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## IASB<sup>®</sup> meeting

Date	<b>November 2022</b>
Project	<b>Business Combinations under Common Control</b>
Topic	<b>Overview</b>
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## Introduction and purpose

1. As Agenda Paper 23 explains, the purpose of this meeting is to continue the International Accounting Standards Board (IASB)'s discussions on selecting the measurement method(s) to apply to business combinations under common control (BCUCCs) set out in the Discussion Paper *Business Combinations under Common Control* (Discussion Paper). We are not asking the IASB to make decisions during this meeting.
2. This agenda paper explains the background, what each agenda paper covers and summarises our initial views.

## Structure of this paper

3. The paper is structured as follows:
  - (a) background (paragraphs 4–9);
  - (b) approach to deliberations (paragraphs 10–16);
  - (c) summary of our initial views on each factor individually (paragraphs 17–23);
  - (d) summary of our initial views on which measurement method(s) to apply (paragraphs 25–26)
  - (e) next steps (paragraphs 27–29);
  - (f) question for the IASB; and
  - (g) Appendix A—Meaning of 'receiving entity'.

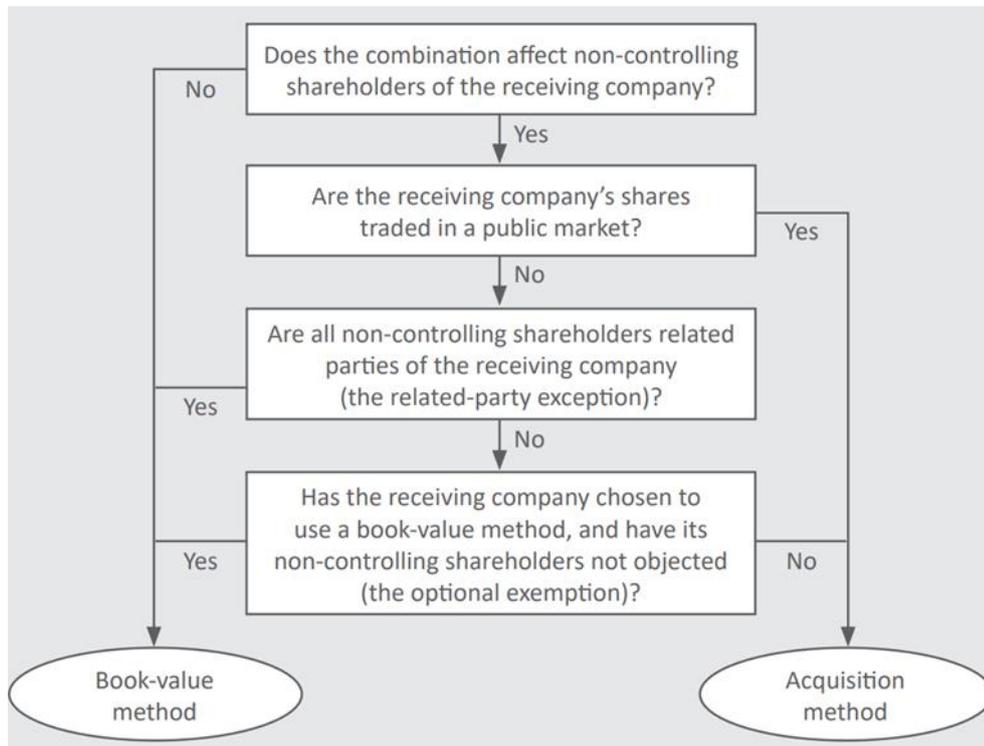
## Background

### Observations/conclusions in the Discussion Paper

4. The IASB's preliminary views about selecting the measurement method were:
  - (a) neither the acquisition method nor a book-value method should apply to all BCUCCs;

- (b) in principle, the acquisition method should apply to a BCUCC that affects non-controlling shareholders of the receiving entity (NCS), subject to the cost-benefit trade-off and other practical considerations; and
- (c) a book-value method should apply to all other BCUCCs, including all combinations between wholly-owned entities.

5. The IASB’s preliminary views are summarised in this diagram:



6. In reaching its preliminary views the IASB considered reasons including:
- (a) whether some or all BCUCCs are similar to or differ from business combinations covered by IFRS 3 *Business Combinations* (IFRS 3 BCs);
  - (b) information needs of users of the receiving entity’s financial statements (users);
  - (c) the cost-benefit trade-off (that is, whether the costs of applying the acquisition method or a book-value method to some or all BCUCCs are justified by the benefits of information reported applying those methods); <sup>1</sup>
  - (d) structuring opportunities; and

<sup>1</sup> Paragraphs 2.39–2.43 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* describe the cost constraint on useful financial reporting and say it is important the costs of reporting financial information are justified by the benefits of reporting that information. For simplicity, throughout our agenda papers we refer to this as the ‘cost-benefit trade-off’.

(e) other considerations (for example, comparability).

7. The relevant agenda papers for this meeting explain in more detail the reasons for the IASB's preliminary views.

## Feedback

8. [Agenda Paper 23B](#) of the IASB's December 2021 meeting summarises feedback on the principle for selecting the measurement method and [Agenda Paper 23C](#) of the IASB's December 2021 meeting summarises feedback on the cost-benefit trade-off and other practical considerations. As reported in those agenda papers, respondents gave different reasons for their views. The agenda papers for this meeting include more detailed feedback where applicable.

## Prior discussions

9. In its June 2022 meeting, the IASB discussed (a) whether some or all BCUCCs are similar to or differ from IFRS 3 BCs; and (b) user information needs. The IASB was not asked to make any decisions. We have updated our analysis of the similarity to IFRS 3 BCs (Agenda Paper 23D) and user information needs (Agenda Paper 23E) to reflect input from IASB members at the June 2022 meeting. At the IASB's June 2022 meeting, a few IASB members asked about the meaning of the 'receiving entity', which Appendix A explains.

## Approach to deliberations

### Approach suggested in June 2022 meeting

10. In [Agenda Paper 23A](#) of the IASB's June 2022 meeting, we suggested separating the deliberations on selecting the measurement method into two steps:
- (a) Step I—consider and tentatively decide whether conceptually (that is, before considering practical reasons) the acquisition method and/or a book-value method should apply to BCUCCs. This would include considering:
    - (i) the similarity to IFRS 3 BCs; and
    - (ii) user information needs.
  - (b) Step II—consider practical reasons (that is, the cost-benefit trade-off, structuring opportunities and other practical reasons) and make appropriate adjustments to the tentative decision in Step I.
11. In its June 2022 meeting, the IASB discussed our suggestion to separate the deliberations into two steps. Feedback from IASB members at the June 2022 meeting highlighted different views on whether the IASB should make a tentative decision considering only conceptual factors, or whether they should make an overall tentative decision on selecting the measurement method (considering all

factors collectively) because, for example, some IASB members said conceptual and practical factors are interconnected and it would not be feasible to make a tentative decision considering only conceptual factors.

## Revised approach

12. As a result of the feedback from IASB members, we no longer expect to ask the IASB to tentatively decide separately on Step I—that is, which method(s) should apply conceptually. We expect to ask the IASB to tentatively decide how to select the measurement method considering all factors (for example, user information needs and the cost-benefit trade-off) collectively.
13. To facilitate those decisions, the agenda papers for this meeting include our analysis of feedback on the different factors analysed individually (included in Agenda Papers 23D–23H) and our initial views on the way forward (included in Agenda Papers 23B and 23C). We are not asking the IASB to make decisions during this meeting. In our view, it would be helpful for the IASB to first discuss and provide feedback on our initial views and any analysis that was unclear or that needs further research. We also plan to discuss our initial views with some of the IASB’s consultative groups (see paragraph 27 for details). We will use feedback from IASB members and the consultative groups to refine our analysis and develop recommendations that we will bring to future meetings for decision-making.

## Agenda papers for this meeting

14. For this meeting, we suggest the IASB first discusses the questions in Agenda Paper 23B and Agenda Paper 23C and then the questions in this paper. Agenda Papers 23B and 23C explain our initial views on the principle of which measurement method(s) should apply to BCUCCs (Agenda Paper 23B) and whether, in some circumstances, a different method should apply (Agenda Paper 23C).
15. Agenda Papers 23D–23H are supporting papers included for reference and do not contain specific questions.<sup>2</sup> These agenda papers analyse individually the different factors we considered in reaching our initial views, specifically:<sup>3</sup>
  - (a) Agenda Paper 23D—Similarity to IFRS 3 BCs (updated from June 2022 meeting);
  - (b) Agenda Paper 23E—User information needs (updated from June 2022 meeting);
  - (c) Agenda Paper 23F—The cost-benefit trade-off;
  - (d) Agenda Paper 23G—Structuring opportunities; and

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<sup>2</sup> To the extent IASB members have particular questions or comments on our analysis in Agenda Papers 23D–23H that are not raised when discussing Agenda Papers 23B and 23C, they can do so when answering the question (c) on page 8 of this agenda paper.

<sup>3</sup> The analysis in some agenda papers is related to and builds on our initial views in other agenda papers. For example, the analysis of the cost-benefit trade-off in Agenda Paper 23F is related to and builds on our initial views on user information needs in Agenda Paper 23E. Where relevant, cross-references between papers are included.

(e) Agenda Paper 23H—Other considerations.

16. When preparing for the IASB meeting, we suggest IASB members first read the supporting papers (Agenda Papers 23D–23H) before reading Agenda Papers 23B and 23C.

## Summary of our initial views on each factor individually

### Similarity to IFRS 3 BCs (Agenda Paper 23D)

17. In our initial view the nature of all BCUCCs is similar to IFRS 3 BCs because the receiving entity gains control of a business it did not control before. In particular, we think:

- (a) whether the nature of some or all BCUCCs is similar to or differs from IFRS 3 BCs should be considered only from the perspective of the receiving entity (that is, the reporting entity); and
- (b) from the receiving entity's perspective, the nature of all BCUCCs is similar to IFRS 3 BCs.

18. Although the transaction pricing and composition of, and effect on, shareholders do not result in the nature of BCUCCs differing from IFRS 3 BCs, other agenda papers analyse whether they should affect the selection of the measurement method (for example, because they affect common user information needs or because the acquisition method would measure goodwill at an amount not evidenced by a transaction price between independent parties).

### User information needs (Agenda Paper 23E)

19. Our initial views on user information needs are:

- (a) the project should not address the controlling party's information needs; and
- (b) the common information needs of users that must rely on the financial statements depends on the composition of users:
  - (i) for a BCUCC that affects NCS, the information provided by the acquisition method meets those common information needs better than a book-value method; and
  - (ii) for a BCUCC that does not affect NCS, the information provided by either the acquisition method or a book-value method could meet the common information needs of potential investors, lenders and other creditors.

### The cost-benefit trade-off (Agenda Paper 23F)

20. Our initial views, with the assumptions explained in the agenda paper, are:

- (a) the costs of applying the acquisition method to a BCUCC will be comparable to the costs of applying the acquisition method to an IFRS 3 BC;

- (b) the costs of applying a book-value method to a BCUCC will depend on various factors but we expect applying a book-value method to BCUCCs to be, on average, less costly than applying the acquisition method;
- (c) applying the acquisition method to BCUCCs that affect NCS would generally meet the cost-benefit trade-off better than applying a book-value method; and
- (d) applying a book-value method to BCUCCs that do not affect NCS would generally meet the cost-benefit trade-off better than applying the acquisition method.

### Structuring opportunities (Agenda Paper 23G)

21. In our initial view:
- (a) some structuring opportunities to qualify for a particular measurement method (that is, the acquisition method or a book-value method) will exist unless the acquisition method applies to all BCUCCs, as well as to all IFRS 3 BCs;
  - (b) the IASB's preliminary views on which measurement method to apply could create some opportunities to structure transactions to qualify for a particular measurement method (for example, a BCUCC could be structured with insignificant NCS to qualify for the acquisition method), although exceptions could be designed to minimise such structuring opportunities (see Agenda Paper 23C);
  - (c) how the acquisition method is applied to BCUCCs could create some structuring opportunities, particularly if the acquisition method were applied to BCUCCs between wholly-owned entities; and
  - (d) how a book-value method is applied to BCUCCs could also create some structuring opportunities.

### Other considerations (Agenda Paper 23H)

#### *Comparability*

22. Because we think all BCUCCs are similar to IFRS 3 BCs (see Agenda Paper 23D), applying the acquisition method to all BCUCCs would maximise comparability between all BCUCCs and with IFRS 3 BCs. Specifying when two measurement methods should apply to BCUCCs (for example, applying the IASB's preliminary views) would increase comparability between BCUCCs in similar circumstances and reduce the diversity in practice.

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***Practical challenges in applying the acquisition method***

23. We think applying the acquisition method to BCUCCs that affect NCS could involve some practical challenges (for example, identifying the acquirer), which are costs of applying the acquisition method considered holistically in Agenda Paper 23F.
24. We think the practical challenges could be more significant if the acquisition method was applied to BCUCCs that do not affect NCS. For example, compared to BCUCCs that affect NCS:
- (a) it may be challenging to identify the acquirer in a BCUCC that does not affect NCS; and
  - (b) overpayments or underpayments are more likely to occur in a BCUCC that does not affect NCS so, applying the IASB's preliminary views on how to apply the acquisition method, goodwill would be measured at an arbitrary amount.

**Summary of our initial views on which measurement method(s) to apply**

25. We continue to agree with the IASB's preliminary views to, in principle, apply the acquisition method to BCUCCs that affect NCS and a book-value method to BCUCCs that do not affect NCS. As Agenda Paper 23B explains, on balance we think this approach provides the most useful information whilst considering the cost-benefit trade-off, structuring opportunities and other considerations. We acknowledge there are disadvantages to this approach, specifically:
- (a) it would not result in comparability between all BCUCCs—although it would result in comparability between BCUCCs in similar circumstances; and
  - (b) it could create some structuring opportunities to structure BCUCCs with insignificant NCS—although Agenda Paper 23C considers exceptions and exemptions which could help minimise such structuring opportunities.
26. Agenda Paper 23C explains our initial views on whether a different method should be applied in some circumstances and the reasons for those views.<sup>4</sup> This includes exceptions included in the IASB's preliminary views in the Discussion Paper and other possible exceptions. In our initial view:
- (a) for BCUCCs that affect NCS, two potential packages of exceptions (whereby a book-value method would apply) should be considered further:
    - (i) package 1—optional exemption package; and
    - (ii) package 2—insignificant NCS package; and

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<sup>4</sup> For simplicity, throughout our agenda papers these different circumstances are referred to collectively as 'exceptions' but they include circumstances in which a different method should be required / permitted / prohibited.

- (b) for BCUCCs that do not affect NCS, there should be no exceptions (that is, a book-value method should apply to all BCUCCs that do not affect NCS).

## Next steps

27. We plan to consult the Accounting Standards Advisory Forum (ASAF) and the Emerging Economies Group (EEG) at their December 2022 meetings to discuss our initial views. We will discuss:
- (a) the possible exceptions/exemptions in Agenda Paper 23C, specifically:
    - (i) the possible exceptions/exemptions which were not included in the Discussion Paper (insignificant NCS, government-related entities and disregarding insignificant objections);
    - (ii) how the possible exceptions could be combined into a package; and
    - (iii) if the IASB decides to explore the insignificant NCS exemption further, what the IASB should consider when designing such an exemption; and
  - (b) anything else the IASB requests when the IASB discusses the question on page 8 of this paper.
28. At a future IASB meeting we will present feedback from the ASAF and EEG meetings, our updated analysis and recommendations on selecting the measurement method.
29. After the IASB makes tentative decisions on selecting the measurement method, we will analyse in more detail any refinements or clarifications that may be needed to make the tentative decisions more operational. For example, respondents asked for clarification on how the optional exemption would apply, so if the IASB tentatively decides to pursue the optional exemption we will then analyse those clarification requests. To the extent we think respondents' clarification requests would affect the IASB's tentative decisions on selecting the measurement method, we have analysed those requests in the relevant agenda paper.

### Questions for the IASB

Do IASB members have comments or questions on the next steps? Specifically:

- (a) is there anything IASB members would like us to discuss with ASAF and EEG in addition to the matters mentioned in paragraph 27?
- (b) is there anything IASB members would like us to research or analyse further before the IASB makes tentative decisions on selecting the measurement method?

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| <p>(c) do IASB members have any other questions or comments (for example, on our analysis in Agenda Papers 23D–23H to the extent not already raised when discussing the questions in Agenda Papers 23B and 23C)?</p> |
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## Appendix A—Meaning of ‘receiving entity’

- A1. Respondents asked about the meaning of ‘receiving company’ in the Discussion Paper and whether the receiving company would be ‘the acquirer’ as defined in IFRS 3 or would be determined based on the BCUCC’s legal form.<sup>5</sup> Our understanding, based on the Discussion Paper and the IASB’s discussions in developing the Discussion Paper, is that the receiving entity would be determined based on the BCUCC’s legal form. We plan to analyse how the receiving entity should be defined after the IASB has tentatively decided on selecting the measurement method, as explained in paragraph 29.
- A2. To clarify the difference between the ‘receiving entity’ and ‘the acquirer’, our understanding of the Discussion Paper is that these defined terms would be used in the following situations:

Situation	Relevant defined term(s)
Selecting the measurement method	Apply the flowchart—see paragraph 5 of this paper—to the receiving entity (that is, consider only the legal structure) to determine which measurement method applies.
Applying the acquisition method	Comparable with IFRS 3 BCs: <ul style="list-style-type: none"> <li>(a) report the BCUCC in the receiving entity’s financial statements—that is, the receiving entity is the reporting entity;</li> <li>(b) apply IFRS 3’s guidance, including on reverse acquisitions, to identify the acquirer and the acquiree; and</li> <li>(c) apply the acquisition method to the acquirer’s acquisition of the acquiree.</li> </ul>
Applying a book-value method	Report the BCUCC in the receiving entity’s financial statements. Apply a book-value method to the receiving entity receiving control of the transferred business—that is, when applying a book-value method to a BCUCC only consider the legal structure; reverse acquisition guidance does not apply.

<sup>5</sup> For simplicity, the Discussion Paper discussed BCUCCs that involve the transfer of a company to a company. In this and other agenda papers we refer to ‘entities’ (which includes companies and other types of entities) and ‘businesses’ (which includes incorporated and unincorporated businesses).