

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

Business Combinations under Common Control

Cover note

Objective and Introduction

- 1 The objectives of the session are:
 - (a) to discuss project direction options as discussed by the IASB in its April 2023 meeting;
 - (b) to provide EFRAG FRB with a summary of the EFRAG FR TEG-CFSS and EFRAG User Panel (verbal update only) previous discussions on the project direction; and
 - (c) to seek EFRAG FRB views on diversity in practice on reporting of BCUCCs and on the application of book-value method.

Background and options for project direction

- 2 In November 2020, the IASB published its [Discussion Paper DP/2020/2 Business Combinations under Common Control](#) ('the DP') with a comment period ending on 1 September 2021. EFRAG published its [Comment Letter](#) on 8 October 2021.
- 3 The research project undertaken by the IASB is focused on business combinations in which all of the combining companies or businesses are ultimately controlled by the same party, both before and after the combination; such combinations are outside the scope of IFRS 3 *Business Combinations*. Please refer to slide 4 to 6 of the agenda paper 11-02 for further details.
- 4 From December 2021 to December 2022¹ the IASB considered feedback on the DP and discussed a deliberation plan starting with the project scope and selecting the measurement method.
- 5 Based on the feedback received so far, in its [April 2023](#) meeting the IASB discussed whether the current project direction is likely to result in the project moving into the standard-setting phase in the future.
- 6 In particular, the IASB discussed the following three options for project direction as further detailed in the agenda paper 11-03:
 - (a) Option I - develop recognition, measurement and disclosure requirements (e.g., on which accounting method(s) to apply in principle, scoping exceptions and how to apply the book-value method);
 - (b) Option II - develop disclosure-only requirements, mainly to inform users about the accounting method used (e.g., which entity's book values have been used); or
 - (c) Option III - No recognition, measurement or disclosure requirements (discontinue the project).

¹ A summary of the main discussions can be found at the following links: [December 2021](#), [January 2022](#), [March 2022](#), [IASB Update June 2022](#), [IASB Update November 2022](#) and [December ASAF meeting summary](#);

EFRAG's recent discussion

- 7 EFRAG FR TEG and CFSS members discussed this topic in their meeting on 4 July 2023 and below is a summary of the discussion.
- 8 Some members noted that no guidance exists within existing IFRS for this type of transaction and therefore standard setting should be a logical consequence. They noted that it is not just a question whether to apply fair value accounting or using a book value method, but also of how the book value method is applied. The application of a book value method might be driven by local accounting requirements. The outcome of the choice of method can have a material impact in numerous cases. The accounting for BCUCCs would have a significant impact on the statement of financial position and statement of performance. They indicated that the difficulties in practice, as illustrated just now, warrants standard setting.
- 9 Some of the EFRAG FR TEG and CFSS members with an auditor background indicated that the accounting networks' accounting manuals differed on how to account for BCUCC transactions. How to account for BCUCCs was one of the most frequently asked questions to auditors in practice. So, the issue was considered prevalent.
- 10 Currently, there is a concern of the acquisition method being able to be applied to BCUCC transactions when non-controlling shareholders are not affected because this method requires, with limited exceptions, that assets and liabilities acquired to be measured at fair value. One member proposed to provide guidance in this regard (In what situations is the use of the acquisition method not acceptable).
- 11 Also, it was mentioned that the BCUCC transactions typically relate to internal restructurings/reorganisations but there could also relate to the preparation of an IPO (initial public offering).
- 12 Members showed interest in understanding the users' point of view. The question was asked if there is a difference for lenders and equity investors.
- 13 Based on the reasons provided above:
 - (a) There was support for option I: to continue developing recognition, measurement and disclosure requirements. Some of the members supported a variation to option I whereby the IASB could only focus on situations where it is prohibited to apply the acquisition method;
 - (b) There was no support for Option II: disclosure-only requirements, for example, due to the questions from audit clients on the accounting for BCUCCs;
 - (c) There was also no support for Option III: to stop the project, mainly because a standard-setting activity would be necessary to address the existing IFRS gap and the accounting challenges mentioned above; and
 - (d) Members suggested that users, including credit analysts, be consulted to obtain their views on what information on BCUCCs is needed.
- 14 Some topics were suggested to be included in the project, if it continues. Members mentioned issues regarding separate financial statements and de-mergers as there could be more cases in the future.
- 15 The EFRAG Secretariat will discuss this topic during the EFRAG User Panel meeting on 12 July. The IASB reported that the users ranked this project as of lower priority when being asked to rank importance of the projects currently on the IASB's workplan. During the FR TEG CFSS meeting it was questioned whether users are well informed on the accounting options used and its impact. In addition, it was questioned whether there are differences

for lenders and equity investors. We will provide EFRAG FRB members with a verbal update on the feedback received.

Questions for EFRAG FRB

- 16 Which option do EFRAG FRB members consider that the IASB should choose?
- (a) Option I: Recognition, measurement and disclosure requirements;
 - (b) Option II: Disclosure-only requirements; or
 - (c) Option III: No recognition, measurement or disclosure requirements (discontinue the project).
- 17 Is the EFRAG FRB aware about diversity in practice around the different book-value methods used in BCUCC? Would you have any preference?
- 18 Does the EFRAG FRB think there are other projects the IASB should consider as with higher priority than BCUCC?

Agenda Papers

- 19 In addition to this cover note, agenda papers for this session are:
- (a) 11-02 – *IASB AP6 - BCUCCs - Project direction (joint CMAC-GPF June meeting); and*
 - (b) 11-03 – *IASB AP23A - BCUCCs - Project direction (IASB meeting April 2023).*