



April 2024

Project Summary

IFRS[®] Accounting Standards

Business Combinations under Common Control



Project Summary

This document summarises the research findings and decisions of the International Accounting Standards Board (IASB) on its project on Business Combinations under Common Control (BCUCCs).

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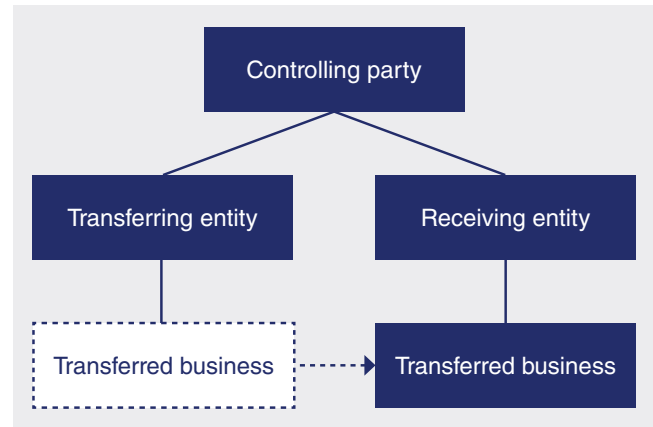
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At a glance

What is a BCUCC?

A business combination under common control (BCUCC) is a type of business combination (also referred to as an acquisition). In a BCUCC the combining entities or businesses are ultimately controlled by the same party before and after the combination.

Diagram 1— A simple BCUCC



For explanations of the terms in Diagram 1, see Appendix A.

The IASB's research

IFRS 3 *Business Combinations* does not cover how a receiving entity reports a BCUCC, which has led to:

- diversity in how receiving entities report BCUCCs;
- receiving entities often disclosing limited information about BCUCCs; and
- stakeholders (such as preparers, auditors and regulators) incurring costs in determining how to account for a BCUCC.

The IASB researched whether to develop requirements for a receiving entity reporting a BCUCC and published a discussion paper in 2020.

The IASB did not consider developing reporting requirements for other entities involved in a BCUCC (illustrated in Diagram 1) because IFRS Accounting Standards already contain requirements applicable to these entities.

The IASB's decisions

The IASB decided not to develop requirements for reporting BCUCCs.

The IASB acknowledged that, without such requirements, diversity in how receiving entities report BCUCCs could persist. However, feedback suggested that:

- users of financial statements are not significantly affected by diversity in how receiving entities report BCUCCs;
- users' information needs vary among jurisdictions, making it difficult to develop requirements that would meet the information needs of users globally; and
- stakeholders' views were split about whether the IASB should develop requirements for reporting BCUCCs and, if so, what those requirements should be.

Overall, the IASB's research findings suggested that any improvements to financial reporting that might result from developing requirements for reporting BCUCCs are likely to be outweighed by the costs of developing and implementing such changes.

Background

Requirements in IFRS Accounting Standards

IFRS Accounting Standards include some general requirements that apply to BCUCCs—for example, requirements for an entity:

- to develop, and disclose information about, its accounting policies; and
- to disclose information about related party transactions.

However, IFRS Accounting Standards do not include reporting requirements specifically for BCUCCs. IFRS 3 excludes BCUCCs from its scope, and similar exclusions date back to IAS 22 *Accounting for Business Combinations*, which was issued by the International Accounting Standards Committee in 1983 and superseded by IFRS 3 in 2004.

Current practice

In the absence of specific requirements, receiving entities vary in how they report BCUCCs (diversity in practice). For example, they:

- apply different measurement methods (IFRS 3's acquisition method or a book-value method); and
- apply variations of a book-value method.¹

Some jurisdictions have developed local requirements for reporting BCUCCs, which reduce diversity in practice within a jurisdiction. However, because local requirements vary between jurisdictions, reporting practices vary globally.

Project objective and scope

The objective of this research project was 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 aimed to provide users of a receiving entity's financial statements with better information that is both:

- more relevant—by setting up reporting requirements based on user information needs; and
- more comparable—by requiring entities to report similar transactions in a similar way.

¹ See Appendix A for explanations of the acquisition method and a book-value method.

Evidence gathered

During the research project, the IASB gathered evidence to help it decide whether to develop reporting requirements for BCUCCs and what those requirements should be.

The IASB obtained feedback from a range of stakeholders, including:

- investors and other users of financial statements;
- preparers of financial statements;
- auditors;
- regulators;
- national and regional accounting standard-setters;
- the IASB's advisory bodies:
 - the Accounting Standards Advisory Forum (ASAF);
 - the Capital Markets Advisory Committee (CMAC);
 - the Emerging Economies Group (EEG); and
 - the Global Preparers Forum (GPF); and
- the IFRS Interpretations Committee (IFRS IC).

The IASB also considered:

- academic literature;
- local requirements for reporting BCUCCs;
- a desktop review of reporting for 267 BCUCCs;
- feedback on its preliminary views in the Discussion Paper *Business Combinations under Common Control* (Discussion Paper); and
- feedback on whether and how to proceed with the project.

The IASB discussed the project at 32 of its meetings.

Desktop review

The IASB searched a database covering more than 68,000 companies worldwide for keywords relating to BCUCCs and identified 267 BCUCCs. Although the desktop review had various limitations, for the transactions it identified:

- receiving entities applied a form of book-value method to 94% of BCUCCs.
- receiving entities applied various forms of book-value method. For example, receiving entities used the controlling party's book values in 45.8% of BCUCCs and the transferred business's book values in 11.6% of BCUCCs. It was unclear which entity's book values receiving entities used in the remaining 42.6% of BCUCCs.
- 52% of the BCUCCs were reported by entities listed in China (including Hong Kong).

The IASB also found variations in the information receiving entities disclosed about BCUCCs. For example, many receiving entities did not disclose whether the transferred entities were consolidated from the transaction date or from the beginning of the earliest period presented. These variations could arise from materiality of specific information about each BCUCC or from the lack of specific disclosure requirements for BCUCCs, among other reasons.

Discussion Paper

The IASB published the Discussion Paper in November 2020. The Discussion Paper summarised the IASB's preliminary views on how a receiving entity should report a BCUCC.

The Discussion Paper defined the objective, scope and focus of the project, and covered:

- selecting which measurement method to apply;
- applying the acquisition method;
- applying a book-value method; and
- developing disclosure requirements.

Stakeholders' views on the Discussion Paper were split. This Project Summary explains two topics that received split feedback—selecting which measurement method to apply and applying a book-value method. Both of these were critical to the IASB's decision on whether to continue the project.

Feedback gathered in numbers



102 comment letters on the Discussion Paper.



Feedback from global organisations, regional groups from Africa, Asia-Oceania, Europe and Latin America, and **40** individual jurisdictions.

Selecting which measurement method to apply

IASB's preliminary view	Overall feedback	User feedback ²
Neither method should apply in all cases.	Most respondents agreed, but some (from various jurisdictions) said the receiving entity should apply a book-value method to all BCUCCs.	Almost all users (except users from China) agreed. Almost all users from China said the receiving entity should apply a book-value method to all BCUCCs.
In principle, the receiving entity should apply the acquisition method to BCUCCs that affect its non-controlling shareholders (NCS), with limited exceptions.	<p>Many respondents agreed in principle but many others (from various jurisdictions) disagreed, of whom:</p> <ul style="list-style-type: none"> • some said the receiving entity should apply a book-value method to all BCUCCs; • some said the receiving entity should assess the substance of a BCUCC to determine which method to apply; and • some said the receiving entity should have a choice of which method to apply. <p>Respondents' views were split on the suggested exceptions.</p>	All users (except users from China) agreed. Almost all users from China said the receiving entity should apply a book-value method.
The receiving entity should apply a book-value method to BCUCCs that do not affect NCS.	Many respondents agreed but many others disagreed, most of whom said the receiving entity should apply the acquisition method in specific circumstances (most commonly, if the receiving entity has publicly traded debt).	Almost all users agreed in the case of a BCUCC completed to prepare for an initial public offering. Most users agreed in the case of a BCUCC by a receiving entity with bank debt and publicly traded debt; however, some users said the receiving entity should apply the acquisition method.

² Almost all users provided feedback about specific scenarios that illustrated the IASB's preliminary views rather than the preliminary views themselves.

Applying a book-value method

This table illustrates two aspects of applying a book-value method that were critical to the IASB's decision on whether to continue the project.

IASB's preliminary view	Feedback
<p>The receiving entity should use the transferred business's book values.</p>	<p>Respondents' views were split:</p> <ul style="list-style-type: none"> • many respondents agreed. • some said the receiving entity should always use a different entity's book values (most commonly the controlling party's book values). • some said the receiving entity should use either the transferred business's book values or another group entity's book values (for example, the controlling party's). This includes respondents who suggested the receiving entity should choose which book values to use, and others who said the IASB should prescribe which book values to use in specific circumstances. <p>Many respondents also highlighted practical challenges—for example, the transferred business's book values might not be readily available.</p>
<p>The receiving entity:</p> <ul style="list-style-type: none"> • should not restate pre-combination information (that is, it should report the transferred business prospectively from the combination date); and • should not be required to disclose pre-combination information about the transferred business. 	<p>Many respondents agreed that the receiving entity should not restate pre-combination information, but many disagreed because:</p> <ul style="list-style-type: none"> • capital market regulations require pre-combination information to be restated in some situations; and • restated information could be useful for investors' trend analyses. <p>Respondents' views were also split on whether the receiving entity should be required to disclose pre-combination information about the transferred business.</p>

Deciding the project direction

Deliberations

In 2022 the IASB began analysing feedback on the Discussion Paper. The IASB discussed which measurement method to apply, analysing respondents' feedback on:

- the nature of BCUCCs;
- user information needs and comparability;
- cost–benefit trade-off;
- structuring opportunities and practical challenges; and
- exceptions to the general principles.

The IASB discussed the relative merits of its preliminary views in the Discussion Paper and alternatives suggested by respondents. IASB members' views were split.

As well as considering stakeholders' feedback on the Discussion Paper, the IASB consulted the EEG and ASAF. Members of those consultative groups were also split in their views.

Reflection point

The IASB considers the future direction of a project at natural points in its life cycle. The IASB considered the split views expressed by respondents to the Discussion Paper (including users) and the split views expressed during deliberations, and decided to reconsider the project direction.

The IASB considered whether to proceed with the project, as originally envisaged, or whether to change the project direction. The IASB assessed the potential improvements to the reporting for BCUCCs that would result from developing specific requirements, the resources required to develop those requirements and the costs to stakeholders implementing the requirements.

The IASB identified three options for the project direction:

- **Option 1**—continue to explore developing recognition, measurement and disclosure requirements, including but not limited to those in the Discussion Paper.
- **Option 2**—explore developing disclosure-only requirements.
- **Option 3**—discontinue the project.

Before the IASB decided on the project direction, it consulted with stakeholders—holding public meetings with the ASAF, the CMAC, the EEG, the GPF and the IFRS IC, among others. The IASB also consulted other stakeholders, including regulators and a user representative group.

In deciding which of the three options to choose, the IASB discussed:

- whether to continue to explore developing recognition and measurement requirements (Option 1); and
- if not, whether to explore developing disclosure-only requirements (Option 2).

Deciding whether to continue to explore developing recognition and measurement requirements

The IASB considered whether to continue to explore developing recognition and measurement requirements for BCUCCs because:

- it is the only option that could reduce diversity in how receiving entities recognise and measure BCUCCs; and
- establishing such requirements could reduce the costs stakeholders incur in the absence of specific requirements.

However, the IASB decided not to continue to explore developing recognition and measurement requirements because:

- users might encounter BCUCCs only occasionally;
- diversity in reporting might not have significant consequences for users;
- users viewed the project as unimportant;
- user information needs varied among jurisdictions;
- IASB members and respondents reached no consensus on specific recognition and measurement requirements that would improve financial reporting; and
- overall, the costs of developing and implementing new requirements would outweigh the benefits.



How common are BCUCCs?

Stakeholders disagreed on how common BCUCCs are. Several factors could explain the split:

- users focus primarily on publicly traded entities (which may be less likely to undertake BCUCCs);
- national standard-setters cover both publicly traded entities and privately held entities (which may be more likely to undertake BCUCCs); and
- regulators often engage with entities preparing for a capital market transaction, suggesting that BCUCCs in preparation for a capital market transaction may be common.



What are the consequences of diversity in reporting?

Stakeholders reported diversity in how receiving entities recognise and measure BCUCCs. Although diversity is evident, the IASB's research showed that it might not have significant consequences because:

- local requirements and practice being largely settled means diversity in practice might be limited—a book-value method was applied to 94% of transactions identified in the desktop review (see page 5);
- some users said diversity in how receiving entities recognise and measure BCUCCs does not significantly affect them; and
- stakeholders identified few examples of reporting for BCUCCs that could be described as 'misleading' for users.



How important is the project to users of financial statements?

User feedback showed that the project was unimportant to users and would likely deliver fewer benefits for meeting user information needs than originally anticipated. Most of the users who provided feedback on the project direction said the IASB should not develop recognition and measurement requirements (that is, should not choose Option 1).



What are users' information needs?

As page 7 explains, user feedback on what information they needed for BCUCCs that affect NCS varied among jurisdictions. Specifically:

- almost all users from China (where such BCUCCs were common in the desktop review on page 5) said a book-value method should apply; and
- almost all users from other jurisdictions said the acquisition method should apply.



Is there consensus on specific requirements?

Stakeholders' views were split on what recognition and measurement requirements the IASB should develop for topics such as:

- selecting which measurement method to apply; and
- applying a book-value method.

IASB members' views were also split. It may be difficult to develop globally accepted requirements.



Would the costs of standard-setting outweigh the benefits?

In the absence of specific requirements:

- preparers and auditors incur costs researching comparable transactions and engaging with each other to debate and agree the appropriate reporting for a BCUCC; and
- regulators incur costs in challenging the reporting for BCUCCs before financial statements are published, which they do to prevent investors from being misled.

Developing recognition and measurement requirements would reduce these costs. However, considering the overall balance of the likely costs and benefits of Option 1, this option would:

- require significant resources from the IASB and its stakeholders to develop requirements;
- impose implementation costs—for example, by disrupting practice in jurisdictions that have local requirements; and
- result in limited benefits for users.

The IASB also considered developing 'simpler' recognition and measurement requirements, which would be intended to minimise the resources required to develop requirements. For example, the IASB could require a receiving entity to apply a book-value method to all BCUCCs. However, developing simpler requirements would still require significant resources and might not significantly improve the reporting for BCUCCs.

Deciding whether to explore developing disclosure-only requirements

Having decided not to explore developing recognition and measurement requirements for BCUCCs, the IASB considered whether to explore developing disclosure-only requirements for BCUCCs.

The IASB considered what a disclosure-only project could cover, including potential requirements for a receiving entity:

- to report BCUCCs more transparently; and
- to disclose additional relevant information (for example, fair value information when applying a book-value method to a BCUCC).

The IASB decided not to explore developing disclosure-only requirements and, consequently, to discontinue the project, because:

- general disclosure requirements in IFRS Accounting Standards apply to BCUCCs;
- disclosure-only requirements would neither reduce stakeholder costs nor reduce diversity in how receiving entities recognise and measure BCUCCs; and
- the resources necessary to develop disclosure-only requirements would likely outweigh the benefits of those requirements.

Summary of the IASB's decisions

In November 2023, the IASB considered the project direction. The IASB decided:

- not to continue to explore developing recognition and measurement requirements; and
- not to explore developing disclosure-only requirements.

Accordingly, the IASB has discontinued its work on the project. The IASB thanks its stakeholders for their valuable contributions to this project, which helped the IASB to reach its decision. Stakeholders provided evidence that any improvements to financial reporting that might result from developing requirements for reporting BCUCCs are likely to be outweighed by the costs of developing and implementing such changes. The work in this research project, including the Discussion Paper published in 2020, was important in exploring whether to pursue a standard-setting project for BCUCCs.

Appendix A—Glossary

Term	Definition
Acquisition method	The method applied to business combinations within the scope of IFRS 3. An entity applying the acquisition method recognises and measures, with limited exceptions, identifiable assets and liabilities received at fair value and recognises goodwill.
Book-value method	A method in which a receiving entity measures assets and liabilities received in a BCUCC using book values (carrying amounts) of those assets and liabilities. An entity applying a book-value method measures assets and liabilities received at the book values reported by another entity (for example, the transferred business or the controlling party) and does not recognise new goodwill.
Controlling party	The party or parties that control both the receiving entity and transferred business before and after a BCUCC.
Receiving entity	The entity to which control of a business is transferred in a BCUCC.
Transferred business	The business that is transferred to the receiving entity in a BCUCC.

Important information

The Project Summary has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views in this document are those of the staff who prepared this document and are not the views or the opinions of the IASB and should not be considered authoritative in any way. The content of this Project Summary does not constitute any advice.

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