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Business Combinations under Common Control Update on the project

Objective

- 1 The purpose of this paper is to provide an update on the IASB project on *Business Combinations under Common Control* ('BCUCC').

Background

- 2 The IASB, in November, and the Accounting Standards Advisory Forum ('ASAF') members, in December, discussed the following main topics:
 - (a) the principle of selecting the measurement method for BCUCCs; and
 - (b) exemptions and exceptions to apply a different method as a result of the cost-benefit trade-off and other practical considerations.
- 3 A summary of these discussions is provided below.

Structure of this paper

- 4 This paper is structured as follows:
 - (a) November IASB discussions;
 - (b) December ASAF discussions;
 - (c) November EFRAG FR TEG-CFSS discussions;
 - (d) EFRAG Secretariat analysis;
 - (e) Appendix 1 – Summary of the principle of selecting the measurement method and exceptions (brought to the November EFRAG FR TEG-CFSS meeting); and
 - (f) Appendix 2 - IASB's preliminary views on selecting the measurement method for BCUCCs (flowchart).

November IASB discussions

- 5 The IASB was not asked to make any decisions at its November meeting.

The principle of selecting the measurement method to apply to BCUCC

- 6 The majority of IASB members expressed general support for the proposed direction of travel of the principle and that non-controlling shareholders ('NCS') should be a decisive factor when determining whether to adopt the acquisition method or the book-value method.
- 7 However, one IASB member considered that the NCS criterion is not the only one to consider. This member noted that an additional criterion should be added before determining whether NCS was affected to clarify whether the transaction that has

- taken place has changed the reporting entity or not in substance. This IASB member gave an example of when a new holding company is inserted above an existing entity in advance of an IPO, explaining how in this scenario, the reporting entity (being the new holding company) has changed, however, the combined financial statements of the entity and the holding company which are consolidated are the same before and after the transaction, and therefore, in substance, there has been no change in the reporting entity applying IFRS 10 as there are the same operations. Then there is no need to ask who the acquirer is. Another IASB member agreed that the economic substance should be looked at and asked for further analysis on this.
- 8 Some members questioned whether there is a business combination per se and one IASB member asked for further research on this. An example is an entity wanting to sell minority interest. The entity can create a Newco and then transfer minority interest to the Newco. This IASB member also asked to discuss the definition of a NCS.
 - 9 Some IASB members disagreed with the conclusion that BCUCCs were similar to IFRS 3 *Business Combinations* ('BCs'), noting that the intention, purpose and structure of BCUCCs can be very different to other BCs, and that the transactions are not carried out at arms-length. A number of IASB members also remarked that comparability should not be a key focus as there would never be complete comparability for all BCUCCs.
 - 10 Some IASB members indicated that it should not be assumed that all investors prefer the fair value information provided by the acquisition method as there is significant evidence that this is not the case, particularly in relation to the valuation of certain intangible assets such as brand and customer relationships. Another IASB member noted that the information required by the acquisition method can be highly time consuming and costly for preparers, and therefore this method should only be required when there is certainty that it would be valued by users. This member expressed a view that reporting entities should be given the option of adopting the acquisition method as opposed to forcing the use of the book-value method if there is no NCS given that this would be fair and relevant as determined for other BCs under IFRS 3. This member did not consider that there would be structuring. Another IASB member stated that targeted specialised user outreach was needed in order to gather information on what they need while another IASB member also wanted research on creditors' needs.
 - 11 Another IASB member expressed concern that giving an option for preparers to apply the acquisition method if they do not have NCS could lead preparers to carry out BCs with the sole intention of inflating net assets, potentially in order to acquire loan finance or could have some tax benefit consequences. However, one IASB member questioned how this would be any different from a preparer changing its accounting policy to revalue fixed assets previously recorded using the cost model.
 - 12 One IASB member considered that guidance on the identification of an acquirer should be made for both the acquisition method and the book-value method.
 - 13 The IASB Chair questioned what should be solved (need to rethink the project objective) and also enquired whether there was any indication of the proportion of BCUCCs that affected NCS versus those that did not and observed that it would be very useful to understand this in order to determine whether or not there is an issue with how to account for all BCUCCs or for a very small proportion. The IASB Staff responded that this information would be very difficult to establish, however, the research performed to date indicated that there was a mix of both types of transactions.

Exemptions and exceptions

- 14 One IASB member expressed concern over the related-party exception proposed in Package 1¹ whereby a receiving entity would be required to use the book-value method if all NCS were related parties, noting that this assumed that all related parties had similar characteristics. However, that might not be the case in reality, for instance a related party could sit within the common control group, but alternatively could be an associate or own an associate so may have characteristics similar to NCS.
- 15 Some IASB members commented that further research was required in relation to the proposed exception related to government entities, particularly in countries where this was especially relevant. One IASB member queried why this was being considered for BCUCCs when it was not specifically addressed in IFRS 3. Another IASB member did not see strong conceptual reasons to include this exception.
- 16 Several IASB members expressed support, in theory, for Package 2² which provides an exception where NCS was deemed to be insignificant. However, some IASB members questioned how “insignificant” would be determined, what it meant and noted that this could be a very difficult area to navigate given there are both quantitative and qualitative factors to be considered.
- 17 One IASB member had concerns about the criteria to be provided in assessing whether NCS rely on the general-purpose financial statements to meet their information needs relating to the insignificant NCS exception: He indicated that they needed to think how it would look like and was sceptical to operationalise this. One member did consider that the criterion ‘the non-controlling shareholder has access to information due to their relationship with the receiving entity’ in developing the insignificant NCS exception was not workable because a representative on the receiving entity’s board of directors may be prevented by the law to communicate information as this would be considered as access to privileged information.
- 18 The IASB Chair queried how the definition of “insignificant” would interact with other definitions such as “material” or “genuine”. The IASB Staff responded that this term would likely be replaced with something more appropriate at a later stage in the project to try and eliminate any confusion.

December ASAF discussions

The principle of selecting the measurement method to apply to BCUCCs

- 19 This topic was not specifically discussed. However, some comments relating to the principle when discussing the exceptions/exemptions include the following:
- 20 One member also stated that they have guidance in their jurisdiction on BCUCCs and it is focussed on change of control. This member observed that having too many exceptions and exemptions for establishing a measurement method for BCUCCs resulted in complexity of the model. This could be a signal that the original principle of selecting the measurement method to apply to BCUCC was not appropriate.
- 21 Another member stated that their jurisdiction preferred the book value method to be applied to all BCUCCs as this is currently done in practice and the NCS preferred information under the book value method as it is more reliable and can facilitate NCS to perform their analysis, additional depreciation/amortisation/impairment under the acquisition method would affect the receiving entity’s earnings or

¹ Optional exemption package

² Insignificant NCS package

valuation. NCS also have additional information in addition to the financial statements for BCUCCs, for e.g., due diligence announcements.

- 22 Another member agreed that for most of the BCUCC transactions, the acquisition method should be applied and only in limited circumstances, the book value method would be applied. In this member's jurisdiction, most of the BCUCCs are similar to business combinations because of market regulations.
- 23 ASAF members provided feedback regarding the proposal discussed during the IASB meeting (see paragraph 10 above), whether a receiving entity should have an option to apply the acquisition method to BCUCCs that do not affect NCS. ASAF members provided different views on it. Several ASAF members were of the view that the acquisition method provides useful information about business combinations, so an entity should always be allowed to apply the acquisition method. Others disagreed with such views and were in favour of the book value method. Some members referred to comparability; one ASAF member reported that users also do not appreciate discontinuity in reporting (going along with fair value adjustments). Members confirmed that structuring opportunities were related to such an option.

Exemptions and exceptions

- 24 One member highlighted that creating more exemptions and exceptions would create diversity in practice thereby not meeting the objective of the project which is application consistency of the transactions.

Insignificant NCS exception

- 25 ASAF members discussed and expressed mixed views regarding the proposed insignificant NCS exception to require entities to apply a book-value method in BCUCCs if NCS's ownership interest is below a quantitative threshold.
- 26 All members who supported the insignificant NCS exception noted that the IASB should clarify what 'insignificant NCS' meant. Furthermore, they made the following comments:
 - (a) One member indicated that some members in their forum preferred to establish a quantitative threshold for insignificant NCS while others opposed this. Some considered that a cut-off 20% or even 10% seemed rather high while others noted that in different jurisdictions, 10% minority was considered a relevant threshold to trigger rights at fair value to redeem the shares;
 - (b) Additional guidance/ criteria/ examples were necessary on how to apply the exception in practice;
 - (c) This insignificant NCS exception would avoid structuring opportunities. Also, there would no longer be a need to include the criterion related to publicly traded shares, i.e., do not need to distinguish between listed and non-listed shares;
 - (d) To prevent usage of quantitative threshold when setting up the exception.
- 27 The members who opposed establishing the insignificant NCS exception elaborated the following:
 - (a) The exception might go against protecting the rights of NCS in some jurisdictions. One member indicated that these investors have a right to have their view on the information they need only regardless of whether they are insignificant from the entity's perspective. From the point of view of the investor, their investment is not insignificant;
 - (b) It would be difficult to operationalise/ challenging to assess in practice and to identify appropriate indicators for defining insignificant NCS. A monetary threshold may not be workable;

- (c) There were concerns about structuring opportunities when establishing the line between significant and insignificant NCS.
- 28 One member did not have issues on this topic in his jurisdiction as there is guidance in the pre-IFRS standards. The guidance focusses on whether there is a substantive change in ownership rather than insignificant NCS and both quantitative and qualitative factors are looked at. The quantitative threshold is 20%. This member considered that minority shareholder rights could be used to determine what is insignificant.
- 29 One member indicated that any exception referring to NCS with insignificant participation should require their approval.
- 30 One ASAF member supported the exemption and exception originally provided in the IASB's DP.
- 31 Another member considered that if one considered that the acquisition method is the better method, then the argument relating to protecting the rights of NCS was valid. However, on the other hand, if the book value method is considered to be the better model, then this argument was not valid since the entity would obtain the better information by applying the book value method.
- 32 The IASB Chairman asked for views on de minimus versus insignificant NCS. One member reiterated their view in paragraph 27(a). Another member stated that for an investor to buy one share, there would normally be a relationship with the entity or there could be shared-based payments for example to employees. Therefore, this member wondered if there was a connection with the related-party exception and insignificant NCS. Another member considered that the regulators should consider the NCS protection rather than including it in standard-setting.
- 33 ASAF members provided feedback on the minority protection of shareholders in their jurisdictions and identified different treatment. Such differences might be the reasons for different accounting treatments.
- 34 One ASAF member questioned to aim for comparability for such types of transactions as they are quite unique.

Government-related entities exception

- 35 There was no support from most of the ASAF members for the proposed government-related entities exception under which if the controlling party in a BCUCC that affects NCS is a government, the receiving entity would be required to apply a book-value method to the BCUCC.
- 36 These members considered that the exception was too rules-based, there was no need for such an exception and did not see any conceptual reasons for establishing it.
- 37 One member stated that the jurisdictions that had the issue could explain why this exception is needed to better understand the issue.
- 38 One member considered that for listed entities, this exception did not make sense. Another member indicated that the controlling party being a government-related entity is an issue in China. Another member indicated that in their jurisdiction, not all of the government-related entities apply IFRS Accounting Standards.

November EFRAG FR TEG-CFSS discussions

- 39 Consistent with the view in EFRAG comment letter of October 2021, the economic substance should be the key element in selecting the measurement model. Due to practical consideration, the decision tree offers an acceptable compromise.

- 40 Some members considered that the IASB's diagram to select a measurement method for BCUCCs was rather a rules-based approach. However, they agreed to it based on practical considerations.
- 41 Many members indicated that the substance of the transaction needed to be reflected as it depended on facts and circumstances. One member commented that BCUCC were unique transactions and achieving comparability across these types of transactions was not justified. It was acknowledged that reflecting the economic substance would result in a trade-off between comparability and relevance of information. Some members, however, supported the IASB's approach for example because assessing the economic substance is too judgemental and on cost-benefit grounds.
- 42 One member did not support the principle that the acquisition method should be applied if NCS is affected. He indicated that there could be situations where NCS is not involved but the acquisition method would be more appropriate or NCS is affected but the book-value method would be more appropriate. It was not also clear if the receiving entity was a Newco or just a restructuring how the proposed measurement methods would be applied to the BCUCC.
- 43 If the IASB continued the way that was being proposed, then there was support for the insignificant NCS exception. Regarding insignificant NCS:
- (a) some type of guidance was welcome on what insignificant NCS means. If we think about significant influence 20% appears to be rather high. In many jurisdictions 10% of minority is a relevant threshold to trigger rights to redeem at fair value. However, even a threshold of 10% was still seen to be rather high;
 - (b) furthermore, members did not support establishing a quantitative threshold for determining insignificant NCS.
- 44 Regarding the government-related entities exception, members, in general, either questioned whether there should be an exception for this or did not agree with this exception. They were also not convinced by the conceptual reasons for having this exception. In case of listed companies, the government exception did not make much sense.
- 45 Further comments included:
- (a) it was not clear how the different exceptions in the packages interacted with each other; and
 - (b) EFRAG had recommended in its comment letter to consider the interests of other stakeholders, like lenders and other creditors, when determining the measurement method. One member indicated that lenders are not in favour of the acquisition method as this improves the leverage. Another member indicated that the IASB staff, in their November IASB Staff paper, the information provided by either the acquisition method or a book-value method could meet lenders and other creditors' information needs.

EFRAG Secretariat analysis

The principle of selecting the measurement method to apply to BCUCCs

- 46 In [EFRAG's comment letter dated 8 October 2021](#), in response to the IASB DP:
- 47 *EFRAG agreed that a single measurement approach is not appropriate for all BCUCC. Some BCUCC have common features with business combinations within the scope of IFRS 3 and therefore should be accounted for similarly. Other BCUCC are more akin to reallocations of economic resources across the reporting group without changing the ownership interest in those resources.*

- 48 EFRAG considers that establishing an appropriate dividing line between applying the acquisition method and a book-value method to BCUCC is crucial for achieving the project's objectives. BCUCC transactions are effected for various reasons and EFRAG is of the view that the economic substance should be the key element for selecting the measurement method for BCUCC transactions. ... Furthermore, EFRAG notes that selecting the measurement method will depend heavily on the definition of a public market which may not be sufficiently robust. ... EFRAG also recommends the IASB to further consider the interests of other stakeholders, like lenders and other creditors, when determining the measurement method. ...
- 49 EFRAG considers that applying the acquisition method to BCUCC which affect the non-controlling shareholders of the publicly traded receiving company would produce more relevant information, subject to cost-benefit and other practical considerations. EFRAG also accepts that a book-value method should be applied to all other BCUCC where the controlling party's ownership interest is unchanged. ...
- 50 Based on EFRAG's comment letter above, the EFRAG Secretariat agrees with the IASB Staff's initial views.

Exemptions and exceptions

- 51 Considering the discussions held at the IASB, ASAF and EFRAG FR TEG-CFSS meetings in November and December 2022, EFRAG Secretariat is of the view that before introducing more exemptions and exception to selecting the measurement method(s) for BCUCCs, the IASB should further:
- (a) clarify the scope of project - considering the diverse nature of BCUCC transactions, it would be helpful to know exactly what type of transactions are within the project scope in order to select an appropriate measure method. For example, what type of group restructurings are considered in the project scope; whether a Newco can be considered a receiving company and how the requirements of the BCUCC model would be applied to it;
 - (b) define the terms 'insignificant NCS' and 'affect the NCS' – in order to avoid future confusion and put an appropriate focus on the discussion. In November 2022, EFRAG FR TEG-CFSS expressed preference that the definition of insignificant NCS should be more principle-based and should not rely on a quantitative threshold. In this respect, it might be helpful if the IASB further investigates how NCS rights are considered in different jurisdictions and whether non-quantitative threshold for 'insignificant NCS' could be established.
- 52 The lack of conceptual basis for the government-related entities exception makes this exception impractical and therefore unnecessary to pursue.

Questions for EFRAG FR TEG

- 53 Does EFRAG FR TEG have any other comments on the November IASB discussions and/or the December ASAF discussions?
- 54 Paragraph 23 reflects the ASAF views on whether a receiving entity should have an option to apply the acquisition method to BCUCCs that do not affect NCS³. What are your views on whether this option should be provided?
- 55 Does EFRAG FR TEG have any other comments on the EFRAG Secretariat analysis?

³ In principle, the book-value method is applied to BCUCCs that do not affect NCS.

Appendix 1: Summary of the principle of selecting the measurement method and exceptions (brought to the November EFRAG FR TEG-CFSS meeting)

The principle of selecting the measurement method to apply to BCUCCs

The IASB Staff's initial views on the principle of selecting the measurement method to apply to BCUCCs

- 1 The IASB's preliminary views in their DP were that:
 - (a) neither the acquisition method nor a book-value method should apply to all BCUCCs;
 - (b) in principle, the acquisition method should apply to BCUCCs that affect non-controlling shareholders of the receiving entity (NCS); and
 - (c) a book-value method should apply to BCUCCs that do not affect NCS.
- 2 The IASB Staff analyses feedback on the preliminary views as well as respondents' suggestions for other approaches to identify the principle of which measurement method to apply to a BCUCC. The approaches discussed in this paper include:
 - (a) applying a book-value method to all BCUCCs;
 - (b) the preliminary view - considering the effect on NCS;
 - (c) assessing the substance of each BCUCC; and
 - (d) allowing an accounting policy choice.

Applying a book-value method to all BCUCCs	
Observations/ conclusions in the DP	<p>3 The IASB had disagreed with this approach because:</p> <ol style="list-style-type: none"> (a) BCUCCs that affect NCS are similar to business combinations covered by IFRS 3 <i>Business Combinations</i>; and (b) for BCUCCs that affect NCS, the composition and common information needs of users are similar to the composition and common information needs of users in an IFRS 3.
Feedback	<p>4 Most respondents agreed with the preliminary view that neither the acquisition method nor a book-value method should apply to all BCUCCs. Some respondents disagreed with the preliminary view and said a book-value method should apply to all BCUCCs.</p>
IASB Staff analysis	<p>5 The book-value method is expected to be less costly than the acquisition method. However, the IASB Staff consider that specifically for BCUCCs that affect NCS:</p> <ol style="list-style-type: none"> (a) a book-value method would not meet common user information needs; and (b) applying the acquisition method would generally meet the cost-benefit trade-off better than applying a book-value method. <p>6 Applying a book-value method to all BCUCCs would remove opportunities to structure a BCUCC to qualify for either the acquisition method or a book-value method.</p> <p>7 While applying a book-value method to all BCUCCs would improve comparability between BCUCCs, it would not</p>

	result in comparable information for BCUCCs and IFRS 3 business combinations.
The preliminary view - considering the effect on NCS	
Observations/ conclusions in the DP	8 The acquisition method should apply to BCUCCs that affect NCS and a book-value method should apply to BCUCCs that do not affect NCS.
Feedback	<p>BCUCCs that affect NCS:</p> <p>9 Many respondents agreed with the IASB DP while many respondents disagreed, of which:</p> <ul style="list-style-type: none"> (a) some said a book-value method should apply to all BCUCCs; (b) some said the receiving entity should assess the substance of the BCUCC; or (c) some said the receiving entity should have a policy choice. <p>BCUCCs that do not affect NCS:</p> <p>10 Many respondents agreed with the IASB DP while many respondents disagreed, of which:</p> <ul style="list-style-type: none"> (a) most said the acquisition method should apply in specific circumstances (most commonly if the receiving entity has publicly traded debt but otherwise agreed with the IASB DP); (b) a few said the receiving entity should assess the substance of the BCUCC; and (c) a few said the receiving entity should have a policy choice.
IASB Staff analysis	<p>11 Examples of reasons provided by the IASB Staff who consider it an appropriate balance to apply the acquisition method to BCUCCs that affect NCS and a book-value method to BCUCCs that do not affect NCS:</p> <ul style="list-style-type: none"> (a) meets common user information needs; (b) meets the cost-benefit trade-off; (c) results in comparability between BCUCCs in similar circumstances and also between BCUCCs that affect NCS and IFRS 3 business combinations; and (d) although this approach could create some structuring opportunities to qualify for a particular measurement method, some such structuring opportunities will exist unless the acquisition method applies to all BCUCCs.
Assessing the substance of each BCUCC	
Observations/ conclusions in the DP	<p>12 As per the DP, the IASB decided not to base the selection of the measurement method on how similar a BCUCC is to an IFRS 3 business combination because:</p> <ul style="list-style-type: none"> (a) it would be difficult to provide a workable set of indicators and moreover these indicators would be subjective; (b) some of the indicators (for example, the purpose of the combination or the process for deciding the terms of the combination) would not affect what information would be most useful to users.

Feedback	13 Some respondents said the receiving entity should apply either the acquisition method or a book-value method depending on the substance of the BCUCC to BCUCCs that affect NCS and to BCUCCs that do not affect NCS.
IASB Staff analysis	14 Might reduce structuring opportunities as an entity would determine the measurement method based on the substance of the BCUCC. 15 However, it would be difficult to provide a workable set of indicators and moreover these indicators would be subjective. In addition, some of the indicators suggested by respondents would not affect what information is most useful to investors.
Allowing an accounting policy choice	
Observations/ conclusions in the DP	16 The IASB DP did not discuss allowing the receiving entity a choice of applying either the acquisition method or a book-value method to BCUCCs.
Feedback	17 Some respondents suggested allowing the receiving entity a choice of applying either the acquisition method or a book-value method to BCUCCs that affect NCS. 18 A few respondents suggested allowing the receiving entity a choice of applying either the acquisition method or a book-value method to BCUCCs that do not affect NCS.
IASB Staff analysis	19 Would allow the receiving entity to consider whether the benefits to its users justify the costs of applying each method. 20 However, there would be little comparability between BCUCCs because entities could choose to apply different methods to BCUCCs in similar circumstances. Also, some BCUCCs (specifically, BCUCCs that affect NCS) this approach would not meet common user information needs.

Summary of IASB Staff's initial views

- 21 The IASB Staff continue to agree with the IASB's preliminary view in the IASB DP:
- (a) that neither the acquisition method nor a book-value method should apply to all BCUCCs. In particular, they disagree with applying a book-value method to all BCUCCs and applying the acquisition method to all BCUCCs; and
 - (b) to in principle, apply the acquisition method to BCUCCs that affect NCS and a book-value method to BCUCCs that do not affect NCS.
- 22 The IASB Staff considers whether, due to cost-benefit or other considerations such as to minimise structuring opportunities, a different method should apply in particular situations. A summary is provided below.

EFRAG Secretariat analysis

- 23 In [EFRAG's comment letter dated 8 October 2021](#), in response to the IASB DP:
- 24 *EFRAG agreed that a single measurement approach is not appropriate for all BCUCC. Some BCUCC have common features with business combinations within the scope of IFRS 3 and therefore should be accounted for similarly. Other BCUCC*

are more akin to reallocations of economic resources across the reporting group without changing the ownership interest in those resources.

- 25 EFRAG considers that establishing an appropriate dividing line between applying the acquisition method and a book-value method to BCUCC is crucial for achieving the project's objectives. BCUCC transactions are effected for various reasons and EFRAG is of the view that the economic substance should be the key element for selecting the measurement method for BCUCC transactions. ... Furthermore, EFRAG notes that selecting the measurement method will depend heavily on the definition of a public market which may not be sufficiently robust. ... EFRAG also recommends the IASB to further consider the interests of other stakeholders, like lenders and other creditors, when determining the measurement method. ...
- 26 EFRAG considers that applying the acquisition method to BCUCC which affect the non-controlling shareholders of the publicly traded receiving company would produce more relevant information, subject to cost-benefit and other practical considerations. EFRAG also accepts that a book-value method should be applied to all other BCUCC where the controlling party's ownership interest is unchanged. ...
- 27 Based on EFRAG's comment letter above, the EFRAG Secretariat agrees with the IASB Staff's initial views in paragraph 21.

IASB analysis of feedback on applying an exception or an exemption when selecting the measurement method

- 28 In its DP, the IASB's preliminary views on the principle of selecting the measurement method to apply to BCUCCs is:
- (a) the acquisition method should be applied to BCUCCs that affect non-controlling shareholders (NCS) of the receiving entity whose shares are publicly traded subject to the cost-benefit trade-off and other practical considerations; and
 - (b) a book-value method should be applied to all other BCUCCs, including all combinations between wholly-owned companies.
- 29 However, if the receiving company's shares are privately held, based on a cost-benefit trade-off and other practical considerations, the application of the measurement method to BCUCCs is subject to:
- (a) *a related-party exception* - the receiving company whose shares are not publicly traded should be required to use a book-value method if all of its non-controlling shareholders are related parties of the company; and
 - (b) *an optional exemption* - the receiving company whose shares are not publicly traded should be permitted to use a book-value method if it has informed all of its NCS that it proposes to use a book-value method and they have not objected.
- 30 The IASB's preliminary views are summaries in the diagram included in Appendix 2.
- 31 This section considers whether, as a result of the cost-benefit trade-off and other practical considerations, in some circumstances:
- (a) an entity should be permitted or required to apply a different method (exemptions and exceptions);
 - (b) an entity should be prohibited from applying an exception or an exemption.

Whether to apply a book-value method to some BCUCCs that affect NCS

Optional exemption

DP's conclusions

- 32 A receiving entity whose shares are not publicly traded should be permitted to apply a book-value method if it has informed all NCS that it proposes to use a book-value method and the NCS have not objected.

Feedback

- 33 Many respondents agreed with the optional exemption. Some respondents generally agreed with the optional exemption but suggested modifying it so that it allows entities to disregard objecting NCS if those NCS are insignificant.
- 34 Some respondents disagreed with the optional exemption because:
- (a) it allowed NCS to decide accounting policies;
 - (b) the optional exemption would affect measurement in current and subsequent reporting periods while currently in IFRS Accounting Standards similar conditions are used in connection with presentation and disclosure requirements;
 - (c) the optional exemption would reduce comparability between entities that apply the optional exemption and those that do not.

IASB Staff analysis

- 35 The IASB Staff is of the view that the IASB should continue to consider the optional exemption and disagrees with some comments from respondents on:
- (a) the optional exemption allows NCS to decide an accounting policy - NCS would not decide the accounting policy but only influence the accounting policy by objecting if management request to apply the optional exemption in situations where NCS want information provided by the acquisition method;
 - (b) the optional exemption would affect measurement requirements – there are other examples in IFRS Accounting Standards which affect recognition and measurement requirements (i.e., IFRS 10 *Consolidated Financial Statements* – recognition of an investment in subsidiary measured IAS 27 *Separate Financial Statements* or the subsidiary's individual assets and liabilities measured applying various IFRS Accounting Standards).
- 36 The IASB Staff, however, acknowledges that:
- (a) the optional exemption would not prevent structuring opportunities – BCUCCs could be structured with insignificant NCS only to qualify for the acquisition method and the receiving entity could choose not to apply the optional exemption;
 - (b) the optional exemption could result in a lack of comparability between BCUCCs by entities with only privately held shares because they could choose whether to apply the optional exemption;
 - (c) if objecting NCS are insignificant, the costs of applying the acquisition method might outweigh the benefits.

IASB Staff initial view

- 37 The IASB Staff's initial view is that the optional exemption could be used in developing a package of exceptions or exemptions as further elaborated in paragraphs 73-76.

Related-party exception

DP's conclusions

- 38 A receiving entity whose shares are not publicly traded should apply a book-value method if all of its NCS are its related parties. In the IASB's preliminary view, receiving entities with publicly traded shares should not apply the related-party exception.

Feedback

- 39 Many respondents agreed with the related-party exception. Some respondents generally agreed, however, suggested modifying it so that a receiving entity would apply a book-value method if affected unrelated NCS are insignificant.
- 40 Many other respondents disagreed with the related-party exception because some related parties rely on financial statements to meet their information needs. Some respondents noted that applying the exception could be costly because it would require to identify related parties at the date of a BCUCC.

IASB Staff analysis

- 41 The IASB Staff is of the view that:
- (a) the related-party exception would prevent some opportunities to structure a transaction (i.e., issuing shares to related parties only to qualify for the acquisition method), however, it would not prevent other structuring opportunities (i.e., issuing shares to an unrelated party only to qualify for the acquisition method);
 - (b) the costs of identifying whether an entity's NCS are all related parties at a particular date to be limited.

IASB Staff initial view

- 42 The IASB Staff disagrees with the suggestion of some respondents to extend the related-party exception to require a receiving entity to apply a book-value method if affected unrelated NCS are insignificant. This is unnecessary because if there are affected unrelated NCS then other exceptions or exemptions in the package could apply.
- 43 Furthermore, the IASB Staff is of the view that the IASB could consider whether to include the related-party exception as part of an overall package of which BCUCCs that affect NCS each method should apply to as described in paragraphs 73-76.

EFRAG Comment letter

- 44 In EFRAG's comment letter dated 8 October 2021, in response to the IASB DP:
- 45 *EFRAG supports the optional exemption from the acquisition method for privately-held entities based on a cost-benefit consideration. However, EFRAG considers that additional guidance is necessary to make the exemption workable in practice. EFRAG agrees that the optional exemption should not be extended to publicly traded companies.*
- 46 *EFRAG also supports the related-party exception to the acquisition method for BCUCC affecting the non-controlling shareholders of a privately-held receiving entity based on a cost-benefit consideration. However, EFRAG considers that the related-party exception should be optional rather than required.*
- 47 *EFRAG suggests the IASB to provide further guidance on the practical application of the exemption and the exception when there are different levels of receiving companies with NCS.*

- 48 EFRAG also recommends the IASB to further consider the interests of other stakeholders, like lenders and other creditors, when determining the measurement method.

Publicly traded shares

DP's conclusions

- 49 The IASB's preliminary view is that an entity should apply the acquisition method to BCUCCs that affect NCS if the entity's shares are traded in a public market. Consequently, this means that entities with publicly traded shares cannot apply either the optional exemption or the related-party exception.
- 50 Many jurisdictions typically prevent the listing of shares when NCS are insignificant, therefore, an entity with publicly traded shares would indirectly apply the quantitative consideration in the DP without being arbitrary and creating structuring opportunities.
- 51 The IASB considered whether to extend the application of the optional exemption and the related-party exception to entities with publicly traded shares, however, noted they may be more difficult to apply and to justify on cost-benefit grounds as well as have little practical effect.

Feedback

- 52 Most respondents agreed that an entity with publicly traded shares should apply the acquisition method if a BCUCC affects the entity's NCS. Therefore, the optional exemption and related-party exception should not apply to entities with publicly traded shares.
- 53 Some respondents disagreed stating that whether an entity has publicly traded shares should not affect the measurement method applied in a BCUCC because this would reduce comparability between entities with only privately held shares and entities with publicly traded shares.

IASB Staff analysis

- 54 The IASB Staff is of the view that designing exemptions for entities with only privately held shares would reflect the cost-benefit trade-off and provide relief to entities for which the costs of applying the acquisition method may outweigh the benefits.

IASB Staff initial view

- 55 The IASB Staff suggests that this criterion for selecting a measurement method to be considered in an overall package of which method should apply to BCUCCs.

Privately held shares

DP's conclusions

- 56 The IASB's preliminary view is that receiving entities with only privately held shares should apply a book-value method to BCUCCs that affect NCS only in specific circumstances (an optional exemption and related-party exception).

Feedback

- 57 Some of the respondents who disagreed with the optional exemption commented that entities with only privately held shares should apply a book-value method to all BCUCCs.
- 58 Some other respondents said that entities with only privately held shares should have a choice between applying the acquisition method or a book-value method to all BCUCCs.

IASB Staff analysis

- 59 The IASB Staff is of the view that entities with only privately held shares should be required or permitted to apply a book-value method to BCUCCs only in specific situations. This is because:
- (a) even though, for entities with only privately held shares the costs of applying the acquisition method could outweigh the benefits for some BCUCCs that affect NCS, in other such BCUCCs the benefits would justify the costs;
 - (b) if entities with only privately held shares have a choice which method to apply to BCUCCs that affect NCS, there would be little comparability between such BCUCCs because entities could choose to apply different methods.

IASB Staff initial view

- 60 The IASB Staff is of the view that the IASB should not require or permit privately held entities to apply a book-value method to all BCUCCs because we think the benefits of such entities applying the acquisition method justify the costs for at least some BCUCCs that affect NCS.

Government-related entities – new consideration

New consideration for government-related entities

- 61 An exception could be designed such that if the controlling party in a BCUCC that affects NCS is a government, the receiving entity would be required to apply a book-value method to the BCUCC.

DP's conclusions

- 62 In its DP, the IASB's preliminary views did not include an exception for BCUCCs that affect NCS in which the controlling party is a government.

Feedback

- 63 A few respondents commented that BCUCCs in which the controlling party is a government might have some characteristics that could affect the applicability of the acquisition method and the usefulness of information provided by the acquisition method for such transactions (i.e., BCUCCs are undertaken for non-commercial societal objectives).

IASB Staff analysis

- 64 The IASB Staff acknowledge that creating such exception for government-related entities might have some characteristics that could affect the applicability of the acquisition method and the usefulness of information resulting from it for such entities, however:
- (a) such an exception would reduce comparability between BCUCCs that affect NCS in which the controlling party is a government and other BCUCCs that affect NCS or with IFRS 3 BCs; and
 - (b) whether the controlling party is the government may not affect NCS' information needs or the costs of applying the acquisition method to an individual BCUCC.

IASB Staff initial view

- 65 The IASB Staff is of the view that the IASB could consider whether to include this exception as part of an overall package of which BCUCCs that affect NCS each method should apply to. Paragraphs 73-76 explain further consideration of how this exception could be incorporated into a package.

Insignificant NCS – new consideration

New consideration for insignificant NCS

- 66 Introducing an exception to require or permit an entity to apply a book-value method if there are insignificant NCS (for simplicity referred to as 'insignificant NCS').

DP's conclusions

- 67 In its DP, the IASB's preliminary view did not consider creating a criterion to require a book-value method if NCS's ownership interest is below a quantitative threshold because such a requirement would be arbitrary, lacks conceptual basis and may create some structuring opportunities.

Feedback

- 68 Some respondents generally agreed the acquisition method should apply to BCUCCs that affect NCS but suggested requiring or permitting an entity to apply a book-value method if there are insignificant NCS for the following reasons:
- (a) insignificant NCS exception would reduce structuring opportunities;
 - (b) the costs of applying the acquisition method would outweigh the benefits for BCUCCs that affect insignificant NCS.

IASB Staff analysis

- 69 The IASB Staff is of the view that the IASB could consider whether to require entities to apply a book-value method to BCUCCs that affect NCS in situations in where:
- (a) NCS' ownership interest is quantitatively insignificant; and/or
 - (b) NCS do not rely on general purpose financial statements to meet their information needs.
- 70 The IASB Staff acknowledges that a choice of which method to apply to BCUCCs that affect insignificant NCS would:
- (a) impair comparability between such BCUCCs because entities could choose to apply different methods;
 - (b) reduce structuring opportunities (i.e., issuing shares to an unrelated party to qualify for the acquisition method);
 - (c) the costs of applying the acquisition method to such BCUCCs may outweigh the benefits of the information it provides.
- 71 However, such an exception could be difficult to design and judgemental to apply because entities would be required to assess NCS' information needs and/or whether NCS are quantitatively insignificant.

IASB Staff initial view

- 72 The IASB Staff is of the view that the IASB should consider an exception that requires entities to apply a book-value method to BCUCCs that affect insignificant NCS exception further. Paragraphs 73-76 explain how this exception could be used in developing a package of exceptions or exemptions.

A package of exceptions

- 73 Considering all of the exceptions individually and as a package, the IASB Staff is proposing two potential packages to be further deliberated:
- (a) Package 1 - optional exemption package; and
 - (b) Package 2 - insignificant NCS package.

Package 1 - optional exemption package

- 74 Package 1 proposes the optional exemption to be used as a starting point in building this package because by directly reflecting user information needs, it appropriately reflects the cost-benefit trade-off. The optional exemption could be:
- (a) *amended such that an entity disregards insignificant objections* – to modify the optional exemption in a way that entities disregard objecting NCS if those NCS are insignificant when applying the exemption. Ignoring insignificant objections may better reflect the cost-benefit trade-off because the costs of applying the acquisition method may outweigh the benefits if only insignificant NCS object;
 - (b) *combined with the related-party exception* - combine the optional exemption with the related-party exception so a receiving entity would be required to apply a book-value method if all NCS are its related parties. This would prevent structuring opportunities by issuing shares to related parties to qualify for the acquisition method, however, might result in information that might not meet the information needs of some related parties (i.e., related parties that rely on financial statements to meet their information needs);
 - (c) *combined with the criterion for publicly traded shares* – to combine the optional exemption with the criterion for publicly traded shares (to restrict the optional exemption to entities with only privately held shares). This would reflect the cost-benefit trade-off - for entities with publicly traded shares, the benefits of the information provided by the acquisition method are likely to justify the costs of applying and be consistent with similar conditions existing in IFRS Accounting Standards;
 - (d) *combined with an exception for government-related entities* - combine the optional exemption with an exception for government-related entities so a receiving entity would be required to apply a book-value method if the controlling party is a government.

Package 2 - insignificant NCS package

- 75 Package 2 proposes an insignificant NCS exemption to be used as a starting point in building this package because the exemption could reduce structuring opportunities. In this package, the optional exemption could be:
- (a) *combined with the related-party exception* – the related-party exception to be incorporated as an indicator of insignificant NCS - that is, as an indicator that NCS might not rely on information provided by financial statements;
 - (b) *combined with the criterion for publicly traded shares* – to combine an insignificant NCS exemption with the criterion for publicly traded shares - that is, only considering whether there are insignificant NCS for entities with only privately held shares;
 - (c) *combined with an exception for government-related entities* – to combine an insignificant NCS exemption with an exception for government-related entities - a receiving entity is required to apply a book-value method if the controlling party is a government.

Other consideration

- 76 Furthermore, the IASB Staff suggests the option to consider combining the insignificant NCS exception package with the optional exemption package. This can be considered in some situations where the insignificant NCS package may require an entity to apply the acquisition method while if the optional exemption is applied no (or only insignificant) NCS would object to a book-value method. However, this combination could make reporting requirements more complex, as there would be more exceptions.

Whether to apply the acquisition method to some BCUCCs that do not affect NCS

- 77 The IASB's preliminary view is that a book-value method should apply to all BCUCCs that do not affect NCS.
- 78 This section explores a suggestion made by some respondents to require entities with publicly traded debt to apply the acquisition method, regardless of whether the BCUCC affects NCS.

DP's conclusions

- 79 In its DP, the IASB's preliminary view is that a book-value method should apply to all BCUCCs that do not affect NCS (with no exceptions) for the following reasons:
- (a) there is no change in the ultimate ownership interest in the transferred business;
 - (b) similar information would be produced regardless of whether a BCUCC takes place or how any combination is structured;
 - (c) applying the acquisition method to a BCUCC involving wholly-owned entities may be difficult; and
 - (d) a book-value method is typically less costly to apply and would provide useful information.

Feedback

- 80 Most users agreed with the IASB's preliminary view that a book-value method should be applied to a BCUCC by a wholly-owned receiving entity which has bank debt or bonds traded in a public market.
- 81 However, some users disagreed and commented that the acquisition method should be applied because lenders and other creditors need information provided by the acquisition method.
- 82 Some respondents also said similar information should be provided regardless of whether a publicly traded instrument is classified as debt or equity for accounting purposes.

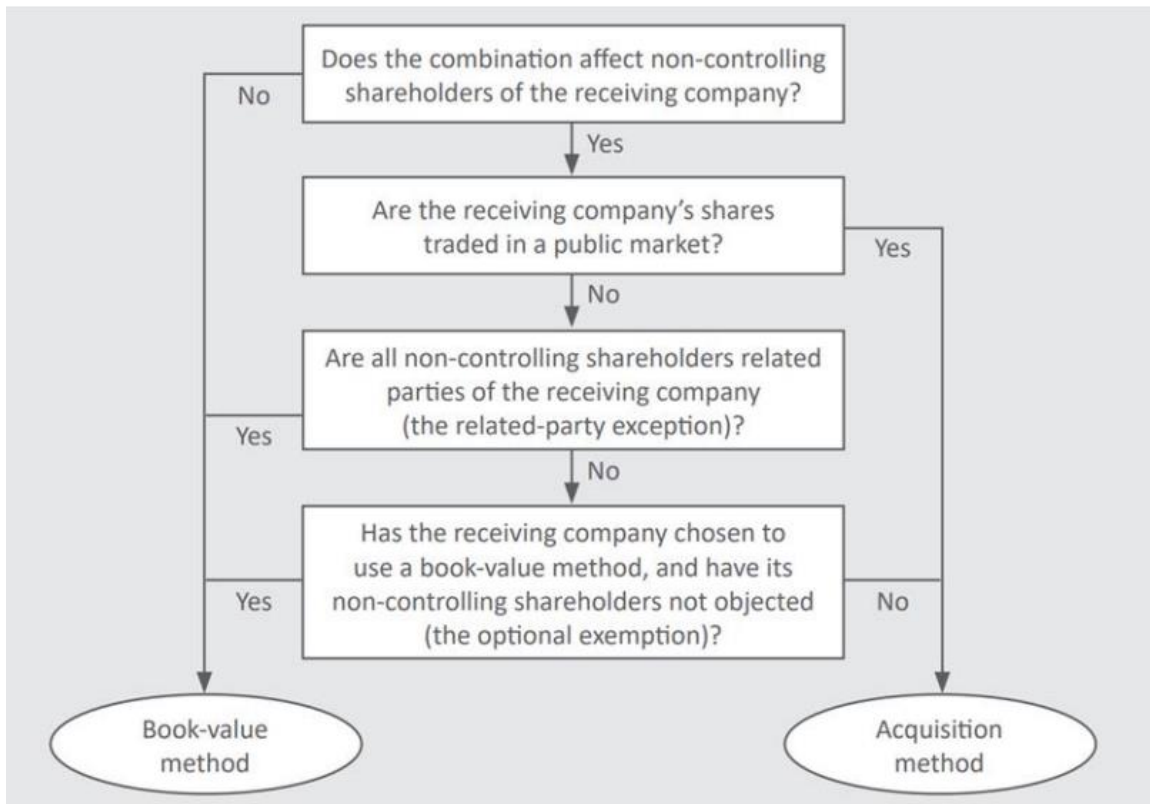
IASB Staff analysis

- 83 In general, holders of publicly traded debt do not need the information provided by the acquisition method. An exception for receiving entities with publicly traded debt would result in comparable information about all BCUCCs and IFRS 3 BCs for holders of publicly traded debt. However, it may not result in comparable information for other users (i.e. potential investors).
- 84 Based on request from respondents the IASB could consider combining an exception for receiving entities with publicly traded debt with other exceptions - for example, it could be combined with the criterion for publicly traded shares.

IASB Staff initial view

- 85 The IASB Staff is of the view that an exception for publicly traded debt should not be considered further because we think debt holders (including holders of publicly traded debt) could work with information provided by either method and applying a book-value method to all BCUCCs that do not affect NCS reflects the cost-benefit trade-off.

Appendix 2: IASB's preliminary views on selecting the measurement method for BCUCCs (flowchart)



Source: the IASB