

EFRAG DRAFT COMMENT LETTER

BUSINESS COMBINATIONS UNDER COMMON CONTROL

14 June 2021



EFRAG

European Financial Reporting Advisory Group

DISCLAIMER

The views expressed in this presentation are those of the presenter, except where indicated otherwise. 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.

SCOPE OF THE PROJECT

EFRAG TENTATIVE POSITION

- EFRAG agrees with the scope proposed by the IASB and welcomes that both BCUCC and group restructurings are in the scope
- The IASB should avoid labelling group restructurings that are not business combinations as BCUCC and better define ‘group restructurings’
- 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., clarify the meaning of ‘transitory control’) and/or align it with the definition used in this project
- Other common control transactions (e.g., transfer of a group of assets that does not meet the definition of a business) are an important and comprehensive topic that needs to be discussed in the future

EFRAG IS SEEKING STAKEHOLDERS’ VIEWS ON:

- EFRAG is asking its constituents whether it is important to clarify the meaning of ‘transitory control’ and whether the IASB has reached the right scope

SELECTING THE MEASUREMENT METHOD

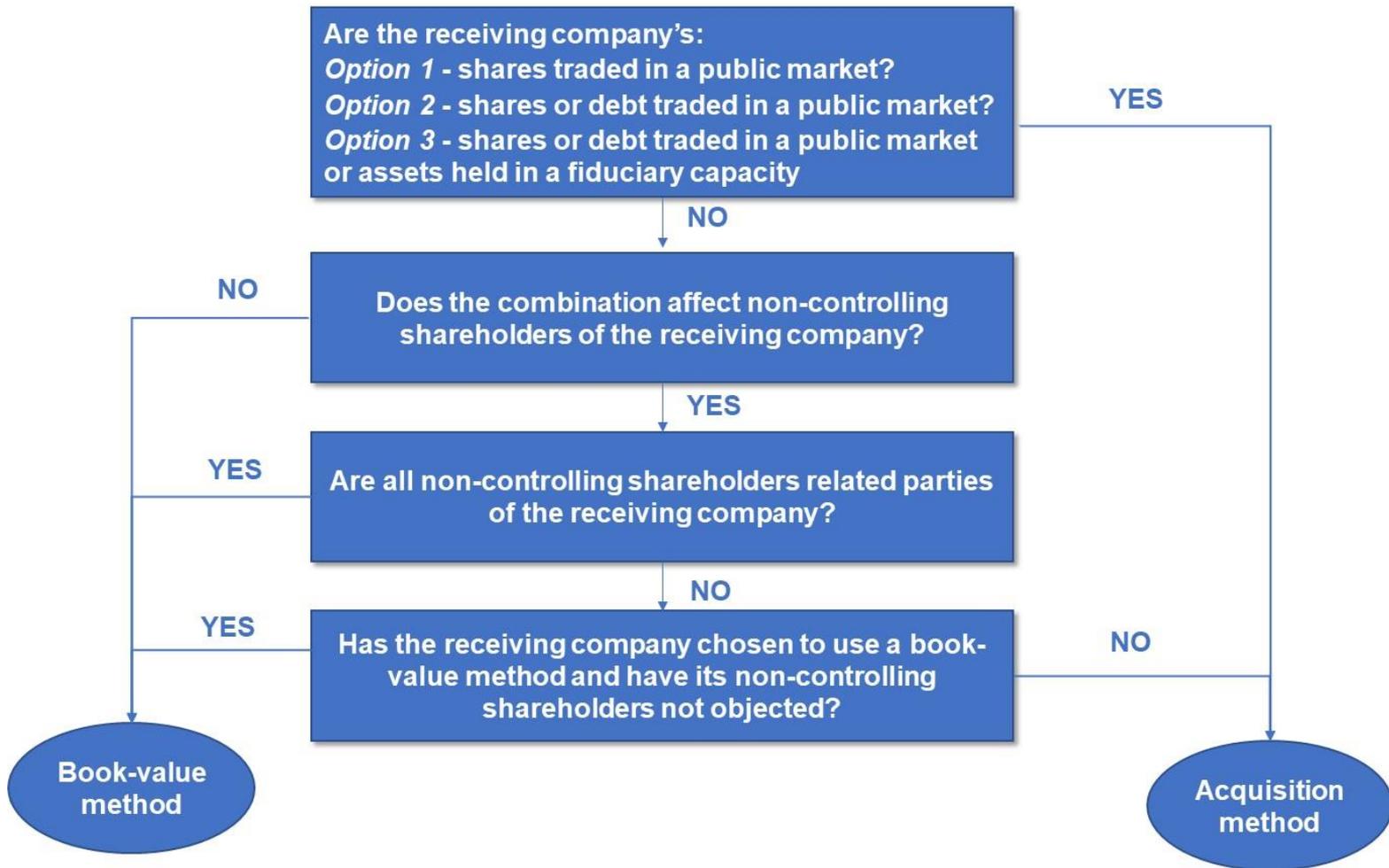
EFRAG TENTATIVE POSITION

- EFRAG agrees that the acquisition method or a book-value method should be used, depending on the substance of the transaction
- EFRAG agrees that when the receiving company has non-controlling shareholders, it should use the acquisition method (with limited exceptions)
- EFRAG cautions that selecting the measurement method will rely on the definition of a 'public market' which may not be robust enough. EFRAG also suggests that the IASB clarifies the meaning of the term 'traded'

EFRAG IS SEEKING STAKEHOLDERS' VIEWS ON:

- EFRAG proposes a few modifications to the IASB's decision tree on when to apply each measurement method. EFRAG is consulting constituents on possible modifications:
 - reversing Step 1 and Step 2 of the IASB's decision tree; and
 - expanding the scope of entities included in the proposed new Step 1 (e.g., include privately-held entities that have publicly listed debt instruments or hold assets in a fiduciary capacity)

EFRAG's DECISION TREE



SELECTING THE MEASUREMENT METHOD

EFRAG TENTATIVE POSITION ON EXCEPTIONS AND EXEMPTIONS

- EFRAG supports the **optional exemption** and the **related-party exception** to the acquisition method for privately-held entities with non-controlling shareholders
- EFRAG agrees with the IASB that:
 - the **optional exemption** from the acquisition method should not be extended to publicly traded companies because it will be difficult to operationalise the exemption
 - the **related-party exception** to the acquisition method should not be extended to publicly traded receiving companies as the exception will have limited application in practice

EFRAG IS SEEKING STAKEHOLDERS' VIEWS ON:

- EFRAG is consulting its constituents on whether the **related-party exception** should be optional rather than required as it is possible that the non-controlling shareholders (e.g., when having significant influence) will not have the information they need about the transaction

HOW TO APPLY THE ACQUISITION METHOD

EFRAG TENTATIVE POSITION

- EFRAG supports the IASB proposal not to develop a requirement to identify, measure and recognise a **distribution** from equity. EFRAG agrees that any difference between the consideration paid and what would have been paid to an unrelated party in an arm's length transaction is recognised in goodwill
- EFRAG has not formed a final view on the notion of **contribution** to equity instead of recognizing bargain purchase gain

EFRAG IS SEEKING STAKEHOLDERS' VIEWS ON:

- EFRAG is seeking views from its constituents on 2 alternative views. Either support:
 - **IASB proposals in the DP** – difference to be recognised in equity; or
 - **Consistency with IFRS 3 requirements** – difference to be recognised in profit or loss

HOW TO APPLY A BOOK-VALUE METHOD

MEASURING ASSETS AND LIABILITIES RECEIVED

- EFRAG has **not formed a final view**
- EFRAG considers that both of the following provide useful information:
 - Carrying amounts included in the financial statements of the transferred company (as suggested by the DP)
 - Carrying amounts included in the consolidated financial statements of the transferred company's controlling party (or ultimate controlling parties)

EFRAG IS SEEKING STAKEHOLDERS' VIEWS ON:

- EFRAG is seeking views from constituents on:
 - current practice
 - which approach do they agree with

HOW TO APPLY A BOOK-VALUE METHOD

MEASURING CONSIDERATION PAID AT COMBINATION DATE

- EFRAG **agrees with the DP proposals** on amounts paid
 - *In assets* – at receiving company's book values of those assets
 - *By incurring a liability* - at the amount determined on recognition of that liability applying IFRS Standards
 - *In own shares* – to not prescribe measurement
- EFRAG suggests that the IASB considers allowing the use of fair value measurement for consideration paid in assets as the information may be relevant for creditors and other lenders

EFRAG IS SEEKING STAKEHOLDERS' VIEWS ON:

- EFRAG is seeking views from constituents if there are other forms of consideration paid apart from those identified in the DP and how common they are

HOW TO APPLY A BOOK-VALUE METHOD

REPORTING THE DIFFERENCE

- EFRAG **agrees with the DP** to recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received
- EFRAG **agrees with the DP** not to specify presentation within equity

TRANSACTION COSTS

- EFRAG **agrees with the IASB's preliminary view** that:
 - transaction costs should be recognised as an expense when incurred
 - costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards

HOW TO APPLY A BOOK-VALUE METHOD

PRE-COMBINATION INFORMATION

- EFRAG **agrees with the IASB proposals** that the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information

EFRAG IS SEEKING STAKEHOLDERS' VIEWS ON:

- EFRAG is consulting constituents on whether the IASB proposal on providing pre-combination information creates tension with current reporting requirements in some jurisdictions or be costly and difficult to apply in practice

DISCLOSURE REQUIREMENTS

- EFRAG supports the proposed disclosure requirements for BCUCC accounted for under the acquisition method
- EFRAG also agrees with the proposed disclosure requirements for BCUCC to which a book-value method is applied



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THANK YOU – ANY QUESTIONS?

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