenda Paper 23D paragraphs 10–11 for more details) and are therefore excluded from the analysis in paragraphs 18–191819. All users—except users from China—agree that the acquisition method should be applied to a BCUCC which affects the NCS of a receiving entity with shares traded in a public market (that is, the outcome of applying the NCS principle). Almost all users from China say a book-value method should be applied to the same scenario.

BCUCCs that do not affect NCS

21. Many respondents agree with the preliminary view that a book-value method should apply to BCUCCs that do not affect NCS, including combinations between wholly owned entities. However, many disagree, of which:

    (a) most say the acquisition method should apply in specific circumstances (most commonly if the receiving entity has publicly traded debt) but otherwise agree with the preliminary view;

    (b) a few say the receiving entity should have a choice between applying the acquisition method or a book-value method to BCUCCs that do not affect NCS (or to all BCUCCs); and

[4] Some respondents say the same approach (for example assessing the substance) should be used for all BCUCCs, regardless of whether they affect NCS. Other respondents say different approaches should be used for BCUCCs that affect NCS and BCUCCs that do not affect NCS. This paper summarises feedback relating to BCUCCs that affect NCS separately from BCUCCs that do not affect NCS.

(c) a few say the receiving entity should apply either the acquisition method or a book-value method to BCUCCs that do not affect NCS (or to all BCUCCs) depending on the substance of the BCUCC.

Cost-benefit trade-off and other practical considerations

22. Many respondents agree with the optional exemption which permits the receiving entity to use a book-value method unless NCS object. Additionally, some respondents generally agree with the optional exemption but suggest modifying it to disregard objecting NCS if those NCS are insignificant. Some other respondents disagree with the optional exemption.

23. Many respondents agree and many others disagree with the related-party exception which requires the receiving entity to use a book-value method if all NCS are its related parties. Most who disagree say, similar to NCS, some related parties (for example associates) rely on financial statements to meet their information needs.

24. Most respondents agree that the optional exemption and related-party exception should not apply to publicly traded entities—that is, a receiving entity should apply the acquisition method if its shares are traded in a public market and the BCUCC affects NCS. Some respondents disagree, most of which say that whether an entity has publicly traded shares should not affect the method selected.

Applying the acquisition method[5]

25. Most respondents agree with the preliminary view that the receiving entity should apply the acquisition method generally as set out in IFRS 3 and, when applying the acquisition method, the receiving entity should recognise:

(a) goodwill if the fair value of the consideration paid exceeds the fair value of the net assets received; and

(b) a contribution to equity—not a bargain purchase gain—if the fair value of net assets received exceeds the fair value of consideration paid.

[5] We will provide detailed feedback on this topic at a future meeting.

26. Some respondents disagree with this preliminary view:

    (a) some suggest recognising any overpayment separately from goodwill as a distribution from equity because BCUCCs are not arm's length transactions; and

    (b) some suggest recognising any gain from a bargain purchase in profit or loss for consistency in applying the acquisition method set out in IFRS 3 *Business Combinations*.

Applying a book-value method[6]

27. Many respondents agree with the preliminary view to require a receiving entity to measure assets and liabilities received in a BCUCC using the transferred entity's book values when applying a book-value method. However, many others, including most preparers, disagree and suggest using the controlling party's book values or allowing an accounting policy choice between using the transferred company's or another group entity's book values.

28. Almost all respondents agree with the IASB's other preliminary views on applying a book-value method except for its preliminary view on pre-combination information which is discussed below.

Pre-combination information

29. Many respondents agree with the preliminary view that the receiving entity should include information about the transferred business in its financial statements from the combination date without restating pre-combination information. In their view, restating pre-combination information would be complex and the costs of doing so would outweigh the expected benefits. However, many other respondents disagree because:

[6] We will provide detailed feedback on this topic at a future meeting.

(a) in some jurisdictions, restating pre-combination information is required by capital market regulations in specific situations and, therefore, providing it in the financial statements will not be costly; and

(b) restating pre-combination information could better meet user needs for trend analysis, especially for BCUCCs in which the receiving entity is a new entity that has no historical information.

30. Accordingly, most of the respondents who disagree suggest allowing or requiring receiving entities to restate pre-combination information (in some or all circumstances).

31. Respondents' views are also split on whether the IASB should require a receiving entity to disclose pre-combination information in the notes to the financial statements. Some respondents say the IASB should require a receiving entity to disclose a minimum level of pre-combination information or to disclose pre-combination information in some situations.

Disclosure requirements[7]

32. Most respondents agree with the preliminary views on disclosure requirements for BCUCCs to which the acquisition method applies—that is, that a receiving entity should comply with the disclosure requirements in IFRS 3 and the IASB should provide application guidance on applying those disclosure requirements together with the disclosure requirements in IAS 24 *Related Party Disclosures*. Some respondents disagree, many of which express concerns about applying the requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*, mainly because of:

(a) the subjectivity, reliability, and commercial sensitivity of such disclosures; and

(b) because such disclosures may be impracticable to apply for BCUCCs.

33. Most respondents agree with the IASB's preliminary views on the disclosure requirements for BCUCC to which a book-value method applies—that is, that some,

[7] We will provide detailed feedback on this topic at a future meeting.

but not all, of the disclosure requirements in IFRS 3 are appropriate and the receiving entity should disclose information about the difference between the consideration paid and the book values of net assets received that the receiving entity has recognised in equity. Some respondents disagree and say not all of the disclosures suggested by the IASB should be required.

Next steps

34. We will provide detailed feedback summaries on the IASB's preliminary views on the following topics at future meeting:
    (a) how to apply the acquisition method;
    (b) how to apply a book-value method; and
    (c) disclosure requirements.

Question for the IASB
Does the IASB have any questions on this overview and are there any topics IASB members would like more details on in future meetings?

Appendix A—Sources of feedback

A1. The IASB received feedback on its preliminary views from:

(a) outreach meetings (paragraphs A3–A6); and

(b) comment letters (paragraphs A7–A9).

A2. We also reviewed relevant academic literature (see Agenda Paper 23E).

Outreach meetings

A3. During the comment period, IASB members and staff attended 77 meetings with respondents across different regions and stakeholder groups[8]. These meetings included:

(a) eighteen meetings with national standard-setters;

(b) seventeen meetings with users and user groups (including some user group meetings convened by national standard setters);

(c) sixteen webinars and conferences with mixed audiences;

(d) eleven meetings with accounting firms and accounting bodies;

(e) nine meetings with preparers and preparer groups;

(f) three meetings with academic groups; and

(g) three meeting with regulator groups.

A4. The IASB also received feedback on its preliminary views from the IASB's consultative bodies, including the:

(a) Accounting Standards Advisory Forum (ASAF);

(b) Emerging Economies Group (EEG); and

(c) Capital Markets Advisory Forum (CMAC).

[8] IASB members and the staff met with some stakeholders, including representative bodies, national standard-setters and international accounting firms, more than once during the comment period. For these respondents, the first meeting focused on explaining the IASB's preliminary views and answering any questions that the respondent might have. This was followed by a subsequent meeting to receive comments on the IASB's preliminary views.

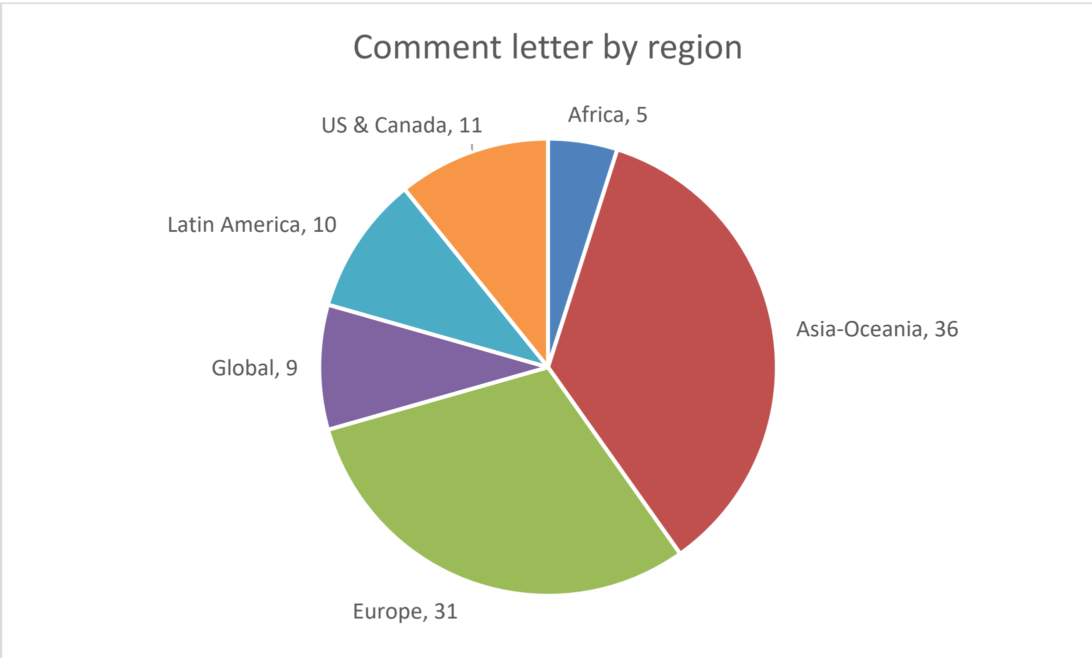
A5. Additionally, IASB members and staff recorded four webcasts/webinars explaining the IASB's preliminary views. The first webinar was translated into four different languages to reach a wider audience.

A6. The IASB's preliminary views were also discussed at the IFRS Foundation Virtual Conference in June 2021.

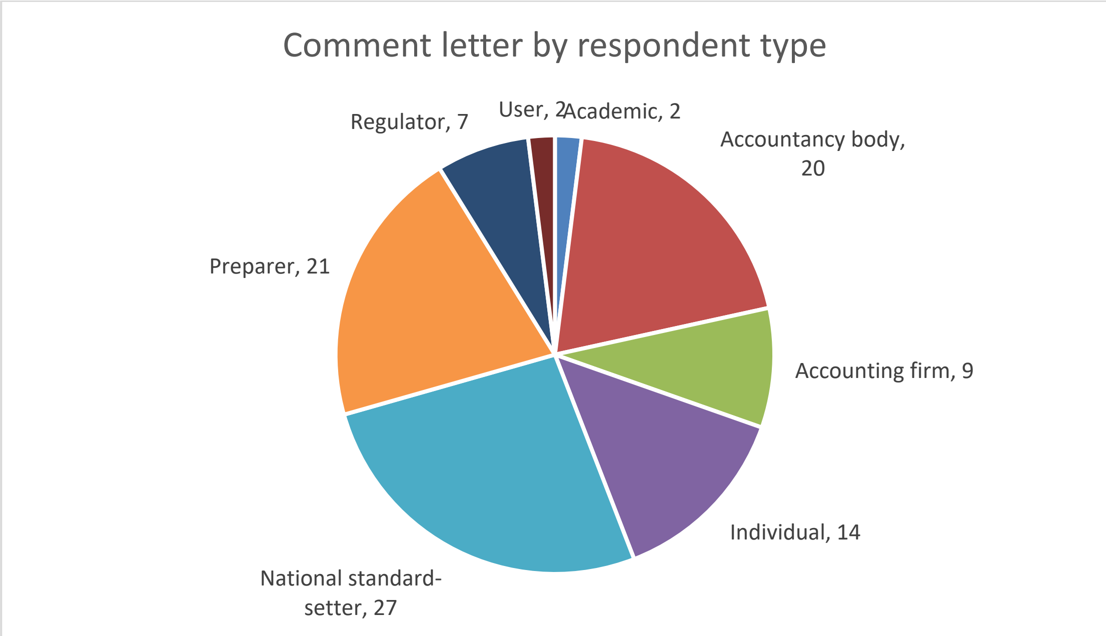
Comment letters

A7. The IASB received 102 comment letters on the Discussion Paper. All comment letters are available on our website.

A8. The pie chart below illustrates the breakdown of comment letters by geographical region:



A9. The pie chart below illustrates the breakdown of comment letters by respondent type[9]:



9 Responses from representative groups are included as part of the responses from that group (for example, responses from preparer representative groups are included as part of the preparer group).

Appendix B—Quantifying feedback

B1. In this and other agenda papers we use the following terms to quantify feedback:

Term	Description
Almost all	All except a very small minority
Most	A large majority, with more than a few exceptions
Many	A small majority or large minority
Some	A small minority, but more than a few
A few	A very small minority

B2. The IASB received feedback on all aspects of the Discussion Paper. However, not all respondents commented on all aspects of the Discussion Paper. When using the terms described in paragraph B1 to quantify respondents' comments on an issue, these terms are, unless otherwise stated, defined by reference to the number of respondents who commented on that issue.

B3. References to 'respondents' refers to all stakeholders who commented, either through comment letters or during outreach meetings.

B4. Throughout this and other agenda papers, we have identified areas for which we received different messages from individual stakeholder groups or from specific geographies. Where we have not identified particular stakeholder groups or geographies, this means we received similar feedback from all respondents or there was not an identifiable pattern to the responses.