
IASB[®] meeting

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Project	Business Combinations under Common Control
Topic	Cover paper
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Introduction and purpose

1. In its April 2023 meeting, the International Accounting Standards Board (IASB) discussed the project direction for the project on business combinations under common control (BCUCC). The IASB was not asked to make any decisions.
2. Since the April 2023 meeting, we consulted various stakeholders and gathered more information to reach our initial views on project direction. This agenda paper covers:
 - (a) background (paragraphs 3–8);
 - (b) feedback (paragraphs 9–20);
 - (c) approach to deliberations (paragraphs 21–23);
 - (d) staff initial views and next steps (paragraphs 24–25);
 - (e) Appendix A—Sources of feedback; and
 - (f) Appendix B—Summary of tentative decisions to date.

Background

3. The current project objective is to develop reporting requirements for a receiving entity that would reduce diversity and improve the transparency of reporting BCUCCs. More specifically, the IASB aims to provide users of a receiving entity's financial statements with better information that is both:
 - (a) more relevant—by setting up reporting requirements based on user information needs; and
 - (b) more comparable—by requiring similar transactions to be reported in a similar way.
4. In its June 2022 and November 2022 meetings, the IASB discussed feedback on its preliminary views set out in the [Discussion Paper *Business Combinations under Common Control*](#) (Discussion Paper) on selecting the measurement method to apply to a BCUCC. Appendix B summarises those preliminary views, feedback and the IASB's tentative decisions to date.
5. In its April 2023 meeting, the IASB discussed this project's direction. There are natural points within a project's lifecycle at which the IASB considers a project's future direction—for example, when considering whether to move a research project to standard-setting.¹
6. Although we are not asking the IASB to move this project to the standard-setting phase at this stage, [Agenda Paper 23A](#) of the IASB's April 2023 meeting considered whether continuing with the current project direction would be likely to result in the project moving into the standard-setting phase in future or if the IASB should reconsider the project direction.
7. [Agenda Paper 23A](#) of the IASB's April 2023 meeting included our initial analysis of the requirements in paragraphs 5.1–5.7 of the [Due Process Handbook](#) that the IASB

¹ See paragraph 9 of [Agenda Paper 24A](#) (Projects on the current work plan—proposed response to feedback) of the IASB's February 2022 meeting.

assesses when moving a project from the research phase into the standard-setting phase, specifically:

- (a) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports;
- (b) the importance of the matter to those who use financial reports;
- (c) the types of entities likely to be affected by any proposals, including whether the matter is more prevalent in some jurisdictions than others;
- (d) how pervasive or acute a particular financial reporting issue is likely to be for entities; and
- (e) the resources required for a standard-setting project.

8. [Agenda Paper 23A](#) of the IASB's April 2023 meeting identified three options for project direction:

- (a) Option I—develop recognition, measurement and disclosure requirements (that is, do not change project direction);²
- (b) Option II—develop disclosure-only requirements; and
- (c) Option III—develop no recognition, measurement or disclosure requirements (that is, discontinue the project).

Feedback

9. Since the IASB's April 2023 meeting, we sought feedback on project direction. This paper summarises feedback including public meetings with the IASB consultative groups and meetings with other stakeholders, including regulators and users.

Appendix A explains our sources of feedback.

² As paragraph A4 of Agenda Paper 23C explains, if the IASB chooses Option I it would then need to decide which specific recognition, measurement and disclosure requirements to develop, which might differ from the preliminary views in the Discussion Paper.

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10. We asked stakeholders questions including:
- (a) what problems are caused by the gap in IFRS Accounting Standards for reporting BCUCCs;
 - (b) since the project was added to the IASB's agenda, whether practice is largely settled or there continue to be significant challenges in accounting for BCUCCs;
 - (c) for specific examples where the reporting for a BCUCC resulted in financial statements that were misleading or failed to provide useful information about the BCUCC;
 - (d) for users—if the IASB chooses Option II (develop disclosure-only requirements) whether there are specific disclosures they would find useful;
 - (e) for preparers—if the IASB chooses Option II, whether the disclosures suggested by users could be disclosed at a reasonable cost; and
 - (f) which option the IASB should choose.
11. Agenda Papers 23A and 23B provide detailed feedback. All feedback and references to stakeholders in the agenda papers for this meeting refer only to stakeholders who provided feedback during our outreach.³

Key messages

12. Many stakeholders suggested choosing Option I (develop recognition, measurement and disclosure requirements), but many others suggested changing project direction (that is, choose Option II or Option III—see paragraph 14 for details).
13. Throughout the papers for this meeting, stakeholders who suggested developing any form of recognition and measurement requirements are presented as supporting

³ Appendix B of [Agenda Paper 23](#) of the IASB's December 2021 meeting explains how we use the terms almost all / most / many / some / a few to quantify feedback. Not all stakeholders commented on all issues in the agenda papers for this meeting so terms are, unless otherwise stated, defined by reference to the number of stakeholders who provided feedback on that issue.

Option I. This includes stakeholders who suggested developing recognition and measurement requirements:

- (a) which would prescribe how an entity should recognise and measure BCUCCs:
 - (i) in line with the preliminary views in the Discussion Paper; or
 - (ii) differing from the preliminary views—for example, requiring entities to apply a book-value method to all BCUCCs;
- (b) which would allow entities a choice of how to recognise and measure some or all BCUCCs; and
- (c) for only specific workstreams or specific types of BCUCCs (see paragraph B4(d) of Agenda Paper 23A).

14. If the IASB changes project direction (that is, the IASB decides to not choose Option I), many stakeholders did not express a preference for whether to choose Option II (develop disclosure-only requirements) or Option III (discontinue the project). Most stakeholders who expressed a preference suggested choosing Option II but some suggested choosing Option III.

Trends

15. Paragraphs 16–20 summarise trends in feedback by stakeholder group and region.

Whether to change project direction

16. We identified the following trends by stakeholder groups:
- (a) all regulators said to choose Option I;
 - (b) many auditors and preparers said to choose Option I but many other auditors and preparers said to change project direction (that is, choose Option II or Option III—see paragraphs 18–20 for details);

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- (c) most national standard-setters said to change project direction but some other national standard-setters (including most national standard-setters from Europe) said to choose Option I; and
 - (d) most users (including all users from Europe) said to change project direction.
17. The only regional trend we identified is that all stakeholders from Latin America (five) said to choose Option I.

Choosing between Option II or Option III

18. If the IASB changes project direction (that is, the IASB decides to not choose Option I), many stakeholders did not express a preference for whether to choose Option II (develop disclosure-only requirements) or Option III (discontinue the project).
19. Of stakeholders who expressed a preference, we identified the following trends by stakeholder group:
- (a) most auditors, preparers, regulators and users said to choose Option II (develop disclosure-only requirements); and
 - (b) many national standard-setters said to choose Option II but many other national standard-setters said to choose Option III (discontinue the project).
20. We did not identify any regional trends.

Approach to deliberations

21. We expect to ask the IASB to decide on two questions:
- (a) whether to change project direction (that is, whether or not to choose Option I); and
 - (b) if the IASB decides to change project direction, whether to choose Option II or Option III.

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22. The agenda papers for this meeting include:
- (a) Agenda Paper 23A which summarises and analyses feedback on whether the IASB should choose Option I or change project direction;
 - (b) Agenda Paper 23B which summarises and analyses feedback on what the IASB should do if it decides to change project direction—that is, whether to choose Option II or Option III; and
 - (c) Agenda Paper 23C which provides an updated assessment of the Due Process Handbook requirements for a standard-setting project (taking into account stakeholders’ feedback and our analysis of that feedback) and explains our initial views on whether to change project direction and, if so, whether to choose Option II or Option III.
23. The questions for the IASB are included in Agenda Paper 23C. There are no questions in Agenda Papers 23A or 23B—IASB members can raise any comments or questions on the feedback and our analysis in Agenda Papers 23A and 23B when responding to question 1 on page 13 of Agenda Paper 23C.

Staff initial views and next steps

24. Our initial views (explained in Agenda Paper 23C) are that the IASB should change project direction but we have not yet reached an initial view on whether to choose Option II or Option III. We are not asking the IASB to make decisions during this meeting because we think:
- (a) the IASB should first consider what a disclosure-only project could cover, which could affect IASB members’ views on whether to change project direction and, if so, whether to choose Option II or Option III; and
 - (b) it would be helpful for the IASB to first discuss and provide feedback on our initial views and anything IASB members would like us to research or analyse further.

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25. In a future IASB meeting we expect to present updated analysis (including an overview of what a disclosure-only project could cover) and ask the IASB to decide on the two questions in paragraph 21. Paragraphs 37–38 of Agenda Paper 23C provide further details of next steps.

Appendix A—Sources of feedback

- A1. The feedback summarised in this paper includes feedback from all public and other meetings with stakeholders.
- A2. Further details of public meetings (including the agenda papers, recording and meeting summary) are available on the IFRS Foundation website for the:
- (a) [Emerging Economies Group’s May 2023 meeting](#);
 - (b) [IFRS Interpretations Committee’s June 2023 meeting](#);
 - (c) [joint Capital Markets Advisory Committee \(CMAC\) and Global Preparers’ Forum June 2023 meeting](#); and
 - (d) [Accounting Standards Advisory Forum’s July 2023 meeting](#).
- A3. Other meetings included meetings with regulators and with a user representative group.
- A4. Feedback from users included feedback from the public CMAC meeting and a meeting with an international discussion group which includes buy-side and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance professionals. Feedback from users is presented separately in Agenda Papers 23A and 23B where relevant—for example, paragraphs 31–33 of Agenda Paper 23A (covering the importance of the project to users) presents user feedback separately in paragraph 33.
- A5. Feedback from regulators for choosing Option I is presented separately in Agenda Paper 23A where relevant—as paragraph 16(a) of this paper explains, no regulator supported changing project direction. Most regulators did not provide feedback on choosing between Option II or Option III so any feedback from regulators on choosing between Option II or Option III has been presented together with feedback from other stakeholders.

Appendix B—Summary of tentative decisions to date

B1. This table summarises the IASB’s preliminary views in the Discussion Paper, the feedback from respondents and the IASB’s tentative decisions from deliberations.

Topic	Preliminary views	Feedback summary	Tentative decisions
Objective and scope	<p>The objective of the project is to explore possible reporting requirements for a receiving entity that would reduce diversity in practice and improve the transparency of reporting BCUCCs. More specifically, the IASB aims to provide users of financial statements with better information that is both:</p> <ul style="list-style-type: none"> • more relevant—by setting up reporting requirements based on user information needs; and • more comparable—by requiring similar transactions to be reported in a similar way. 	<p>(a) All respondents agreed the project should cover the receiving entity’s reporting but:</p> <ul style="list-style-type: none"> (i) some respondents suggested also addressing the reporting by other entities—most commonly the transferring entity; and (ii) some respondents suggested also addressing the receiving entity’s reporting in its separate financial statements for an investment in a subsidiary received under common control; <p>(b) all respondents agreed the project should cover transfers of a business under common control but some respondents suggested also addressing other common control transactions (such as transfers of investments in associates between entities under common control); and</p>	<p><i>Objective</i></p> <p>Update the project objective to reflect the stage of the project and to emphasise that the IASB is considering the needs of users of the receiving entity’s (that is, the reporting entity’s) financial statements.</p> <p><i>Scope</i></p> <p>(a) Not expand the project scope to address:</p> <ul style="list-style-type: none"> (i) reporting by other entities; or

Topic	Preliminary views	Feedback summary	Tentative decisions
	<p>The proposals would cover:</p> <p>(a) reporting by the receiving entity (typically in its consolidated financial statements) and not other entities;</p> <p>(b) only transfers of businesses and not other transactions under common control; and</p> <p>(c) all transfers of a business under common control, including:</p> <p>(i) group restructurings; and</p> <p>(ii) BCUCCs preceded by an acquisition from an external party or followed by (or conditional on) a sale of the combining entities to an external party.</p>	<p>(c) almost all respondents agreed the project should cover all transfers of a business under common control but:</p> <p>(i) one respondent said the project should not cover group restructurings; and</p> <p>(ii) a few respondents said the project should not cover transactions preceded by an acquisition from an external party or followed by (or conditional on) a sale of the combining entities to an external party.</p>	<p>(ii) reporting, in separate financial statements, for an investment in a subsidiary received under common control;</p> <p>(b) not expand the project scope to address reporting of other common control transactions; and</p> <p>(c) the IASB has not yet made tentative decisions about other aspects such as group restructurings or transitory control.</p>
Selecting the measurement	<p>(a) Neither the acquisition method nor a book-value method should be applied to all BCUCCs;</p>	<p>(a) Most respondents agreed but some disagreed and said a book-value method should be applied to all BCUCCs.</p>	<p>The IASB has not yet made tentative decisions.</p>

Topic	Preliminary views	Feedback summary	Tentative decisions
<p>method—the principle</p>	<p>(b) in principle, the acquisition method should be applied if a BCUCC affects non-controlling shareholders of the receiving entity, subject to the cost-benefit trade-off and other practical considerations (NCS principle); and</p> <p>(c) a book-value method should be applied to all other BCUCCs, including combinations between wholly-owned entities.</p>	<p>(b) many respondents agreed and some others agreed if the NCS principle is modified such that a receiving entity would apply a book-value method if affected non-controlling shareholders (NCS) are insignificant. Many respondents disagreed, of which:</p> <ul style="list-style-type: none"> • some said a book-value method should be applied to all BCUCCs; • some said the method to apply should depend on the substance of the BCUCC; and • some said the receiving entity should have a choice as to which method to apply. <p>(c) many respondents agreed however, many disagreed, of which:</p> <ul style="list-style-type: none"> • most said the acquisition method should apply in specific circumstances (most commonly if the receiving entity has publicly traded debt) but otherwise agreed with the preliminary view; • a few said the receiving entity should have a choice as to which method to apply; and 	

Topic	Preliminary views	Feedback summary	Tentative decisions
		<ul style="list-style-type: none"> • a few said the method to apply should depend on the substance of the BCUCC. 	
<p>Selecting the measurement method—Other considerations</p>	<p>(a) If the receiving entity’s shares are traded in a public market, the receiving entity should be required to apply the acquisition method; and</p> <p>(b) if the receiving entity’s shares are privately held:</p> <p>(i) the receiving entity should be permitted to use a book-value method if it has informed all of its NCS that it proposes to use a book-value method and they have not objected (the optional exemption); and</p> <p>(ii) the receiving entity should be required to use a book-value method if all of its NCS are related parties of the entity (the related-party exception).</p>	<p>(a) Most respondents agreed. Some respondents disagreed, most of which said whether an entity has publicly traded shares should not affect the method selected.</p> <p>(b) if the receiving entity’s shares are privately held:</p> <p>(i) many respondents agreed and some respondents generally agreed but suggest disregarding objecting NCS if those NCS are insignificant. Some other respondents disagreed. Many respondents said the optional exemption may be challenging to apply and/or requested application guidance.</p> <p>(ii) many respondents agreed and many others disagreed. Most who disagreed said some related parties rely on financial statements to meet their information needs.</p>	<p>The IASB has not yet made tentative decisions.</p>

Topic	Preliminary views	Feedback summary	Tentative decisions
Applying the acquisition method	<p>(a) In principle, the acquisition method should be applied as set out in IFRS 3 <i>Business Combinations</i>;</p> <p>(b) the IASB should not develop a requirement for the receiving entity to identify, measure and recognise a distribution from equity when applying the acquisition method; and</p> <p>(c) the IASB should develop a requirement for the receiving entity to recognise any excess fair value of the identifiable assets and liabilities received over the consideration paid (bargain purchase) as a contribution to equity, not as a gain in profit or loss.</p>	<p>Most respondents agreed with these preliminary views except:</p> <p>(b) some suggested recognising a distribution from equity if the fair value of the consideration paid exceeds the fair value of the identifiable assets and liabilities received; and</p> <p>(c) some suggested recognising any bargain purchase in profit or loss.</p>	The IASB has not yet made tentative decisions.
Applying a book-value method	<p>(a) The receiving entity should use the transferred entity's book values;</p>	<p>(a) Many respondents agreed but many others suggested using another group entity's book values or allowing or requiring the use of different book values (either the transferred entity's or another group entity's book values);</p>	The IASB has not yet made tentative decisions.

Topic	Preliminary views	Feedback summary	Tentative decisions
	<p>(b) the IASB should specify how the receiving entity measures different forms of consideration paid;</p> <p>(c) the receiving entity should recognise within equity any difference between consideration paid and the book value of assets and liabilities received;</p> <p>(d) the IASB should not prescribe in which component(s) of equity to present that difference;</p> <p>(e) the receiving entity should recognise transaction costs as an expense, except that the costs of issuing shares or debt instruments should be accounted for in accordance with applicable IFRS Accounting Standards; and</p> <p>(f) the receiving entity should include the assets, liabilities, income</p>	<p>(b)–(e) almost all respondents agreed; and</p> <p>(f) many respondents agreed however, many others disagreed.</p>	

Topic	Preliminary views	Feedback summary	Tentative decisions
	and expenses of the transferred entity prospectively.		
Disclosure requirements	<p>When applying the acquisition method:</p> <p>(a) the receiving entity should comply with the disclosure requirements in IFRS 3, including any improvements resulting from the Discussion Paper <i>Business Combinations—Disclosures, Goodwill and Impairment</i> (IFRS 3 Discussion Paper); and</p> <p>(b) the IASB should provide application guidance, including how to apply the disclosure requirements in IAS 24 <i>Related Party Disclosures</i>.</p> <p>When applying a book-value method:</p> <p>(a) some, but not all, of the disclosure requirements in IFRS 3, including any improvements resulting</p>	<p>When applying the acquisition method:</p> <p>(a) most respondents agreed but some respondents disagreed; and</p> <p>(b) most respondents agreed but some respondents disagreed.</p> <p>When applying a book-value method:</p> <p>(a) most respondents agreed except for pre-combination information but some respondents disagreed and suggest specific additional information a receiving entity should disclose and/or information it should not be required to disclose;</p> <p>(b) many respondents agreed however, many others disagreed; and</p> <p>(c) almost all respondents agreed.</p>	The IASB has not yet made tentative decisions.

Topic	Preliminary views	Feedback summary	Tentative decisions
	<p>from the IFRS 3 Discussion Paper, are appropriate (summarised in paragraphs 5.17 and 5.19 of the Discussion Paper);</p> <p>(b) the IASB should not require disclosure of pre-combination information; and</p> <p>(c) the receiving entity should disclose the amount recognised in equity and which component(s) of equity it is included in.</p>		