Business Combinations under Common Control

EFRAG Draft Comment Letter Summary

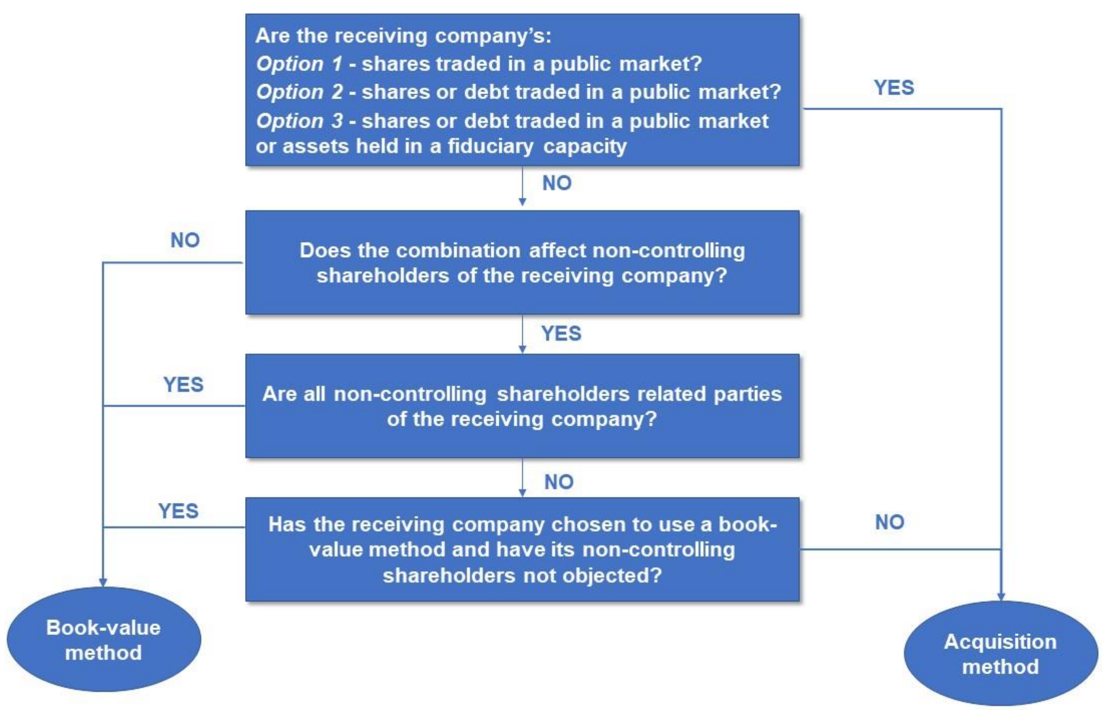
February 2021

Project scope

- EFRAG agrees with the proposed scope but not with labelling “group restructurings” as a BCUCC when they do not meet the definition of a business combination in IFRS 3 *Business Combinations.*
- The IASB should better describe what group restructurings are.
- Common control transactions (e.g. transfer of a group of assets that does not meet the definition of a business) is a comprehensive topic that needs to be discussed in the future, including the effects on the separate financial statements.

Selecting the measurement method

- EFRAG agrees that a single measurement method is not appropriate for all BCUCC (i.e. use of the acquisition method or a book-value method, depending on the existence of non-controlling interest)
- EFRAG supports the application of the acquisition method to BCUCC that affect the non-controlling shareholders of the receiving company (with limited exceptions). However, EFRAG proposes a few modifications to the IASB’s decision tree on when to apply each method. EFRAG is consulting constituents on two possible modifications:
    - Reversing Step 1 and Step 2 of the IASB’s diagram; and
    - Expanding the scope of entities included in the proposed new Step 1



- EFRAG cautions that selecting the measurement method relies on the definition of a ‘public market,’ which includes both regulated and unregulated markets. EFRAG suggests that the IASB clarifies the meaning of the term ‘traded’.
- EFRAG supports the **optional exemption** and the **related-party exception** to the acquisition method for privately-held entities with non-controlling shareholders. However, EFRAG is consulting constituents on whether the related-party exception should be optional rather than required.

Applying the acquisition method

- If a **distribution from equity** occurs in practice, EFRAG agrees that the IASB should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity but rather recognise any difference between the fair value of consideration paid and the fair value of identifiable acquired assets and liabilities entirely as goodwill.
- When the consideration paid is lower than the identifiable assets and liabilities acquired in the business combination, EFRAG has not formed a tentative view and is consulting constituents on the following:
  - **Alternative 1** - support the rationale for the IASB proposals to recognise the difference in equity as a **contribution to equity**; or
  - **Alternative 2** - support consistency with the requirements in IFRS 3 and recognise the difference as a gain in profit or loss.

Applying a book value method

- **Measuring assets and liabilities received** - EFRAG considers that both the use of the carrying amounts in the consolidated financial statements of the transferred company's controlling party and use of the carrying amounts in the financial statements of the transferred company can provide decision-useful information for users. EFRAG is consulting constituents on their preference.
- **Measuring the consideration paid** - EFRAG agrees not to prescribe how the receiving company should measure the consideration paid in its own shares. EFRAG also agrees with the measurement proposed in the DP for both consideration paid in assets and consideration paid by incurring or assuming liabilities. However, EFRAG suggests that the IASB considers allowing the use of fair value measurement, particularly in light of IFRIC 17 *Distributions of Non-cash Assets to Owners*, where an entity has to measure a liability to distribute non-cash assets as a dividend at the fair value of the net assets to be distributed.
- **Reporting the difference** - EFRAG agrees to recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received. EFRAG also agrees with not specifying presentation within equity.
- **Transaction costs** - EFRAG agrees with the proposals in the DP for transaction costs.
- **Pre-combination information** - EFRAG agrees that the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information. EFRAG is consulting constituents on whether the IASB proposals conflict with current practice or with current reporting requirements in some jurisdictions.

Disclosure requirements

- EFRAG supports the proposed disclosure requirements for BCUCC accounted for under both the acquisition method and a book-value method.

You can submit your comments on EFRAG's draft comment letter by using the '[Express your views](#)' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

Comments should be submitted by 30 July 2021.