
Joint CMAC-GPF meeting
June 2023

Business Combinations under Common Control (BCUCCs) – Project direction

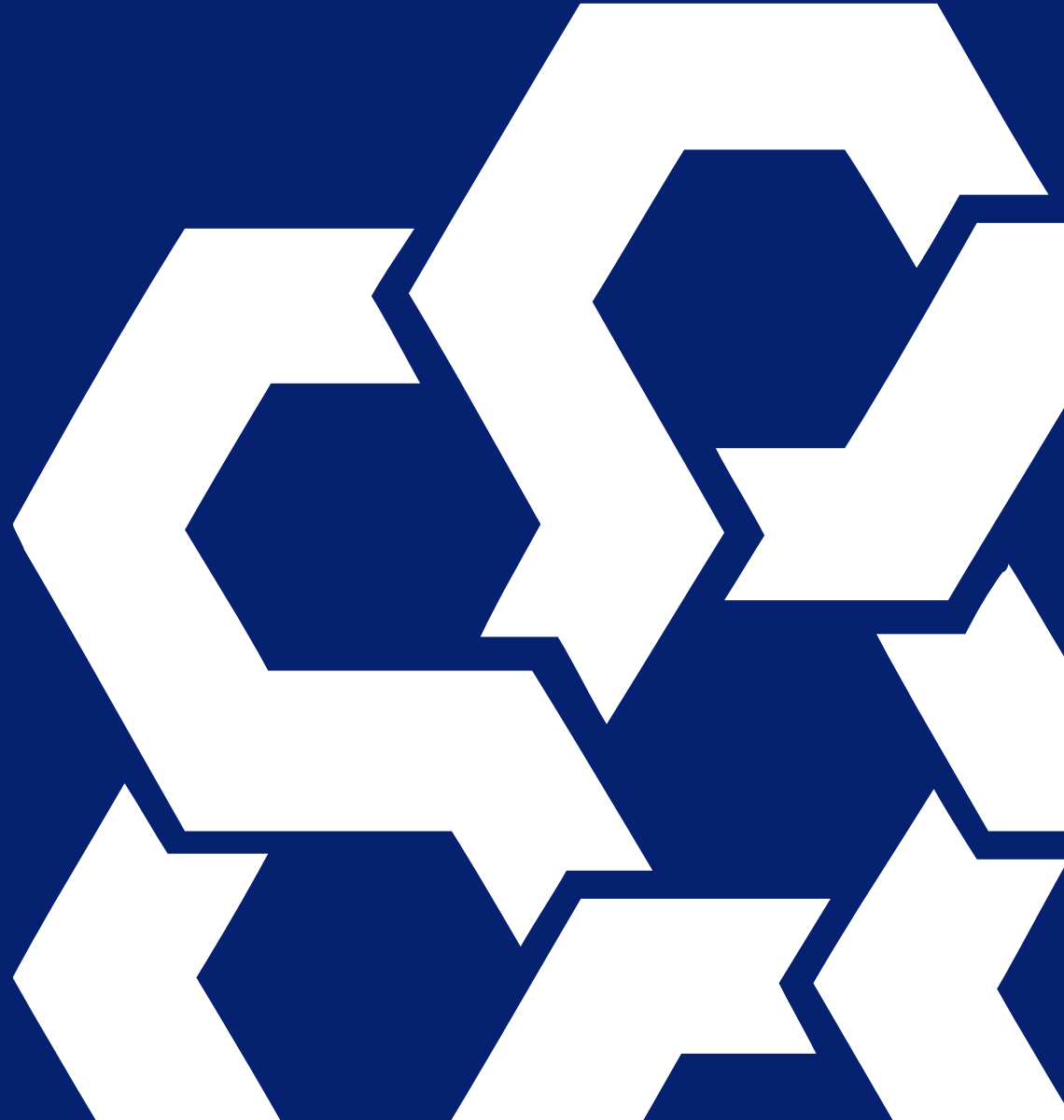
This paper has been prepared for discussion at a public joint meeting of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

Agenda

Background	3–8
Project direction	9–11
Questions for CMAC and GPF members	12–13

The purpose of this meeting is to gather more information to help the IASB make an informed decision on project direction. For more details see Agenda Papers 23–23B of the [IASB's April 2023 meeting](#).

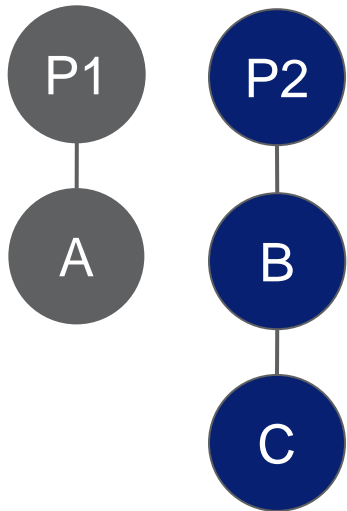
Background



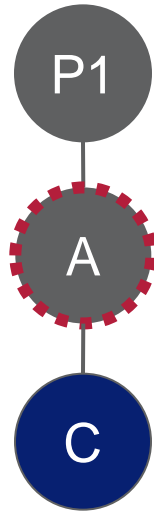
What is a BCUCC?

Business combination

Before the combination



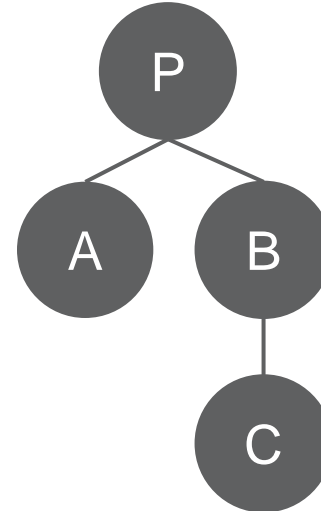
After the combination



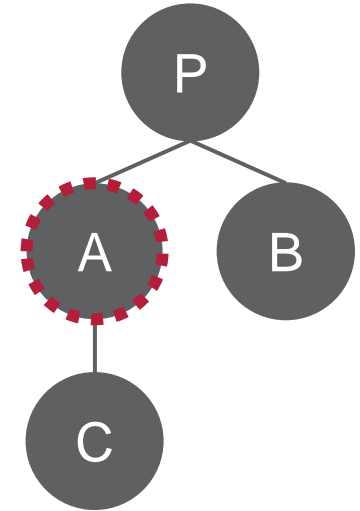
Company A reports the acquisition of Company C applying the acquisition method (see slide 5).

Business combination under common control

Before the combination



After the combination



This is a BCUCC between wholly-owned subsidiaries. Company A uses the acquisition method or a book-value method to report the acquisition of Company C.

How do those methods work today?

	IFRS 3's acquisition method	Book-value method is not defined
Assets and liabilities received	Measured at fair value	Measured at book value
Intangibles and contingent liabilities	All identifiable assets and liabilities received are recognised	Only previously recognised assets and liabilities are recognised
Goodwill	Recognised	Not recognised
Pre-combination information	Excludes the transferred company	Diversity in practice
Disclosure	Comprehensive disclosure	Little disclosure

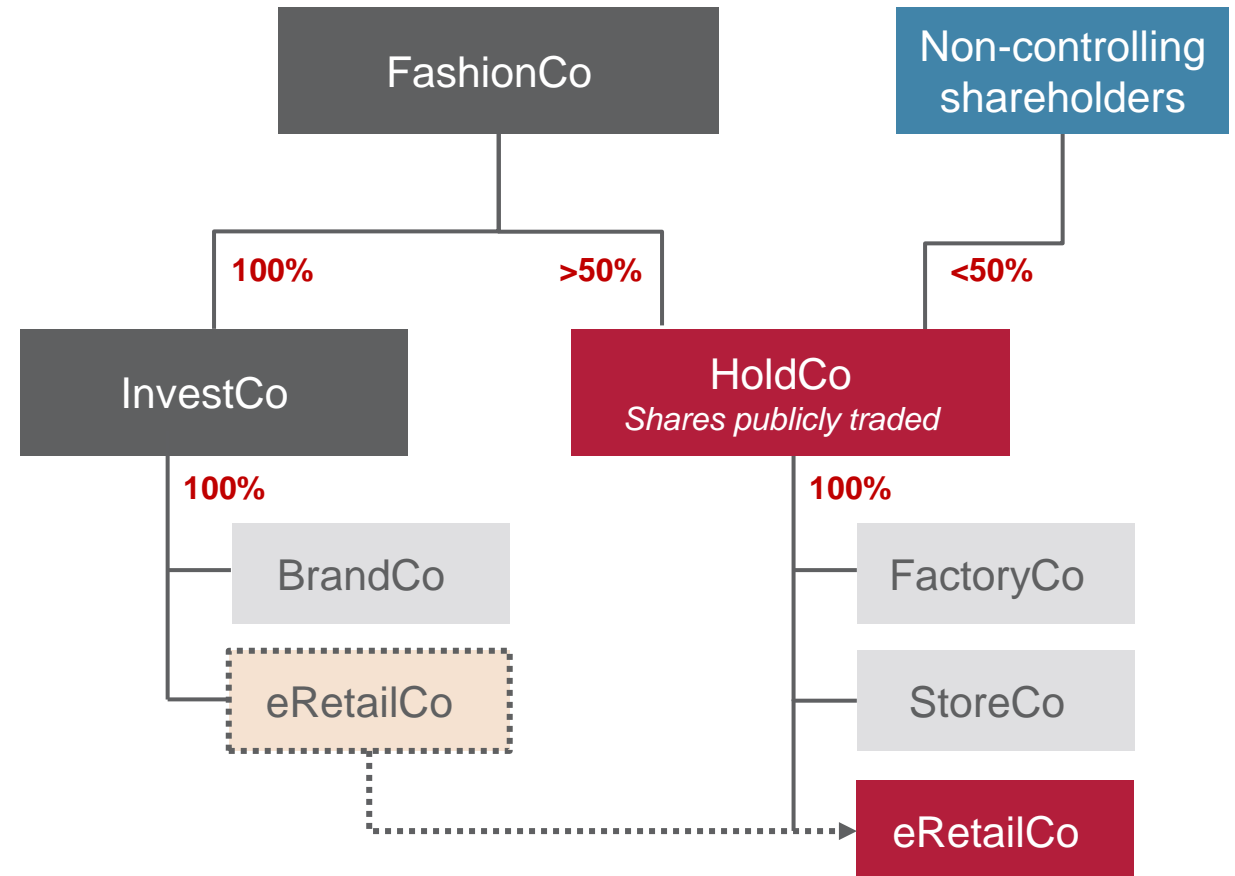
Illustrative scenario

Listed company with a majority shareholder

This slide (reproduced from the March 2021 CMAC meeting) illustrates a BCUCC that affects non-controlling shareholders (NCS).

- FashionCo wishes to raise capital from its successful eRetailCo, without losing control.
- HoldCo buys eRetailCo from InvestCo.
- HoldCo's shares are publicly traded. It is controlled by FashionCo but has non-controlling shareholders.

The IASB's preliminary view was that HoldCo should use the acquisition method.

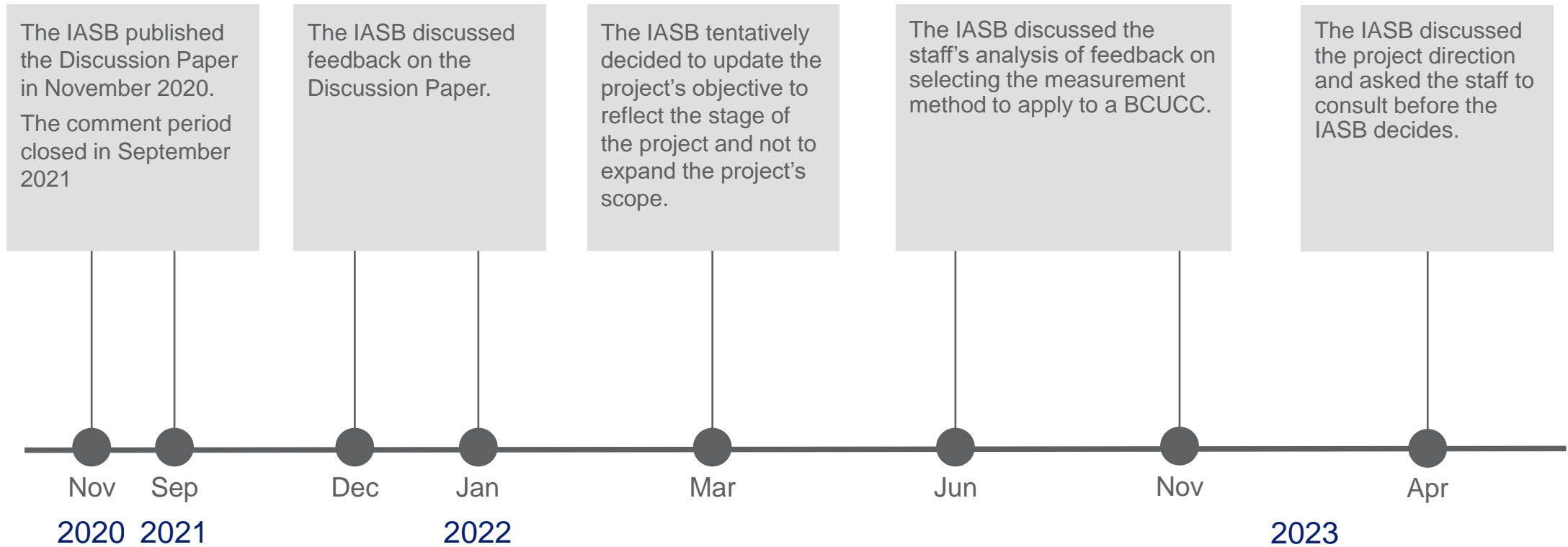


Selecting the method—IASB’s preliminary views and feedback

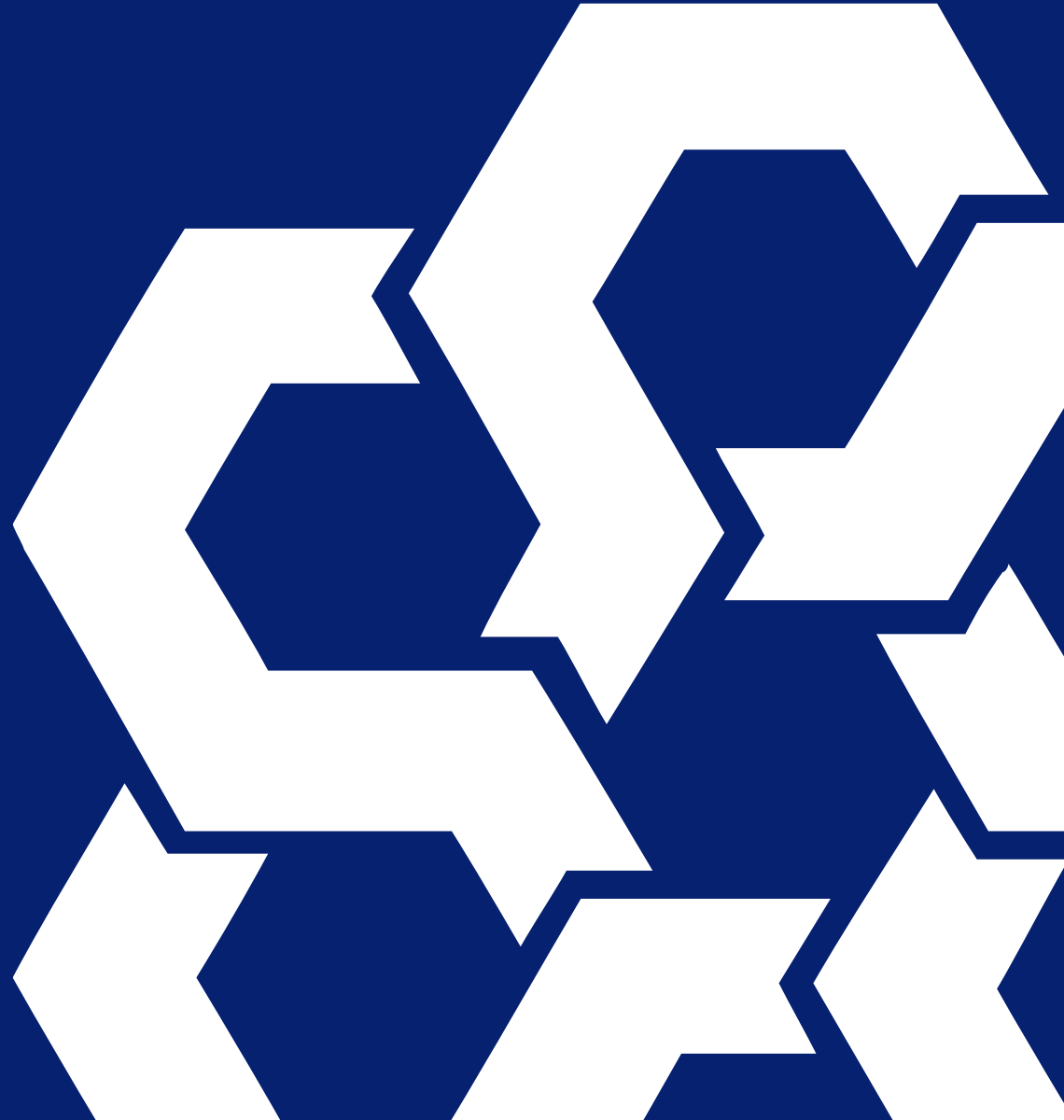
<p>Neither method should apply in all cases</p>	<p>Overall: most respondents agreed but some (from various jurisdictions) said a book-value method (BVM) should apply to all BCUCCs.</p> <p>Users: almost all users (except users from China) agreed; almost all users from China said a BVM should apply to all BCUCCs.</p>
<p>Apply the acquisition method (AM) to BCUCCs that affect NCS (for example, slide 6) with limited exceptions</p>	<p>Overall: many respondents agreed but many others (from various jurisdictions) disagreed, of which:</p> <ul style="list-style-type: none"> • some said a BVM should apply to all BCUCCs; • some said the method to apply should depend on the substance of the BCUCC; and • some said the receiving entity should have a choice as to which method to apply. <p>Users: all users (except users from China) agreed for the illustrative scenario on slide 6; almost all users from China said a BVM should apply.¹</p>
<p>Apply a book-value method (BVM) in all other cases (for example, slide 4)</p>	<p>Overall: many respondents agreed but many others disagreed, most of which said to apply the AM in specific circumstances (most commonly if the receiving entity has publicly traded debt).</p> <p>Users: almost all users agreed for a pre-IPO scenario (scenario 2¹). For a scenario where the receiving entity has bank debt and publicly traded debt (scenario 3¹) most users agreed but some said the AM should apply.</p>

¹ Almost all users were asked about specific scenarios rather than the underlying principle (see [Agenda Paper 23D](#) of the IASB’s December 2021 meeting for the scenarios and more details).

Project timeline



Project direction



Options for project direction

I. Recognition, measurement and disclosure requirements

Detailed requirements, as anticipated in the Discussion Paper. Decisions could, for example, include:

- which method(s) to apply in principle;
- exceptions, including exploring possible new exceptions in more detail; and
- how to apply a book-value method.

Considering jurisdictional diversity in user feedback¹:

- prescribing one approach would not meet all users' information needs; and
- allowing entities a choice might meet user information needs in their jurisdiction but wouldn't reduce diversity or always meet user information needs.

II. Disclosure-only requirements

The IASB could develop disclosure requirements for BCUCCs:

- regardless of the measurement method applied—for example, the recognised amounts of each class of assets received and liabilities assumed;
- to which the acquisition method is applied—for example, information about acquired goodwill; and
- to which a book-value method is applied—for example, which entity's book values have been used.

III. No recognition, measurement or disclosure requirements (discontinue the project)

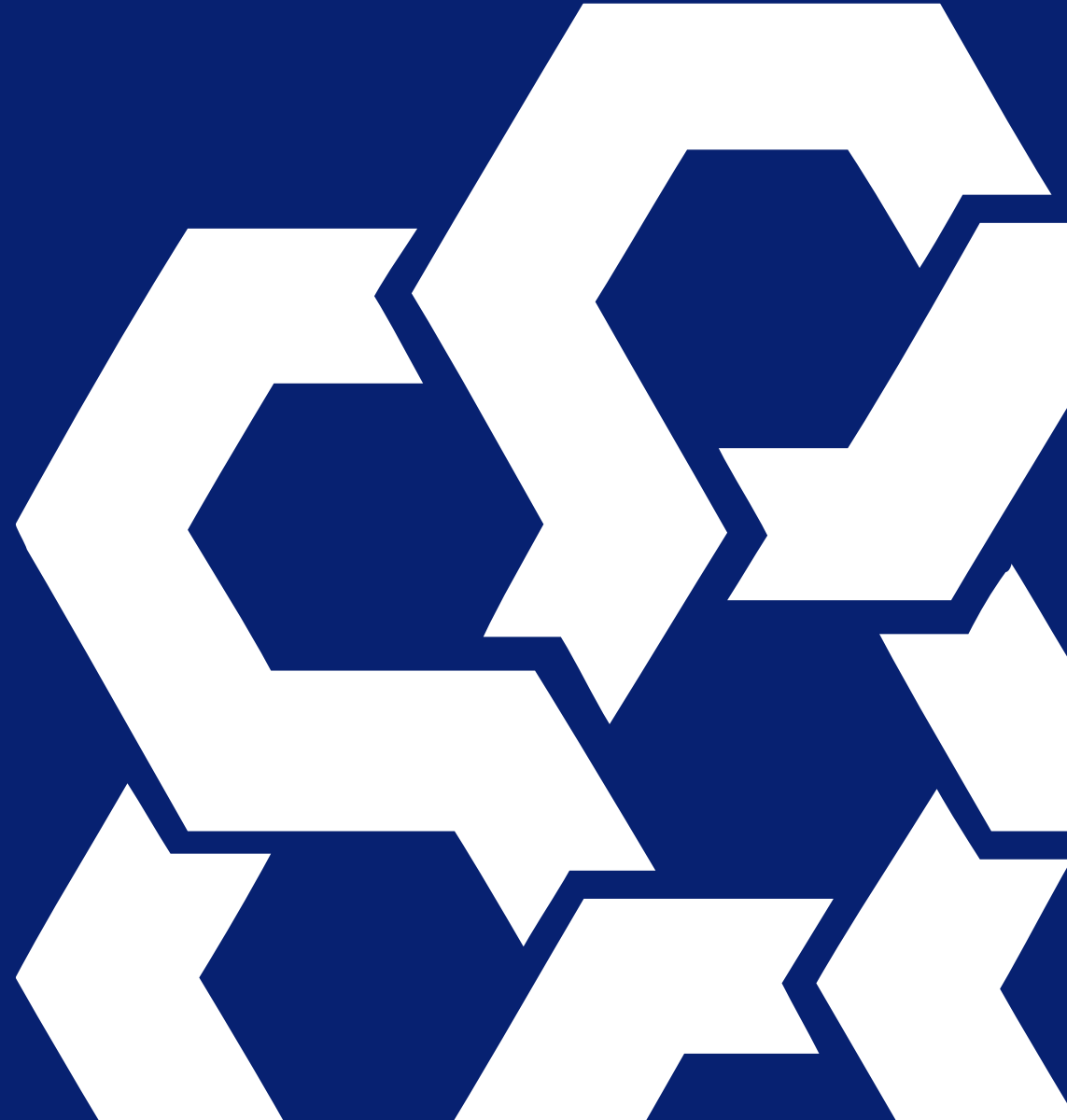
¹ In addition to selecting the measurement method (slide 7), there was also diversity in feedback on other topics—for example whether to restate pre-combination information (see [Agenda Paper 23B](#) of the IASB's April 2023 meeting).

Due Process Handbook requirements

To decide whether a standard-setting project (options I or II on slide 10) would address users’ needs, the IASB considers:

<p>Deficiency in reporting</p>	<p>The project aims to reduce diversity (for example, which method to apply and how to apply a book-value method) and improve transparency. The extent to which a project would achieve these aims would depend on what requirements the IASB develops.</p>
<p>Importance to users</p>	<p>Engagement with users has raised questions about the importance of the project to users. There was jurisdictional diversity in user feedback—if the project does not meet user information needs globally, it may reduce its importance.</p>
<p>Types of entities affected</p>	<p>52% of the 267 BCUCC transactions in our 2019 research were by entities listed in China (including Hong Kong). Research limitations make it difficult to draw definitive conclusions.</p>
<p>How pervasive or acute</p>	<p>We are not aware of BCUCCs that affect NCS being common across jurisdictions. We understand that a form of book-value method is typically (but not always) applied to BCUCCs that do not affect NCS.</p>
<p>The IASB’s resources</p>	<p>The level of resources required would depend on what requirements the IASB develops. We expect option II to require significantly less resources than option I.</p>

Questions for CMAC and GPF members



Questions

1. Considering the criteria on slide 11:
 - a) does the gap in IFRS Accounting Standards cause problems for reporting BCUCCs?
 - b) do you have specific examples where the reporting for a BCUCC resulted in financial statements that were misleading or failed to provide useful information about the BCUCC? How common are such examples?
 - c) which option from slide 10 do you think the IASB should choose?
 2. If the IASB chooses Option II (disclosure-only requirements):
 - a) for CMAC members—what specific disclosures would you find useful?
 - b) for GPF members—could you disclose the information suggested by CMAC members at a reasonable cost?
-

Follow us online

 [ifrs.org](https://www.ifrs.org)

 [@IFRSFoundation](https://twitter.com/IFRSFoundation)

 [IFRS Foundation](https://www.youtube.com/IFRSFoundation)

 [International Accounting
Standards Board](https://www.linkedin.com/company/ifrs-foundation)