Key messages from outreach and comment letters received on BCUCC
Issues Paper

Introduction and Objective

1 The objective of this paper is to gather the key messages raised from both the outreaches and comment letters received relating to business combinations under common control (BCUCC) and provide an EFRAG Secretariat recommendation to update the draft comment letter. This forms a basis for EFRAG TEG to discuss and then recommend the comment letter to the EFRAG Board for approval.

2 Agenda Paper 03-05A is the 'draft' final comment letter and is a marked-up version compared to EFRAG's draft comment letter that was published. The EFRAG Secretariat recommendations described below have been included in track changes in this Agenda Paper 03-05A.

Question 1 – Project Scope

Comment letters received

Scope

3 Majority of respondents welcomed the DP's proposals and the IASB's efforts to address the current lack of guidance on the accounting for BCUCC. The project would help reduce diversity in practice and provide users of the receiving company's financial statements with useful information.

4 Majority of respondents welcomed the project's scope as defined in the DP and agreed that the project should also include group restructurings that involved a transfer of a business under common control but did not meet the definition of a business combination in IFRS 3 *Business Combinations.*

5 Furthermore, respondents made the following comments/suggestions with respect to project scope:

(a) to align the definition of BCUCC in the DP with the description of 'combination of entities or businesses under common control' in IFRS 3 in order to avoid confusion for preparers;

(b) to clarify whether certain types of BCUCC transactions were captured by the scope of the project;

(c) reconsider whether BCUCC followed by an external sale should be captured by the scope of the project;

(d) to clarify the interaction between the DP's scope and the requirements of IFRS 1, in particular paragraphs D16 and D17 and the 'grandfathering' exemptions provided by Appendix C of IFRS 1.

Common control transactions

6 Many respondents agreed with the EFRAG's position on common control transactions. In particular, it was suggested that the IASB should consider the effects of common control transactions on the individual and separate financial statements because:

(a) most of the BCUCC transactions were internal group restructurings and affected the separate financial statements;

(b) BCUCC were common transactions for listed companies and had an impact on the individual and separate accounts with material effects on corporate tax, dividends and capital requirements in some jurisdictions;

(c) the DP's proposals introduced an inconsistent accounting for common control transactions in the separate financial statements depending on whether the BCUCC involved a transfer of incorporated or not incorporated business;

(d) DP's scope should also include accounting for legal mergers between a parent company and its existing subsidiaries in the parent company's separate financial statements.

7 Alternatively, if the IASB confirmed that a transfer of investments in subsidiaries under common control in the separate financial statements must be accounted for in accordance with IAS 27, it should clarify how the cost of the acquired investment should be measured when the consideration paid was different from its fair value.

Transitory control

8 Some respondents agreed that it was not necessary to clarify the meaning of "transitory control" as it was not relevant for the project: most of the BCUCC transactions were internal group restructurings as well as the definition of BCUCC was wider than the one currently included in IFRS 3.

9 Some respondents commented that it would be helpful to clarify the meaning of 'transitory control' and align the concept with IFRS 3. Removing the reference to 'transitory control' in IFRS 3 could significantly impact the project scope, affect the accounting outcome and create incentives for structuring opportunities.

Unintended consequences of scope definition

10 One respondent commented that the scope as defined in the DP was right. It was important that the focus of the BCUCC project was on transactions being scoped out of IFRS 3.

11 Two respondents suggested that the IASB should provide:

(a) further explanation about the scope of the DP as it was not clear whether certain transactions under common control would fall within the scope of the project;

(b) additional guidance on the definition of 'group restructurings' to support the appropriate application of the proposals on scope.

Feedback from outreaches

12 The IASB's proposals on scope received mixed views. Some supported that the DP's scope should not depend on what transactions occurred before or after the BCUCC but rather apply the proposals at the point in time when the transaction took place. Some questioned its appropriateness for group restructurings involving a creation of a Newco or BCUCC followed by a change of control and considered that in such situations the economic substance of the transaction should also be taken into account.

13 Suggestion was made that the project should have a wider scope and include various transactions under common control including matters related to the separate financial statements.

14 It was considered important that the IASB extended the project to cover the separate financial statements. The proposals of the DP are not consistent with the requirements in IAS 27 of how to measure an investment under common control in the separate financial statements.

15 In addition, it would be useful for the BCUCC project that the notion of 'transitory control' was clarified and retained in the BCUCC project as it was considered relevant for some BCUCC transactions.

16 More guidance was needed when identifying the acquirer in a BCUCC both under the acquisition method and a book-value method, especially in situations of reverse and step acquisitions.

17 The DP did not provide guidance on some BCUCC transactions (e.g. step acquisitions; combinations under a single entity of two or more joint ventures controlled by the same investors both before and after the combination) which could warrant further clarifications on whether those would be impacted by the scope of the project.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

18 Based on the feedback from outreaches and comment letters received, the EFRAG Secretariat recommends that EFRAG's final position on scope reflects the following points:

(a) EFRAG agrees with the project's scope as defined in the DP and further suggest the IASB to:

(i) align the definition of BCUCC in the DP with the description of 'combination of entities or businesses under common control' in IFRS 3 in order to avoid confusion for preparers;

(ii) provide additional guidance on the definition of 'group restructurings' to support the appropriate application of the proposals on scope;

(iii) clarify whether certain types of BCUCC transactions are captured by the scope of the project;

(iv) reconsider whether BCUCC followed by an external sale shall be captured by the scope of the project;

(v) consider the effects of common control transactions on the individual and separate financial.

(b) EFRAG recommends that the notion of 'transitory control' be carefully considered and clarified during the project especially when it can inflict opportunistic behaviour;

(c) EFRAG notes that more guidance is needed when identifying the acquirer in a BCUCC both under the acquisition method and a book-value method.

Question for EFRAG TEG

19 Does EFRAG TEG agree with the EFRAG Secretariat recommendations and with the changes made in the draft FCL?

Question 2 – Selecting the measurement method: Use of acquisition method and book-value method

Comment letters received

20 Almost all respondents agreed that neither the acquisition method nor a book-value method should be applied to all BCUCC. There could hardly be one measurement method that would fit all transactions within the scope of the project considering the variety of BCUCC transactions.

The IASB's decision tree

21 Majority of respondents **supported** the IASB's **decision tree** that the acquisition method should apply to BCUCC that affected NCS, subject to the cost benefit trade-off, and that a book-value method should apply in all other cases.

22 Some respondents **did not support** the use of the proposed **decision tree**.

23 Many respondents suggested that the IASB should further clarify and provide guidance on the expression "affect non-controlling shareholders" as it was unclear to various stakeholders and was subject to different interpretations. Many respondents suggested for the IASB to consider the notion of *significance* for the change in ownership interest of the NCS in order to avoid structuring opportunities.

24 One respondent suggested that the IASB should allow for an accounting policy choice for the receiving entity to apply either the acquisition method or a book-value method combined with additional disclosures to meet minimum information needs for all shareholders.

25 One respondent suggested to limit the applicability of the acquisition method only to situations where the transaction had an 'economic substance'.

26 Respondents made various suggestions/recommendations for improving the IASB decision tree:

(a) to identify more relevant factors to determine the most appropriate measurement method for BCUCC;

(b) to consider consistency of reporting for BCUCC regardless of the way the transaction had been structured i.e. transactions should result in the same outcome, if their economic substance is identical;

(c) to consider whether it might be useful to apply an option based model as provided by IFRS 1.D16 rather than prescribe when to apply each measurement method;

(d) to be explicitly clear how to identify the acquirer, both when applying the acquisition method and a book-value method;

(e) to allow the application of a book-value method in BCUCC in certain circumstances involving legal reorganisation of activities that were already largely integrated from an operational and financial perspective when the transfer did not affect the operations in terms of business purpose or value creation;

(f) to consider the application of the acquisition method for some BCUCC with wholly-owned companies when the receiving entity would be partly sold shortly after the transaction (without the controlling party losing control).

(g) to provide an option to apply a book-value method if the costs of the acquisition method did not justify the benefits of applying it;

(h) to apply the acquisition method to all BCUCC including combinations between wholly-owned companies and combinations when control proves to be transitory;

(i) to clarify the concept of 'non-controlling shareholders' used in the DP. In particular, whether financial instruments that met the definition of equity instruments in accordance with IAS 32 would be considered when assessing whether the transaction affected NCS;

(j) the definitions of a receiving company in the DP and the definition of the acquirer in IFRS 3 were different which raised uncertainty. Further clarifications were necessary in this respect;

(k) to explain how the criterion 'affect NCS' in the decision tree will apply when the consolidated financial statements were prepared at different consolidated levels of receiving companies. It would be impracticable and/or burdensome to treat the same transaction differently at different levels within the same group;

(l) to consider the effects of the BCUCC duration over the configuration of the transaction, which might lead to a different measurement depending on whether NCS would be affected.

Existing guidance on BCUCC in Europe

27 Four respondents have indicated existing guidance on BCUCC in their jurisdictions. Currently, BCUCC transactions are accounted for applying a mix of a modified acquisition method and a variety of book-value methods.

Feedback from outreaches

28 There was general agreement that the use of more than one measurement method for BCUCC was appropriate.

29 There was also support for the IASB's proposal to use the existence of non-controlling shareholders (NCS) in the receiving company as a differentiating criterion for when to apply the acquisition and when to apply a book-value method to BCUCC. In addition, the following comments were made:

(a) using a more objective criterion such as the economic substance of the transaction would be preferred but difficult to apply in practice;

(b) applying the criteria 'affecting the NCS' in the IASB's decision tree might not be determinative for selecting a measurement method;

(c) the concept of 'affect NCS' could be ambiguous and to be interpreted differently;

(d) suggestion was made to consider different factors when selecting the measurement method depending on the impact on the level of debt of the company, on local tax compliance or on the distribution of dividends;

(e) there were some doubts about the IASB's presumptions in its DP that the information needs of NCS and other lenders and creditors were different;

(f) the effect on the NCS of the receiving entity was not the appropriate criterion to select a measurement method because the final structure of the BCUCC was not always obvious when the decision to conduct BCUCC was taken by the management;

(g) some doubts were expressed whether the presence of NCS was sufficient to justify the use of the acquisition method in all cases, especially when the receiving company did not contain a business.

30 The IASB's preliminary view that the **acquisition method** should be required if the receiving company's shares are traded in a public market was broadly supported.

31 The IASB's preliminary view that a **book-value method** should be applied to all other BCUCC, including all combinations between wholly-owned companies, received mixed views:

(a) some supported the application of a book-value method in terms of cost-benefit trade-off and group reorganisation, others considered that this argument was not sufficient to justify the application of a book-value method for BCUCC;

(b) one jurisdiction commented that a book-value method should be applied to all BCUCC, however, another jurisdiction considered that a book-value method could be used in very specific transactions such as those involving real estate business;

(c) allowing for a book-value method in the context of an IPO was important.

32 Regarding the mechanics of the IASB's decision tree of when to apply each measurement method, the following comments/suggestions were made:

(a) the definition of public market – the IASB may need to refine this definition as it may not satisfy the role it played in the IASB's decision tree;

(b) 'group restructurings' - did not meet the definition of a business combination in IFRS 3. These transactions be distinguished from other BCUCC and accounted for applying a book-value method;

(c) the IASB's decision tree did not preclude structuring opportunities - suggestion was made that an accounting policy choice be combined with increased disclosure requirements and emphasis be put on the efforts necessary to apply the acquisition method.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

33 Based on the feedback from outreaches and comment letters received, the EFRAG Secretariat recommends that EFRAG's final position on Question 2 of the DP reflects the following points:

(a) EFRAG agrees that neither the acquisition method nor a book-value method should be applied to all BCUCC;

(b) EFRAG supports the IASB's **decision tree** as a proxy to operationalise the concept of the DP. However, EFRAG recommends the IASB to:

(i) clarify and provide guidance on the expression "affect non-controlling shareholders", including:

- to consider the notion of *significance* for the change in ownership interest of the NCS;
- to explain how the criterion will apply when the consolidated financial statements are prepared at different consolidated levels of receiving companies;

(ii) clarify the concept of 'non-controlling shareholders' used in the DP with respect to what financial instruments shall be considered as equity instruments in accordance with IAS 32;

(iii) provide more guidance when identifying the receiving company in a BCUCC both under the acquisition method and a book-value method;

(iv) the definitions of a receiving company in the DP and the definition of the acquirer in IFRS 3 are different which raises uncertainty;

(v) refine the definition of a public market which may not be robust enough to distinguish between different BCUCC transactions.

Question for EFRAG TEG

34 Does EFRAG TEG agree with the EFRAG Secretariat recommendations and with the changes made in the draft FCL?

Question 3 - Selecting the measurement method: Cost–benefit trade-off and other practical considerations

Comment letters received

35 Majority of respondents agreed with the IASB proposal to require the application of the acquisition method when the receiving company's shares were traded in a public market.

36 In addition, respondents provided the following comments:

(a) definition of a public market - the definition of a public market was unlikely to be robust enough to drive the selection of a measurement method;

(b) the receiving company being listed was not sufficient to justify the use of the acquisition method in all cases;

(c) the assumption that shareholders of privately held companies had different means of information about the receiving entity might be too general and might leave an information gap;

(d) to consider the appropriateness of the selected measurement method for BCUCC without including as an overriding argument the cost factor associated with the use of the acquisition method;

(e) to consider the interests of other stakeholders, like lenders and other creditors, when determining the measurement method.

Related-party exception

37 Respondents provided mixed views regarding the related-party exception to the acquisition method for privately held company if all its NCS are related party to the receiving company.

38 Many respondents supported the exception, however, considered that it opened possibilities for structuring opportunities. Therefore, the IASB should consider the notion of significance for the exception and/or provide further guidance.

39 Some respondents disagreed with the related-party exception as the information needs of different related parties could be different and they should not be deprived of information about material economic effects resulting from common control transactions.

40 Some respondents agreed with EFRAG that the related-party exception provided by the IASB should be 'permitted' rather than 'required'.

Optional exemption

41 Four respondents agreed with the optional exemption, however, the respondent suggested that further guidance was necessary regarding the practical application of the exemption.

42 Four respondents expressed doubts whether the optional exemption was workable in practice. The proposed approach might lead to structuring opportunities and inappropriate accounting outcomes.

43 Furthermore, respondents suggested that the IASB should carefully consider whether:

(a) the optional exemption should apply also if the receiving company had publicly traded debt instruments;

(b) the practical application of the exemption when there were different levels of receiving companies with NCS;

(c) lowering the threshold of the optional exemption to 'substantially all' NCS in order to avoid practical difficulties.

44 Suggestion was made to modify the optional exemption to exclude related parties from the NCS when considering the exemption process and step 4 of the decision tree to be amended with the following wording: '*Has the receiving company chosen to use a book-value method, and have its non-controlling shareholders except related parties not objected?*'

EFRAG's modified decision tree

45 Two respondents supported the EFRAG's proposal to reverse Step 1 and Step 2 of the IASB's decision tree for selecting the measurement method as publicly traded companies normally had NCS and in most cases should use the acquisition method.

46 Two respondents considered EFRAG's proposed modification to expand the scope of the IASB's decision tree and made the following suggestions/comments:

(a) Option 2 - to include receiving companies with publicly traded shares or publicly traded debt instruments, was the most appropriate one as it would not be sensible to treat a transaction differently solely based on the type of instrument that was publicly traded;

(b) Option 2 and Option 3 – one respondent supported both options.

47 Four respondents **did not support** the EFRAG proposed modifications to the IASB's decision tree because:

(a) the proposed modifications would be difficult to determine with respect to how broad the scope should be;

(b) debt/asset holders did not have ownership interests in the economic resources of the entity and therefore were not impacted by the BCUCC transaction;

(c) the modifications were based on a distinction between information needs of different users which was not a reasonable criterion;

(d) there were no practical differences resulting from the proposed reversal in the decision tree and would lead to undesirable outcome;

Optional exemption under EFRAG's modified decision tree

48 Three respondents agreed with EFRAG that the related-party exception provided by the IASB should be 'permitted' rather than 'required'.

49 Two respondents expressed concerns about the practical application of the optional exemption under the EFRAG's modified decision tree because:

(a) NCS would not get fair value information which they might need to continue accounting for their share of the combined entity;

(b) requesting approval from NCS might be difficult and costly to implement.

Feedback from outreaches

50 Applying the proposals on **optional exemption** to the acquisition method for privately-held entities with NCS, the following views were expressed:

(a) some support was expressed for the application of the optional exemption for privately-held companies;

(b) some concerns was raised regarding the practical application of the optional exemption in situations when insignificant NCS had objected applying a book-value method. In particular:

(i) how would the majority shareholders proceed from a cost-benefit perspective;

(ii) this exemption was also seen as not in alignment with local law in some jurisdictions;

(iii) concerns were also raised that once the optional exemption was used, the receiving company would not be able to reverse the application if the selected measurement method;

(iv) question was raised whether the optional exemption should be applied when the receiving company has debt instruments traded on the public market.

51 Applying the proposals on **related-party exception** to the acquisition method for privately-held entities with NCS, the following mixed views were expressed:

(a) the related-party exception was supported by some when all NCS are related parties of the receiving company and the application of a book-value method was considered appropriate;

(b) in situations when NCS was introduced only for the purpose of applying particular measurement method; a materiality criterion was needed to prevent structuring opportunities;

(c) some supported the related-party exception to be optional rather than required because not all NCS would have the same access to information.

52 The EFRAG's proposed modifications to the IASB's decision tree received the following comments:

(a) some supported reversing Step 1 and Step 2 of the IASB's decision tree for traded debt and traded share instruments;

(b) some did not support expanding the scope of the proposed Step 1 to include also debt traded in a public market would not impact NCS so the steps in the decision tree should not be swapped;

(c) expanding the use of the acquisition method for privately held entities with debt traded in a public market would not be useful for lenders and other creditors;

(d) reversing Step 1 and Step 2 of the IASB's decision tree might result in materially different outcomes;

(e) the financial instruments should be linked to the receiving company's performance rather than only being based on whether these instruments are traded in a public market;

(f) question was raised whether the proposed reversal of Step 1 and Step 2 in the EFRAG's proposed decision tree would mean that for a listed receiving company there were some BCUCC transactions that would affect NCS and some that would not affect them.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

53 Based on the feedback from outreaches and comment letters received, the EFRAG Secretariat recommends that EFRAG's final position on Question 3 of the DP reflects the following points:

(a) EFRAG agrees with the IASB proposal to require the application of the acquisition method when the receiving company's shares are traded in a public market. However, EFRAG notes that the definition of a public market may not robust enough to drive the selection of a measurement method;

(b) EFRAG considers that the related-party exception provided by the IASB should be 'permitted' rather than 'required'. Furthermore, EFRAG suggests the IASB to provide further guidance regarding the practical application of the exception when there are different levels of receiving companies with NCS;

(c) EFRAG supports the optional exemption as proposed in the DP. However, EFRAG considers that additional guidance is necessary to make the exemption workable in practice. EFRAG suggests the IASB to consider:

    (i) to provide guidance on practical application when there are different levels of receiving companies with NCS;

    (ii) to avoid situations where NCS, representing a negligible portion of interests in the receiving company's equity, can impose the use of the acquisition method;

    (iii) excluding the related parties from the NCS when considering the exemption process. Step 4 of the decision tree can be amended with the following wording: '*Has the receiving company chosen to use a book-value method, and have its non-controlling shareholders except related parties not objected?'*.

Question for EFRAG TEG

54 Does EFRAG TEG agree with the EFRAG Secretariat recommendations and with the changes made in the draft FCL?

Question 4 - Selecting the measurement method: Whether the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies

Comment letters received

55 Majority of respondents agreed with the IASB proposal that the optional exemption and the related-party exception to the acquisition method should not apply to publicly traded companies because:

(a) extending the proposal to publicly traded companies would unnecessarily overcomplicate the BCUCC project;

(b) publicly traded companies normally had many shareholders with frequent changes in share ownership;

(c) market regulations would not authorise all NCS of the receiving company to be related parties.

Feedback from outreaches

56 There was agreement that with the IASB's preliminary view not to extend the application of the optional exemption and the related-party exception to publicly traded companies.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

57 The EFRAG Secretariat does not propose changes to the position taken in the EFRAG DCL on this question.

Question for EFRAG TEG

58 Does EFRAG TEG agree with the EFRAG Secretariat recommendations and with the changes made in the draft FCL?

Question 5 - Applying the acquisition method

Comment letters received

59 Many of the respondents agreed that IASB should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity.

60 Regarding recognising any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity or as a bargain purchase gain in the statement of profit or loss:

	Extent of respondents
In favour of recognition as a bargain purchase gain in profit or loss (consistency with IFRS 3 favoured)	Many
In favour of recognition as contribution to equity – IASB proposal	Many
In favour of gain in profit or loss if there is evidence that the transaction price is the market price in conditions of free competition. Otherwise, recognition as contribution to equity	One

61 Some respondents agreed with EFRAG that the IASB should provide guidance on how to identify the receiving entity (the acquirer) in situations involving a NewCo.

Feedback from outreaches

62 There were mixed views regarding recognition of a contribution to equity instead of recognising a gain in profit or loss:

	No. of outreaches
A - In favour of recognising a gain in profit or loss (consistent with IFRS 3)	2
B - In favour of recognising a contribution to equity	1
Mixed views on whether to use A or B above	1

63 Overpayments and underpayments are deemed to be highly unlikely but not impossible (three outreach events).

EFRAG Secretariat's recommendations on EFRAG's proposed final position

64 In its DCL, EFRAG indicated that it was consulting its constituents on the treatment of contributions to equity, before reaching its final view. EFRAG's consultation ad outreach shows mixed views as can be seen in the tables above.

65 The EFRAG Secretariat has amended the DCL to indicate that EFRAG has considered these two alternatives of recognition and that there were mixed views. We have also included advantages of each alternative. We have indicated that there is merit for one or the other approach and have asked the IASB to further explore both alternatives in order to provide relevant information to users of financial statements.

Questions for EFRAG TEG

66 Does EFRAG TEG agree with the EFRAG Secretariat recommendations and with the changes made in the draft FCL?

67 If you do not agree, which alternative does EFRAG TEG support? Please explain.

(a) Alternative 1: IASB's proposals in the DP – contribution to equity; or

(b) Alternative 2: Consistency with IFRS 3 – profit or loss.

Based on EFRAG TEG members' views, we can present a majority and minority view to the EFRAG Board for their consideration.

Question 6 - Applying a book-value method: Measuring the assets and liabilities received

Comment letters received

68 Prevailing current practice approaches indicated by respondents were (i) the usage of the controlling party's book values and (ii) the usage of both approaches (i.e., transferred entity's book values and the controlling party's book values).

69 Regarding using the transferred entity's book values or using the controlling party's book values:

	Extent of respondents
In favour of with using the controlling party's carrying amounts	Many
Option for both of the above carrying amounts	Some
In favour of using the transferred entity's carrying amounts (IASB proposal)	Some
Both methods have their own merits. The IASB should perform additional research activities before making any decision in this respect	One

70 Some respondents highlighted that the IASB should develop guidance if the transferred company previously did not apply IFRS or where IFRS figures are not available.

Feedback from outreaches

71 Regarding using the transferred entity's book values or using the controlling party's book values (Detailed reasons are provided in the Summary of outreach events (Agenda paper 03-02)):

	No. of outreaches
Mixed views	3
In favour of with using the controlling party's carrying amounts	1
Topic not discussed or no view	3

72 The following questions were raised in two outreaches:(i) whether the DP requires to apply the book values in the consolidated or in the separate financial statements of the transferred company; and (ii) whether IFRS financial statements were needed to be created for the transferred company.

73 The following is current practice regarding which book values to use in order to measure assets and liabilities received:

(a) Audited amounts from the parent`s financial statements are used. These figures are adjusted as the separate financial statements are based on local GAAP (one outreach event);

(b) There is a policy choice similar to US GAAP, with the possibility of looking at the values of the ultimate parent company (one outreach event).

EFRAG Secretariat's recommendations on EFRAG's proposed final position

74 Based on the feedback from outreaches and comment letters received, there is no distinct approach identified. Reasons for using the carrying amounts of the controlling party include being less costly, less complex and a more recent valuation compared to using the carrying amounts of the transferred entity. While the reasons for using the carrying amounts of the transferred entity include uninterrupted historical information, treating the assets and liabilities of the combining companies on the same basis and the controlling party is not a party to the business combination.

75 In addition, below is a summary of the EFRAG TEG discussion at its meeting on 14 July 2021:

Members, in general, were in favour of having an accounting policy choice between using the book values of controlling party and that of the transferred entity. This choice currently exists in some jurisdictions, e.g., in Sweden. Very few companies apply IFRS in their separate financial statements and this would result in applying the requirements of IFRS 1. Therefore, it may be burdensome for them to apply the IASB's proposal. Cost/benefit was more relevant compared to comparability.

76 Furthermore, the IASB acknowledged that from a practical perspective, whether the transferred company's book values or the controlling party's book values are less costly to use would depend on the facts and circumstances of each combination (paragraph 4.17 of the DP).

77 Based on the outreaches and comment letters and also on the July EFRAG TEG meeting, the EFRAG Secretariat agrees that using one or the other approach would depend on facts and circumstances of each BCUCC. Therefore, the EFRAG Secretariat recommends an accounting policy choice.

Question for EFRAG TEG

78 Does EFRAG TEG agree with the EFRAG Secretariat recommendations and with the changes made in the draft FCL?

Question 7 – Applying the book-value method: Measuring the consideration paid

Comment letters received

79 The majority of respondents agreed not to prescribe how the receiving company should measure the consideration paid in its own shares.

80 Regarding consideration paid in assets, many agreed with the IASB proposal to measure at the receiving company's book values of those assets while some respondents favoured measurement at fair value.

81 The majority of respondents agreed with the IASB proposals regarding consideration paid by incurring or assuming liabilities.

Feedback from outreaches

82 In one outreach event there was agreement with the IASB proposals. However, in another outreach event, there were mixed views on consideration paid in assets, i.e., some supported the IASB proposal for the consideration to be measured at

book value while some suggested that recognition at fair value would be appropriate.

83 In two outreaches, participants were not aware of other forms of consideration paid apart from those identified in the DP.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

84 No changes proposed.

Question for EFRAG TEG

85 Does EFRAG TEG agree with the EFRAG Secretariat recommendation? Please explain.

Question 8 – Applying the book-value method: Difference between the consideration paid and the book value of the assets and liabilities received

Comment letters received

86 The majority of respondents agreed to recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received.

87 The majority of respondents agreed with not specifying in which component(s) of equity the difference between consideration paid and assets and liabilities received should be presented.

Feedback from outreaches

88 This topic was discussed at two outreach events. In one outreach event, there was agreement with the IASB proposals and in another outreach event, an alternative approach was proposed where the difference between the consideration paid and assets and liabilities received would be recognised as an asset (e.g. synergies) that is amortised.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

89 No changes proposed.

Question for EFRAG TEG

90 Does EFRAG TEG agree with the EFRAG Secretariat recommendation? Please explain.

Question 9 - Applying the book-value method: Transaction costs

Comment letters received

91 Many respondents agreed with the IASB proposal to generally recognise transaction costs as an expense.

Feedback from outreaches

92 This topic was discussed in only one outreach event where there was agreement with the IASB proposals.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

93 No changes proposed.

Question for EFRAG TEG

94 Does EFRAG TEG agree with the EFRAG Secretariat recommendation? Please explain.

Question 10 - Applying the book-value method: Providing pre-combination information

Comment letters received

95 Regarding prospective versus retrospective application of pre-combination information:

	No. of respondents
In favour of an option to allow either prospective application from combination date or retrospective application (Mixed views on whether retrospective application should be (i) until the beginning of the reporting period or (ii) as if the combining companies have always been combined)	Many
In favour of prospective application from the combination date – IASB proposal	Some
In favour of retrospective restatement of comparative information to be required, except where it is impracticable to do so.	One

96 Regarding current practice:

(a) some respondents indicated that pre-combination information about the transferred company is provided retrospectively while some other respondents indicated that providing prospective or retrospective information depended on certain methods used or certain conditions;

(b) for those providing retrospective information, some respondents indicated that the information was from the beginning of the reporting period while some other respondents indicated that the information was as if the combining companies have always been combined.

Feedback from outreaches

97 Regarding prospective versus retrospective application of pre-combination information:

	No. of outreaches
Mixed views	3
IASB should research further which is more useful at a reasonable cost	1
Pre-combination information taking into consideration the cost/benefit trade-off	1
Supported an option	2

98 While an option was supported in two outreaches, in three other outreaches, it was mentioned, by some participants, that pre-combination information under a book-value method should not be required but rather be permitted.

99 In one outreach event that had mixed views, retrospective information was preferred on the face of the balance sheet rather than the notes while in another outreach event, the inverse was preferred.

100 In one of these events that had mixed views, participants preferred retrospective application from the beginning of the reporting period rather than as if the combining companies have always been combined.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

101 Based on the comment letters received and the outreach feedback, there is preference for an option to allow either prospective application or retrospective application, one of the reasons being cost/benefit considerations.

102 However, there were mixed views, as follows, at the EFRAG TEG meeting on 14 July 2021:

(a) some EFRAG TEG members were supportive of having a policy choice on whether to have retrospective or prospective information and favoured practical solutions;

(b) some members supported the IASB's proposal and indicated that a full retrospective approach would have challenges and would add a layer of complexity.

103 The EFRAG Secretariat provides two alternatives in the comment letter:

(a) Text 1 – agreeing with the IASB proposals (prospective application);

(b) Text 2 – support for an accounting policy choice and support for retrospective application from the beginning of the reporting period if retrospective application is the option chosen by the receiving entity.

104 Therefore, based on the above information received, EFRAG would like to ask EFRAG TEG the following question:

Question for EFRAG TEG

105 Does EFRAG TEG:

(a) confirm its position in the DCL, i.e., to support the IASB proposals (prospective application – Text 1)? **Or**

(b) recommend an accounting policy choice (Text 2)? If yes, whether EFRAG TEG agrees with retrospective application from the beginning of the reporting period?

Considering that the status of the project is still in a Discussion Paper phase and in the light of the mixed feedback obtained, EFRAG TEG may also decide to present a majority and minority view to EFRAG Board for consideration.

Question 11 - Disclosure requirements under the acquisition method

Comment letters received

106 Majority of respondentss were in general supportive of the disclosure requirements proposed in the IASB`s DP, including the consideration of future disclosure improvement relating to IFRS 3. Moreover, one respondent pointed out that disclosures should be relevant, but not too excessive.

107 Furthermore, the respondents stated the following:

(a) two respondents suggested to deliberate additional disclosures, e.g., such on expected synergies, should not be required for sensitivity and reliability reasons;

(b) one respondent suggested to deliberate whether additional disclosures on the determination of the transaction price would be needed;

(c) one respondent stated that such application guidance on IAS 24 and IFRS 3 disclosures should elaborate on transfer pricing and that it is indicative for an arms' length price;

(d) one respondent pointed out that the disclosure guidance should also include materiality considerations as discussed in amendments to IAS 1 *Presentation of Financial Statements* as issued on 12 February 2021;

(e) another respondent suggested to consider the application of the ED/2013/3 *Disclosures Requirements in IFRS Standards – A Pilot Approach* and in this context to clearly define objectives and information needs;

(f) one respondent suggested to eliminate additional disclosures about the terms of the combination as the provided information may be beyond the general purpose of financial statements.

Feedback from outreaches

108 The feedback received on the IASB's preliminary views were as follows:

(a) there is general support by the constituents (due of IFRS 3 disclosures) and to also consider the improvements resulting from the DP *Business Combinations—Disclosures, Goodwill and Impairment*;

(b) there is general support for the intention to provide application guidance on how to apply those disclosure requirements in connection with IAS 24 *Related Party Disclosures* as long as the guidance would not impose additional disclosures;

(c) there is a need for provision of additional disclosures by the receiving company for the determination of the transaction price only when the transaction was not at arm`s length;

(d) inconsistent for consolidated and separate financial statements of the receiving company. While the NCS of the receiving company might be affected by BCUCC when considering its consolidated financial statements, this may not be the case for its separate financial statements where the NCS might not be present.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

109 Based on the comment letters received and the outreach feedback, there is general support for the ED`s proposed disclosure requirements. Nevertheless, the EFRAG Secretariat suggests including the following points:

(a) EFRAG suggests to limit disclosures on terms of the transaction to economic information relevant for the understanding of the entities' financial statements;

(b) EFRAG supports additional guidance on the application of IAS 24 and IFRS 3 disclosures if those do not impose additional disclosures.

Question for EFRAG TEG

110 Does EFRAG TEG agree with the EFRAG Secretariat recommendations and with the changes made in the draft FCL?

Question 12 - Disclosure requirements under a book-value method

Comment letters received

111 Majority of respondents signalled general support for the disclosure requirements proposed in the IASB`s DP for situations where the book-value method would be applicable. Some respondents highlighted that they would specifically support disclosures on amounts recognised in equity for consideration and book-value differences as well as the disclosure of the component of equity where the difference would be presented.

112 One respondent replied that disclosure requirements should provide relevant information to users while not being too excessive.

113 Moreover, the respondents stated the following:

(a) some respondents did not agree with the DP`s proposal to not require the use of any pre-combination information in general and to include at least some "as if" disclosures for group restructurings. One respondent found such information helpful only for group restructuring but not for other transactions. Two respondents had concerns to not have pre-combination information as those would be very useful from an investor relations perspective or possibly be required by laws and regulations of the jurisdiction, so such information should be allowed, but not required. One respondent disagreed and proposed to require retrospective disclosure as long as it is not impracticable;

(b) one respondent stated that a description of how control was obtained would not be relevant and suggested to not require such kind of information;

(c) two respondents noted that – as it is not specifically mentioned in the DP – IAS 24 would also apply to BCUCCs, where the book-value method is applied.

Feedback from outreaches

114 The feedback received on the IASB's preliminary views on what disclosure requirements to apply to BCUCC when applying book-value method proposed to include greater detail on the effectiveness of the BCUCC transactions in the disclosure requirements.

EFRAG Secretariat's recommendations on EFRAG's proposed final position

115 Based on the comment letters received and the outreach feedback, the EFRAG Secretariat supports the ED`s proposed disclosure requirements.

116 Moreover, EFRAG Secretariat supports additional guidance on the application of IAS 24 as those would also relate to the transaction, if those do not impose additional disclosures.

117 Regarding pre-combination information, refer to the EFRAG Secretariat recommendation in Question 10.

Question for EFRAG TEG

118 Does EFRAG TEG agree with the EFRAG Secretariat recommendations and with the changes made in the draft FCL?