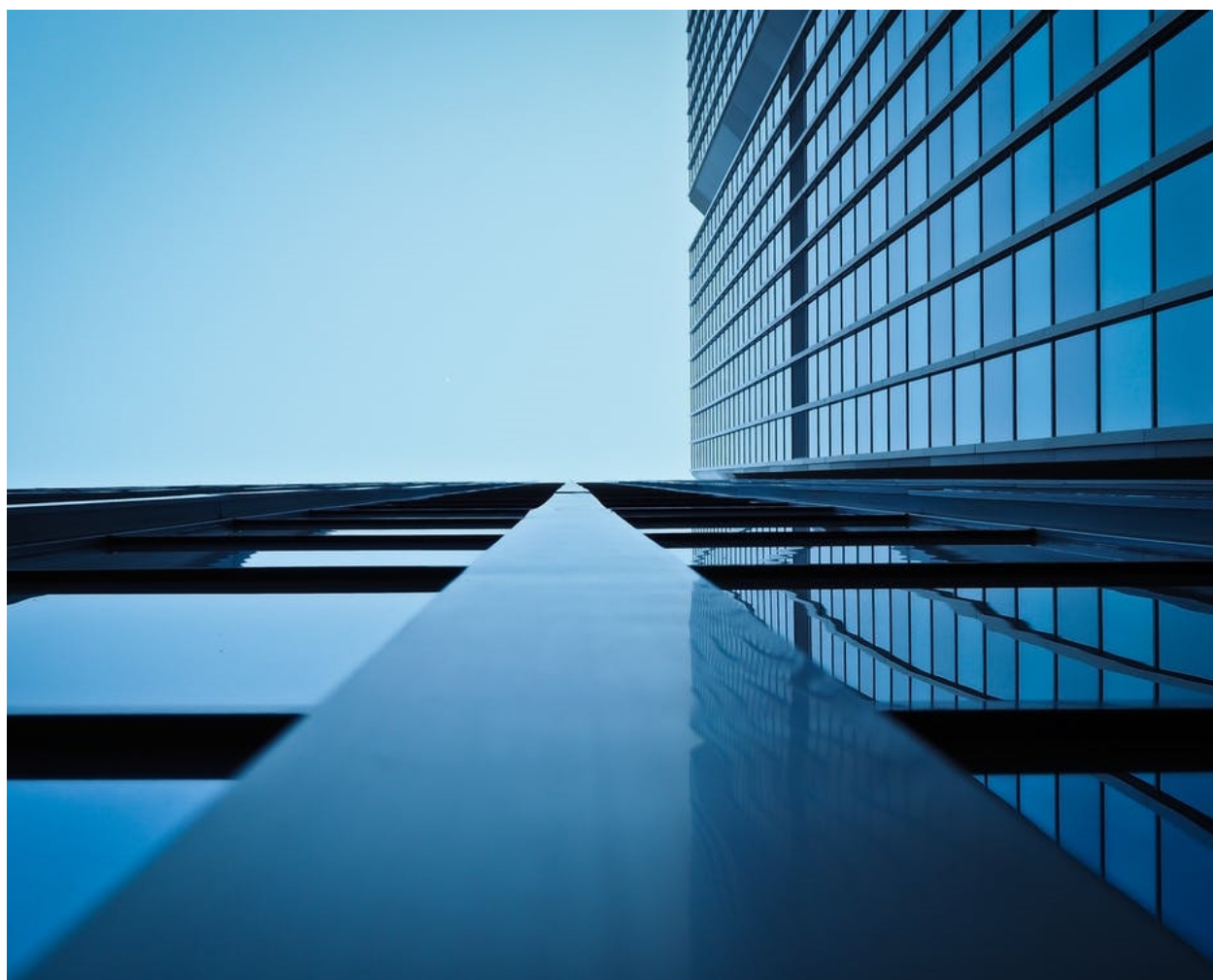


This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

MERGERS UNDER COMMON CONTROL

HERE'S HOW TO DO IT!

BULLETIN, APRIL 2021



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This Bulletin is issued by the European Financial Reporting Advisory Group ('EFRAG').

The publication of bulletins is part of EFRAG's strategy to stimulate debate within Europe and clarify the IASB discussions on *Business Combination under Common Control*.

Any views expressed are tentative. EFRAG will develop its final views after considering the feedback received from its constituents.

Due to the nature of the bulletin, EFRAG has not included questions to constituents. However, constituents may provide their comments by xx 2021 through email xxxxxx or by post to:

EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

EFRAG will place all comments received on the public record unless confidentiality is requested.

Table of Contents

TABLE OF CONTENTS	3
EXECUTIVE SUMMARY	4
<i>IASB'S DISCUSSION PAPER BUSINESS COMBINATIONS UNDER COMMON CONTROL</i>	4
<i>EFRAG WORK ON BCUCC</i>	4
<i>OBJECTIVE AND STRUCTURE OF THIS BULLETIN</i>	4
CHAPTER 1: BACKGROUND	5
<i>IASB'S WORK ON BUSINESS COMBINATIONS UNDER COMMON CONTROL</i>	5
<i>EFRAG'S WORK ON BUSINESS COMBINATIONS UNDER COMMON CONTROL</i>	5
<i>THE OBJECTIVE OF THIS BULLETIN</i>	6
CHAPTER 2: SCOPE OF THE PROJECT	7
<i>THE SCOPE OF THE BCUCC PROJECT AS DESCRIBED BY THE IASB</i>	7
<i>EFRAG PRELIMINARY COMMENTS ON SCOPE</i>	7
<i>ASSESSING WHICH TRANSACTIONS ARE WITHIN THE SCOPE OF THE PROJECT</i>	8
CHAPTER 3: APPLYING THE IASB PROPOSALS	10
<i>IDENTIFICATION OF KEY PROPOSALS INCLUDED IN THE DP</i>	10
<i>KEY COMMENTS INCLUDED IN EFRAG DCL</i>	11
<i>ASSESSING THE OUTCOME OF THE IASB PROPOSALS WHEN APPLIED TO DIFFERENT TRANSACTIONS</i>	12
<i>DO THE IASB'S PROPOSALS ADDRESS THE QUESTIONS SENT TO THE IFRS INTERPRETATIONS COMMITTEE?</i>	

IASB's Discussion Paper *Business Combinations under Common Control*

- ES1 IFRS 3 *Business Combinations* outlines the accounting for mergers and acquisitions (i.e. business combinations). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.
- ES2 However, IFRS 3 does not specify how to account for combinations of businesses under common control. The IASB's research project on Business Combinations under Common Control is focused on filling this gap in IFRS Standards to improve the comparability and transparency of reporting these combinations.
- ES3 On 30 November 2020, the IASB published the Discussion Paper (DP), which explores possible reporting requirements for a receiving company in a business combination under common control that would reduce diversity in practice and improve the transparency of reporting these combinations. The DP has a comment period of 270 days and a comment deadline on 1 September 2021.

EFRAG work on BCUCC

- ES4 In 2011, EFRAG had already highlighted the importance of having guidance on BCUCC and published the Discussion Paper *Accounting for Business Combinations under Common Control* jointly with the Organismo Italiano di Contabilita (OIC) (EFRAG/OIC DP). The scope of the EFRAG/OIC DP was limited to BCUCC in the consolidated financial statements of the acquirer. The EFRAG/OIC DP is available [here](#).
- ES5 More recently and shortly after the publication of the IASB's DP, EFRAG issued its draft comment letter, where it welcomes the IASB's DP and the IASB's efforts to explore possible reporting requirements for BCUCC. Comments on the EFRAG DCL are welcomed by 30 July 2021.

Objective and structure of this bulletin

- ES6 The objective of this bulletin is to stimulate debate on the outcome of the IASB's proposals when applied to specific transfer of businesses under common control, particularly those that raise questions about the applications of IFRS Standards. Such debate will help EFRAG to better assess the impact of the IASB proposals and its costs and benefits.
- ES7 This bulletin starts by providing some background information in Chapter 1.
- ES8 In Chapter 2, EFRAG focuses its analysis on the scope of the IASB project, particularly EFRAG's assessment of which transactions under common control fall within the scope of the IASB's DP on BCUCC.
- ES9 Finally, in Chapter 3, EFRAG considers the application of the IASB proposals. First, EFRAG makes an assessment of the outcome of the IASB proposals when applied to different transactions. Subsequently, EFRAG makes an assessment of how the IASB proposals would be applied to questions raised to the IFRS Interpretations Committee. This assessment is built on its previous assessment on the scope of the project (paragraph 2.7 of chapter 1) and the outcome of the IASB proposals (paragraph 3.14 of Chapter 2).

CHAPTER 1: BACKGROUND

IASB's work on Business Combinations under Common Control

- 1.1 In 2012, the IASB added the project *Business Combinations under Common Control* ('BCUCC') to its research agenda. BCUCC are currently excluded from the scope of IFRS 3 *Business Combinations*. The absence of a specifically applicable IFRS Standard created diversity in practice when preparing financial statements.
- 1.2 From 2014 to 2016, the IASB staff conducted several research and outreach activities to better understand the accounting practices for BCUCC.
- 1.3 In 2016, the IASB decided that the scope of the project should include transactions under common control in which the reporting entity obtains control of one or more businesses, regardless of whether IFRS 3 *Business Combinations* would identify the reporting entity as the acquirer.
- 1.4 The IASB's project is focused on how to account for a BCUCC in the financial statements of the receiving entity. The objective is to explore possible reporting requirements for BCUCC in order to reduce diversity in practice, improve transparency of reporting for BCUCC and provide relevant and comparable information to users of financial statements.
- 1.5 The IASB published the discussion paper on 30 November 2020 with a comment period of 270 days and a comment deadline on 1 September 2021.

EFRAG's work on Business Combinations under Common Control

EFRAG proactive work in 2011

- 1.6 In 2011, a working group was set-up by EFRAG in co-operation with the OIC in order to develop a discussion paper to stimulate debate at an early stage in the standard setting process.
- 1.7 EFRAG's joint Discussion Paper *Accounting for Business Combinations under Common Control* with the OIC's first step in their BCUCC project. The scope of the EFRAG/OIC DP was limited to BCUCC in the consolidated financial statements of the acquirer. The EFRAG/OIC DP was issued in October 2011, with a comment deadline 30 April 2012. The EFRAG/OIC DP is available [here](#).
- 1.8 Comment letters were received from respondents within and outside Europe, which demonstrated the importance of, and interest in, this initiative.
- 1.9 In addition, EFRAG together with a number of National Standard Setters, organised four outreach events in Europe. The consolidated feedback on those events can be found [here](#).
- 1.10 After considering the comments received on their DP, EFRAG and the OIC issued in December 2012 a feedback statement on the DP presenting the analysis of comment letters received, together with EFRAG's and the OIC's responses to the issues raised by respondents. The feedback on the comments is available [here](#).

EFRAG Draft Comment Letter

- 1.11 In February 2021, EFRAG issued its draft comment letter on the IASB'S DP, where it welcomes the IASB's efforts to explore possible reporting requirements for BCUCC.

- 1.12 EFRAG notes that often-complex structures and arrangements under common control raise considerable challenges for financial reporting. As IFRS Standards are currently silent on how the entity receiving a business in a BCUCC should account for the transaction, there is diversity in practice which warrants attention.

The objective of this bulletin

- 1.13 The objective of this bulletin is to stimulate debate on the impact of the IASB's proposals when applied to specific transfers of businesses under common control, particularly those that raise questions about the applications of IFRS Standards.
- 1.14 Such debate will help EFRAG to better assess the impact of the IASB proposals and its costs and benefits.
- 1.15 In this bulletin, EFRAG considers the requirements in IFRS 3 *Business Combinations* and the IASB proposals included in the DP as currently drafted.

CHAPTER 2: SCOPE OF THE PROJECT

In this chapter, EFRAG focuses its analysis on the scope of the IASB project, particularly EFRAG's assessment of which transactions under common control fall within the scope of the IASB's DP on BCUCC.

The scope of the BCUCC project as described by the IASB



- 2.1 In its DP, the IASB has reached the preliminary view that the BCUCC project should fill in a 'gap' in IFRS Standards and cover all transfers of businesses in which all of the combining companies are ultimately controlled by the same party, irrespective of whether the transfer is:
- a) preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or
 - b) conditional on a sale of the combining companies to an external party, such as in an initial public offering.
- 2.2 The proposed reporting requirements are developed from the perspective of the receiving company which obtains control of the transferred business. The receiving company can be both the immediate receiving company or a parent company of that immediate receiving company that did not control the transferee before the combination.
- 2.3 In general, the project is addressing how to report BCUCC in the receiving company's consolidated financial statements. However, in some cases (e.g. if the combination involves the transfer of an unincorporated business) the possible reporting requirements would also apply to other types of financial statements such as the separate or individual financial statements.



EFRAG preliminary comments on scope

- 2.4 EFRAG supports the proposed scope of the discussion paper to include all transfers of businesses under common control, including 'group restructurings'. However, EFRAG considers that the IASB should better define 'group restructurings' without labelling them BCUCC when they do not meet the description of a business combination in IFRS 3 *Business Combinations*.
- 2.5 EFRAG suggests that the IASB should consider whether there is a need to improve the description of 'combination of entities or businesses under common control' in IFRS 3 (e.g., by clarifying the meaning of 'transitory control') and/or aligning it with the definition used in the DP.
- 2.6 EFRAG also suggests that the IASB considers common control transactions conceptually in a future project, including the effects on the separate financial statements.

Assessing which transactions are within the scope of the project

2.7 The table below assesses which transactions under common control fall within the scope of the IASB's DP on BCUCC. All the transactions are between entities that are ultimately controlled by the same party (or parties).

Description of the transaction	Is it in the scope of the project?
Transfer of a group of assets that do not meet the definition of a business	 No , it is not within the scope of the project because it does not involve a transfer of a business.
A transfer of an associate	 No , it is not within the scope of the project. Transfer of an associate is within the scope of IAS 28 <i>Investments in Associates and Joint Ventures</i> .
A transfer of a group of assets that constitutes a business (i.e., unincorporated business)	Yes , it is within the scope of the project. It would apply to consolidated, separate or individual financial statements of the receiving company.
A transfer of a subsidiary that is a business (i.e. in a legal shell).	Yes , it is within the scope of the project. However, the proposals would not apply to the separate financial statements of the receiving company. Transfer of an investment in a subsidiary is within the scope of IAS 27 <i>Separate Financial Statements</i> .
<p>A business combination under common control that involves the formation of a new entity (Newco). This Newco is just a legal shell that does not have a business.</p> <p>This can be due to internal restructuring or to facilitate the sale of part of an organisation (i.e. the transfer of the business under common control is followed by a sale of one or more of the combining companies to an external party), for example via an IPO of Newco.</p>	Yes , it is within the scope of the project.
A business combination under common control that is preceded by an external acquisition	Yes , it is within the scope of the project, regardless of whether control is transitory.
A business combination under common control that is followed by a sale to an external party	Yes , it is within the scope of the project, regardless of whether control is transitory.
A BCUCC followed by a legal merger, where two subsidiaries that are legal entities are merged into one legal entity. In such situations, one of the legal entities ceases to exist as a separate legal entity and the survivor 'absorbs' all of the assets, liabilities and activities of the entity that ceased to exist.	<p>The legal merger could be viewed as a two-step process:</p> <p>Step 1: transfer of the subsidiary that is a business to the receiving entity</p> <p>Yes, Step 1 is within the scope of the project, however, the proposals would not apply to the separate financial statements of the receiving company;</p> <p>Step 2: legal absorption of the assets, liabilities and activities to the receiving company</p> <p>No, Step 2 is not within the scope of the project.</p>

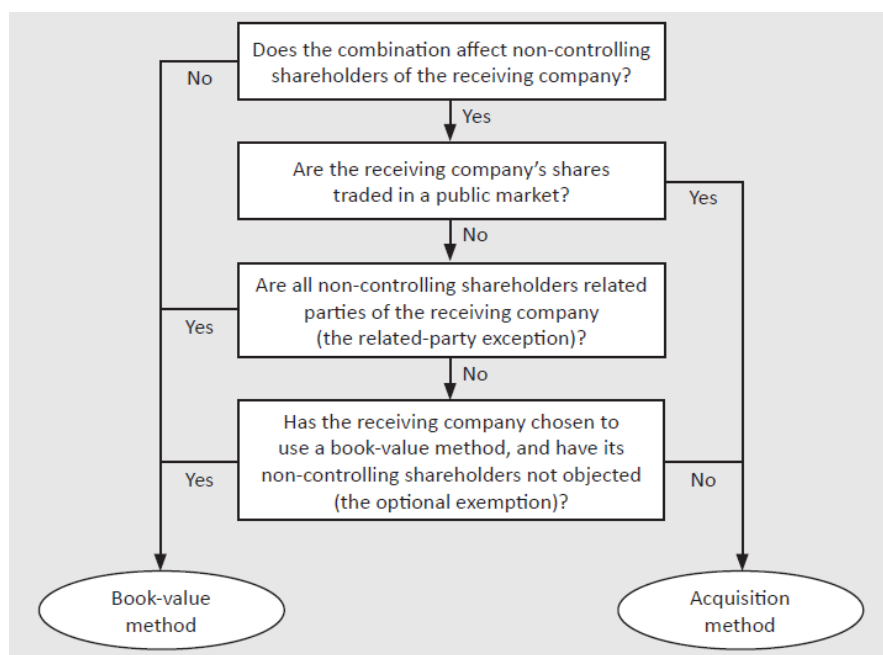
Description of the transaction	Is it in the scope of the project?
Business combination between two different joint ventures that have the same shareholders. For example, entity A (a joint venture) is transferred to entity B (also a joint venture) and both are jointly controlled by the same shareholders.	 No , it is not within the scope of the project. Joint control over the combining businesses is within the scope of IAS 28.
Transfer of interest in a joint venture within a group	 No , it is not within the scope of the project. Transfer of a joint venture is within the scope of IAS 28.

CHAPTER 3: APPLYING THE IASB PROPOSALS

In this chapter, EFRAG focuses on the application of the IASB proposals. First, EFRAG makes an assessment of the outcome of the IASB proposals when applied to different transactions. Subsequently, EFRAG makes an assessment of how the IASB proposals would be applied to questions raised to the IFRS Interpretations Committee. This assessment is built on its previous assessment on the scope of the project (paragraph 2.7 of chapter 1) and the outcome of the IASB proposals (paragraph 3.14 of Chapter 2).

Identification of key proposals included in the DP

- 3.1 In its DP, the IASB is proposing to fill in the ‘gap’ in IFRS Standards when reporting business combinations under common control by the receiving company. The scope of the DP is wider than the scope exclusion in IFRS 3 for BCUCC.
- 3.2 The IASB is proposing to require the application of the acquisition method as described in IFRS 3 to BCUCC when the non-controlling shareholders (NCS) in the receiving company are affected by the transactions, subject to the cost benefit trade-off (related-party exception to the acquisition method and the optional exemption from the acquisition method). All other BCUCC will apply a book-value method, including all combinations between wholly-owned companies. The diagram below summarises the IASB’s proposed approach.



- 3.3 When applying the acquisition method to BCUCC, the IASB is proposing that the receiving company would apply the requirements in IFRS 3 unchanged except that the receiving company would be required to recognise any ‘gain’ from a bargain purchase as a contribution to equity and not as a gain in the statement of profit or loss.
- 3.4 When applying a book-value method to BCUCC, the IASB is proposing the following requirements:
- measurement of assets and liabilities received* - using the transferred company’s book values;
 - measurement of consideration paid*:

- (i) *in its own shares* – the receiving company should not be prescribed how to measure the consideration paid in its own shares;
 - (ii) *in assets* – at the receiving company’s book values of those assets at the combination date;
 - (iii) by incurring or assuming liabilities – at the amount determined on initial recognition of the liabilities at the combination date applying IFRS Standards.
- c) *reporting the difference between the consideration paid and the book value of the assets and liabilities received* – the difference should be recognised in equity. However, the IASB’s preliminary view is that it should not prescribe in which component(s) of equity;
 - d) *reporting transaction costs* – the receiving entity should expense the transactions costs as incurred except costs of issuing shares or debt instruments which should be accounted for in accordance with the applicable IFRS Standards;
 - e) *providing pre-combination information* – the receiving company should include the transferred company in its financial statements from the combination date, without restating pre-combination information.

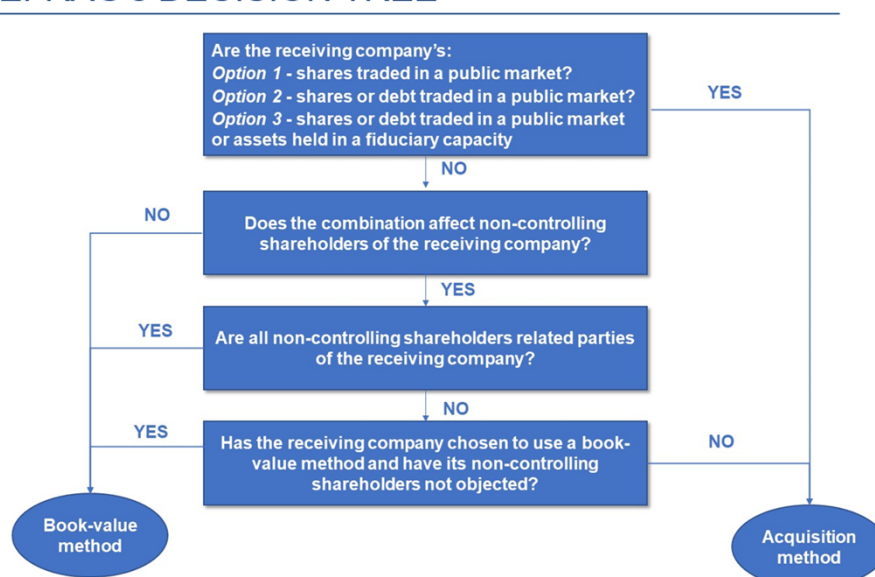
Key comments included in EFRAG DCL

3.5 EFRAG agrees that a single measurement method is not appropriate for all BCUCC. EFRAG also supports the application of the acquisition method to BCUCC that affect the NCS 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:

- a) Reversing Step 1 and Step 2 of the IASB’s diagram; and
- b) Expanding the scope of entities included in the proposed new Step 1 (three different options).

3.6 More specifically:

EFRAG’s DECISION TREE



- 3.7 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'.
- 3.8 In relation to the acquisition method, EFRAG supports the optional exemption and the related-party exception to the acquisition method for privately-held entities with NCS. However, EFRAG is consulting constituents on whether the related-party exception should be optional rather than mandatory.
- 3.9 EFRAG generally agrees with the IASB's proposals on how to apply the acquisition method. 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.
- 3.10 However, EFRAG is consulting constituents on whether to recognise a contribution to equity when the consideration paid is lower than the identifiable acquired assets and liabilities measured at fair value on the following alternatives:
- a) Alternative 1 - support the rationale for the IASB proposals to recognise the difference in equity as a contribution to equity; or
 - b) Alternative 2 - support consistency with the requirements in IFRS 3 and recognise the difference as a gain in profit or loss.
- 3.11 EFRAG also generally agrees with the IASB's proposals on how to apply a book-value method. However, EFRAG is consulting constituents on:
- a) measurement of assets and liabilities received: whether the carrying amounts in the consolidated financial statements of the transferor or the carrying amounts in the financial statements of the transferred company provide more relevant information for users;
 - b) pre-combination information: whether prospective reporting of the BCUCC is in conflict with current practice or with current reporting requirements in some jurisdictions and whether retrospective application would provide more useful information.

Assessing the outcome of the IASB proposals when applied to different transactions

- 3.12 In this bulletin, EFRAG considers the requirements in IFRS 3 *Business Combinations* and the IASB proposals included in the DP.
- 3.13 The table below includes transactions which are within the scope of the DP as identified in paragraph 2.7 and summarises EFRAG's assessment of which measurement method to apply according to the decision tree in the IASB's DP.
- 3.14 All the transactions are between entities that are ultimately controlled by the same party (or parties).

Description of the transaction	EFRAG assessment of the outcome
Transfer of a group of assets that constitutes a business (i.e., unincorporated business)	<p>The entity would have to go through the proposed decision tree in the DP:</p> <ul style="list-style-type: none"> • If the receiving entity is wholly-owned (no NCS) then it should apply a book-value method.

Description of the transaction	EFRAG assessment of the outcome
	<ul style="list-style-type: none"> • If the receiving company's shares are traded in a public market and it therefore has NCS, then it should apply the acquisition method in accordance with IFRS 3. However, the entity shall present any gain from a bargain purchase as a contribution to equity. • If the receiving entity is privately held, has NCS and all NCS are the entity's related parties, then it should apply the book-value method. • If the receiving entity is privately held, has NCS and NCS are not all the entity's related parties, then the entity has an option to apply the book-value method, if NCS have not objected . <p>The DP's proposals will apply to the consolidated, separate or individual financial statements of the receiving entity.</p>
<p>A transfer of a subsidiary that is a business (i.e. in a legal shell)</p>	<p>The measurement methods applied are the same as explained above (case of the transfer of unincorporated business).</p> <p>However, the DP's proposals will only apply to the consolidated financial statements of the receiving entity and not to its separate financial statements. The accounting for a transfer of an investment in a subsidiary in a BCUCC is within the scope of IAS 27 <i>Separate Financial Statements</i>.</p>
<p>A transfer of a business that involves the formation of a new entity (Newco) that it is just a legal shell and does not have a business.</p> <p>This transaction is to facilitate, in the future, the sale of part of an organisation to an external party (but not an IPO).</p>	<p>The entity would have to go through the proposed decision tree in the DP.</p> <ul style="list-style-type: none"> • If the Newco is wholly-owned (no NCS), then it should apply the book-value method. The Newco will be identified as the receiving company because the legal structure of the transaction is considered when determining the acquirer under the book-value method. • In the unlikely event of a privately held Newco which has NCS and its NCS are all related parties, then the Newco should apply the book-value method. • If the Newco is privately held, has NCS and NCS are not all Newco's related parties, then it should apply the acquisition method in accordance with IFRS 3, if its NCS objects to using a book-value method. If the Newco applies the acquisition method, it will need to identify the acquirer and present a gain from a bargain purchase within equity. The Newco would apply IFRS 3 even if the Newco is not a business itself. Nonetheless, the Newco may opt for the exemption provided by the IASB where the receiving entity (Newco) can apply a book-value method if NCS have not objected.
<p>A group plans to spin off two of its subsidiaries using a new entity ('Newco').</p> <p>Newco will acquire these subsidiaries for cash from the parent company (Entity A) only on condition of the occurrence of Newco's initial public offering (IPO).</p>	<p>The entity would have to go through the proposed decision tree in the DP.</p> <p>Assuming that the transfer of the business takes place just a moment before the IPO, then if there are no NCS in the Newco, the entity would apply the book-value method.</p>

Description of the transaction	EFRAG assessment of the outcome
<p>The cash paid by Newco to Entity A to acquire the subsidiaries is raised through the IPO. After the IPO occurs, Entity A loses control of Newco.</p> <p>If the IPO does not take place, Newco will not acquire the subsidiaries.</p>	<p>However, questions may raise if Entity A retains control after the IPO. This is because the Newco will have NCS as soon as the IPO actually takes place.</p>
<p>A business combination under common control that is preceded by an external acquisition</p>	<p>The entity would have to go through the proposed decision tree in the DP.</p> <ul style="list-style-type: none"> • If the receiving entity is wholly-owned (no NCS), then it should apply a book-value method. • If the receiving company's shares are traded in a public market and it therefore has NCS, then it should apply the acquisition method in IFRS 3. However, the entity shall present a gain from a bargain purchase within equity. • If the receiving entity is privately held, has NCS and all NCS are the entity's related parties, then it should apply the book-value method. • If the receiving entity is privately held, has NCS and NCS are not all the entity's related parties, then entity has an option, if NCS have not objected to apply the book-value method.
<p>A business combination under common control that is followed by a sale to an external party</p>	<p>The entity would have to go through the proposed decision tree in the DP.</p> <ul style="list-style-type: none"> • If the receiving entity is wholly-owned (no NCS), then it should apply a book-value method. • If the receiving entity's shares are traded in a public market and it therefore has NCS, then it should apply the acquisition method in IFRS 3 to measure the unincorporated business. However, the entity shall present a gain from a bargain purchase within equity. • If the receiving entity is privately held, has NCS and all NCS are the entity's related parties, then it should apply a book-value method. • If the receiving entity is privately held, has NCS and NCS are not all the entity's related parties, then entity has to apply the acquisition method but has an optional exemption, if NCS have not objected to apply the book-value method.
<p>A BCUCC followed by legal merger, where two subsidiaries that are legal entities are merged into one legal entity. In such situations, one of the legal entities ceases to exist as a separate legal entity and the survivor 'absorbs' all of the assets, liabilities and activities of the entity that ceased to exist.</p>	<p>As described in paragraph 2.7 of Chapter 2, the legal merger could be viewed as a two-step process. The DP focuses only on step 1. That is, the transfer of a business to the receiving entity. However, the proposals would not apply to separate financial statements of the receiving company, which would be impacted by the legal absorption of the assets, liabilities and activities to the receiving company (as mentioned in paragraph 2.7 of Chapter 2, step 2 is out of the scope of the DP).</p> <p>For step 1, the entity would have to follow the proposed decision three in the DP:</p> <ul style="list-style-type: none"> • If the receiving entity is wholly-owned (no NCS),

Description of the transaction	EFRAG assessment of the outcome
	<p>then it should apply a book-value method.</p> <ul style="list-style-type: none"> • If the receiving company's shares are traded in a public market and it therefore has NCS, then it should apply the acquisition method in IFRS 3 to measure the transaction. However, the entity shall present a gain from a bargain purchase within equity. • If the receiving entity is privately held, has NCS and all NCS are the entity's related parties, then it should apply the book-value method. • If the receiving entity is privately held, has NCS and NCS are not all the entity's related parties, then entity has to apply the acquisition method but has an optional exemption, if NCS have not objected to the book-value method.

The receiving company

- 3.15 Finally, we note that for the transactions mentioned above where an entity applies the book-value method, the accounting policies of the transferred company would have to be aligned with the accounting policies of the receiving entity.
- 3.16 For example, if **Entity A** is a subsidiary and a parent at the same time, it would apply IFRS Standards in its (sub)consolidated financial statements. If there is a BCUCC with another subsidiary of the group (**Entity B**) that prepares its financial statements under local GAAP, the accounting policies of the transferred company would have to be aligned with the accounting policies of the receiving entity (**Entity A**).
- 3.17 Finally, in accordance with paragraph 4.64 of the DP, the IASB has reached the view that it should not develop application guidance on identifying the receiving company when applying a book-value method that considers factors other than the legal structure of the transaction. That is, when applying the book-value method, the legal structure of the transaction will determine which company is the receiving company for accounting purposes.

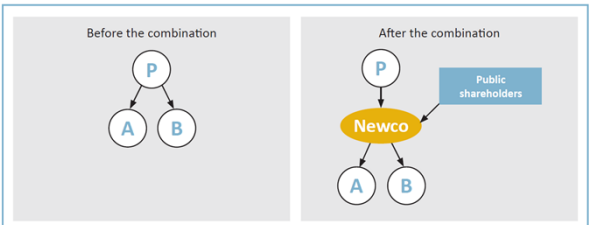
Transitory control

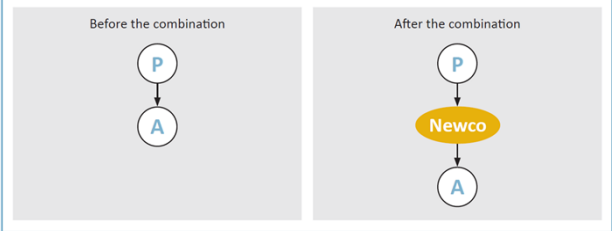
- 3.18 In the DP, the IASB does not consider whether control is transitory when defining its scope or when selecting a measurement method. In accordance with paragraph 1.16 of the DP, "the IASB has not yet considered whether to clarify the meaning of 'transitory control' because the outcome of this project could lead to the Board modifying or removing the scope exclusion in IFRS 3". Therefore, applying the IASB's preliminary views to the transactions mentioned above, a combination can be within the scope of the project regardless of whether control is transitory or not.
- 3.19 Nonetheless, it is worth noting that in accordance with IFRS 3 (as currently drafted), if control is considered transitory in one of the transactions included in the table above (e.g. transfer of a business under common control that is preceded by an external acquisition), then the transaction is in the scope of IFRS 3 and the acquisition method has to be applied.
- 3.20 If IFRS 3 is not changed in the future, this may create a scope conflict as both IFRS 3 and DP seem to include in their scope transactions where control is transitory (in the DP unintendedly as the notion of transitory control is not considered).

Do the IASB's proposals address the questions sent to the IFRS Interpretations Committee?

- 3.21 In this bulletin, EFRAG considers the requirements in IFRS 3 *Business Combinations* and the IASB proposals included in the DP as currently drafted.
- 3.22 The table below explores whether the DP's proposals help to resolve the questions sent to the IFRS Interpretations Committee regarding common control transactions.

Questions sent to the IFRS Interpretations Committee	Do the IASB's proposals address the questions sent to IFRS Interpretations Committee?
<p><i>March 2006, Transitory Common Control</i></p> <p>The Interpretations Committee (the Committee) considered an issue regarding whether a reorganisation involving the formation of a new entity to facilitate the sale of part of an organisation is a business combination within the scope of IFRS 3. It was suggested to the Committee that, because control of the new entity is transitory, a combination involving that newly formed entity would be within the scope of IFRS 3.</p> <p>The Committee noted that, to be consistent, the question of whether the entities or businesses are under common control applies to the combining entities that existed before the combination, excluding the newly formed entity. Accordingly, the Committee decided not to add this topic to its agenda.</p> <p>The Committee also considered a request for guidance on how to apply IFRS 3 to reorganisations in which control remains within the original group. The Committee decided not to add this topic to the agenda, since it was unlikely that it would reach agreement in a reasonable period, in the light of existing diversity in practice and the explicit exclusion of common control transactions from the scope of IFRS 3.</p>	<p>These reorganisations are in the scope of the DP (as mentioned above in the DP the IASB does not consider the issue of transitory control in its DP) and the entity would have to apply the proposed decision tree in the DP.</p> <ul style="list-style-type: none"> • If the receiving entity is wholly-owned (no NCS), it applies a book-value method and the difference between the consideration paid and the book values of the net assets acquired will be presented within equity; • If the receiving company has NCS (which is unlikely if the receiving company is the Newco), then it applies the acquisition method in accordance with IFRS 3. However, the entity would recognise a gain from a bargain purchase within equity. <p>However, it is worth noting that if an entity assesses that control is transitory, in accordance with IFRS 3, it would be required to apply the acquisition method in accordance with IFRS 3. If IFRS 3 is not changed in the future, this could be seen as a scope conflict.</p>
<p><i>January 2010, Combined financial statements and redefining the reporting entity</i></p> <p>The Committee received a request for guidance on whether a reporting entity may, in accordance with IFRS Standards, present financial statements that include a selection of entities that are under common control, rather than being restricted to a parent/subsidiary relationship as defined by IAS 27.</p> <p>The Committee noted that the ability to include entities within a set of IFRS financial statements depends on the interpretation of 'reporting entity' in the context of common control. The Committee noted that in December 2007 the IASB added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common control in the</p>	<p>The IASB DP focuses on all transfers of businesses under common control (i.e. companies or businesses that are ultimately controlled by the same party, both before and after the combination) by the receiving entity.</p> <p>This DP does not focus on either the concept of 'reporting entity' or on the ability to include entities within a set of IFRS financial statements.</p> <p>However, the <i>Conceptual Framework</i> issued in 2018 discusses the reporting entity concept, including preparing financial statements for entities that are not all linked by a parent-subsidary relationship.</p>

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<p>acquirer's consolidated and separate financial statements. The Committee also noted that describing the reporting entity is the objective of Phase D of the IASB's Conceptual Framework project.</p> <p>The Committee also received a request for guidance on whether a reporting entity may, in accordance with IFRS Standards, be redefined to exclude from comparative periods entities/businesses that have been carved-out of a group. The Committee noted that the Board's common control project referred to above will also consider the accounting for demergers, such as the spin-off of a subsidiary or business. Consequently, the Committee decided not to add these issues to its agenda.</p>	
<p><i>January 2010, Presentation of comparatives when applying the 'pooling of interests' method</i></p> <p>The Committee received a request for guidance on the presentation of comparatives when applying the 'pooling of interests' method for business combinations between entities under common control when preparing financial statements in accordance with IFRS.</p> <p>The Committee noted that IFRS 3 excludes from its scope 'a combination of entities or businesses under common control'. The Committee noted that resolving the issue would require interpreting the interaction of multiple IFRSs. Consequently, the Committee decided not to add this issue to its agenda.</p>	<p>The DP provides guidance on the presentation of comparatives when applying the book-value method.</p> <p>In accordance with the DP, when applying a book-value method to a business combination under common control, 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.</p>
<p><i>September 2011, Business combinations involving newly formed entities: Factors affecting identification of the acquirer:</i></p> <p>The Committee received a request for guidance on the circumstances or factors that are relevant when identifying an acquirer in a business combination under IFRS 3. More specifically, the submitter described a fact pattern in which a group plans to spin off two of its subsidiaries using a new entity ('Newco'). Newco will acquire these subsidiaries for cash from the parent company (Entity A) only on condition of the occurrence of Newco's initial public offering (IPO). The cash paid by Newco to Entity A to acquire the subsidiaries is raised through the IPO. After the IPO occurs, Entity A loses control of Newco. If the IPO does not take place, Newco will not acquire the subsidiaries.</p> <p>The Committee observed that the accounting for a fact pattern involving the creation of a newly formed entity is too broad to be addressed through an interpretation or through an annual improvement. The Committee determined that the specific fact pattern submitted would be</p>	<p>In the DP, the IASB proposes that if a book-value method is applied to the combination, the legal structure of the transaction is followed to identify the receiving entity (paragraphs 4.63-64 of the DP).</p> <p>If the acquisition method is applied to a BCUCC, the guidance in IFRS 3 applies.</p> <p>In terms of the accounting for the transaction described, the entity would have to follow the proposed decision tree in the DP.</p> <p>Diagram B.4—A combination that is conditional on an external sale in an initial public offering</p> 

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<p>better considered within the context of a broader project on accounting for common control transactions, which the IASB is planning to address at a later stage.</p> <p>Consequently, the Interpretations Committee decided not to add the issue to its agenda and recommended the IASB to consider the fact pattern described in the submission as part of its project on common control transactions.</p>	
<p><i>September 2011, Business combinations and common control transactions</i></p> <p>The Committee received a request for guidance on accounting for common control transactions.</p> <p>More specifically, the submission describes a fact pattern that illustrates a type of common control transaction in which the parent company (Entity A), which is wholly owned by Shareholder A, transfers a business (Business A) to a new entity (referred to as 'Newco') also wholly owned by Shareholder A.</p> <p>The submission requests clarification on</p> <p>(a) the accounting at the time of the transfer of the business to Newco; and</p> <p>(b) whether an initial public offering (IPO) of Newco, which might occur after the transfer of Business A to Newco, is considered to be relevant in analysing the transaction under IFRS 3.</p> <p>The Committee observed that the accounting for common control transactions is too broad to be addressed through an interpretation or through an annual improvement. The Committee also noted that the issues raised by the submitter have previously been brought to the Board's attention. The Committee determined that the specific fact pattern submitted would be better considered within the context of a broader project on accounting for common control transactions, which the IASB is planning to address at a later stage.</p> <p>Consequently, the Committee decided not to add the issue to its agenda and recommended the IASB to consider the fact pattern described in the submission as part of its project on common control transactions.</p>	<p>The common control transaction as described in the submission would fall within the scope of the DP.</p> <p>Under the proposed requirements, if the Newco is wholly-owned (no NCS), then it should apply a book-value method, regardless of whether the Newco constitutes a business or not. In such a case, the accounting policies of the transferred company would have to be aligned with the accounting policies of the receiving entity (see paragraph 3.15 above).</p> <p>If the transaction only takes place if there is an IPO, then please see above.</p> <p><small>Diagram B.3—A transfer of a business that may not meet the definition of a business combination</small></p> 
<p><i>May 2013, IAS 28 and IFRS 3 —Associates and common control</i></p> <p>In October 2012, the Committee received a request seeking clarification of the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control. The submitter's question is whether it is appropriate to apply the scope exemption for</p>	<p>The accounting for an acquisition of an interest in an associate or joint venture from an entity under common control is out of the scope of the DP.</p>

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<p>business combinations under common control, which is set out in IFRS 3 <i>Business Combinations</i>, by analogy to the acquisition of an interest in an associate or joint venture under common control.</p> <p>The Committee observed that paragraph 32 of IAS 28 <i>Investments in Associates and Joint Ventures</i> has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between acquisition of an investment under common control and acquisition of an investment from an entity that is not under common control. The Committee also observed that paragraph 10 of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> requires management to use its judgement in developing and applying an accounting policy only in the absence of a Standard that specifically applies to a transaction.</p> <p>The Committee also observed that paragraph 26 of IAS 28 states that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 <i>Consolidated Financial Statements</i>. That paragraph further states that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture. The Interpretations Committee also observed that paragraph 2(c) of IFRS 3 states that IFRS 3 does not apply to a combination of entities or businesses under common control. The Interpretations Committee observed that some might read these paragraphs as contradicting the guidance in paragraph 32 of IAS 28, and so potentially leading to a lack of clarity.</p> <p>The Interpretations Committee was specifically concerned that this lack of clarity has led to diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control.</p> <p>The Interpretations Committee noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of broader projects on accounting for business combinations under common control and the equity method of accounting. The Interpretations Committee also noted that the IASB, in its May 2012 meeting, added a project on accounting for business combinations under common control as one of the priority research projects. Consequently, the Interpretations Committee decided not to take this issue onto its agenda.</p>	



EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The contents of this document is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.