Business Combinations Under Common Control

Executive Summary

Project Type	Influencing
Project Scope	Limited
Purpose of the paper	
The purpose of this paper is to request Board approval of the comment letter to the IASB and the related feedback statement.	
Summary of the Issue	
IFRS 3 *Business Combinations* currently does not include requirements for business combinations under common control (BCUCC). IASB Discussion Paper *Business Combinations Under Common Control* (the DP) proposes to amend IFRS 3 to incorporate accounting for BCUCC transactions. The DP proposals aim to reduce existing diversity in practice when accounting for BCUCC, thus improving the comparability of financial statements. The accompanying disclosure requirements will provide greater transparency when reporting BCUCC transactions.	
Decisions for the Board	
To approve the BCUCC comment letter to the IASB and feedback statement for publication.	
Recommendation	
We recommend the Board approve the BCUCC comment letter and the feedback statement for publication.	
Appendices	
Appendix 1 Final Comment Letter - BCUCC Appendix 2 Feedback Statement - BCUCC	

Business Combinations Under Common Control

Background

1. The IASB Discussion Paper DP/2020/2 *Business Combinations Under Common Control*[1] was published during Q4 2020. It sets out proposals that address accounting for the so-called Business Combinations Under Common Control (BCUCC) which are combinations in which all the combining businesses are ultimately controlled by the same party, both before and after the transaction. The IASB's comment deadline is 1 September 2021.

2. IFRS 3 *Business Combinations* does not apply to BCUCC. As a result, the company acquiring the business (the "receiving company") must determine its own accounting policy for these transactions. The IASB is undertaking this project to explore possible reporting requirements for receiving companies to reduce existing diversity of practice and create greater transparency when reporting BCUCC transactions.

3. The UKEB Secretariat's work on this project commenced during December 2020. Outreach activities have included the creation of an educational video in conjunction with IASB to raise awareness of the proposals and the opportunity to comment, a stakeholder survey, discussions with the FRC Corporate Reporting Review team, and public consultation on the UKEB draft comment letter. In total four preparers of financial statements (3 FTSE100, 1 AIM listed) responded to the survey, one investor provided feedback via interview, and one accounting membership body provided feedback on the draft comment letter.

Analysis of Key Issues

4. The Board reviewed and contributed to the draft comment letter in May 2021. The letter was open for public consultation 26 May – 30 June 2021. During the consultation period one further survey response and one response to the invitation to comment were received and one investor interview took place. This stakeholder feedback, summarised below, was similar to the earlier feedback presented to the Board in May 2021. The feedback included comments which:

   a) preferred the use of fair values via the acquisition method, but understood that sometimes a book value method needed to be used;

   b) welcomed those who qualify for the book value method having the opportunity to "opt up" to the acquisition method;

   c) supported the use of goodwill proposed for the acquisition method;

1 https://www.ifrs.org/content/dam/ifrs/project/business-combinations-under-common-control/discussion-paper-bcucc-november-2020.pdf

d) noted concerns regarding which book value should be used and practical issues in applying this; and

e) noted that for certain common control transactions the disclosure requirements of IFRS 3 may be excessively onerous.

5. An updated draft of the UKEB's draft Comment Letter, addressing the stakeholder feedback, is included at Appendix 1 of this paper. In finalising that letter, the following amendments have been made to the draft Comment Letter reviewed by the Board at its May 2021 meeting.

a) Paragraph A3 of the Appendix to the Comment Letter now recommends that those using the book value method should be able to "opt up" to use of the acquisition method.

b) Paragraph A10 of the Appendix to the Comment Letter has been expanded (A10-12) to more clearly describe the feedback received and rationale for supporting the goodwill accounting treatment.

c) Paragraph A14 (previously A12) of the Appendix to the Comment Letter was modified to request parent company valuations also be permitted for use in the book value method.

d) Paragraph A15 (previously A13) of the Appendix to the Comment Letter had minor wording changes made for clarity.

e) The cover letter now draws attention to the recommended option to "opt up" to the acquisition method (A3) and the use of parent company valuations (A14).

6. A feedback statement summarising the key issues, stakeholder outreach and feedback, and explaining how the feedback was used to inform the comment letter has also been prepared for publication. This is included at Appendix 2.

Questions for the Board
7. Do Board members have any suggested amendments to the comment letter included in Appendix 1 or the feedback statement at Appendix 2? 8. Subject to any suggested amendments, does the Board approve the comment letter at Appendix 1 for issuance to the IASB? 9. Does the Board approve the feedback statement for publication on the UKEB website?

Next Steps

10. Subject to board approval, we will submit the final comment letter at Appendix 1 to IASB and publish both the comment letter and feedback statement on the UKEB website.

Appendices

Appendix 1 Final Comment Letter - BCUCC

Appendix 2 Feedback Statement – BCUCC

Dr. Andreas Barckow
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London
E14 4HD

[Date] August 2021

Dear Dr. Barckow

Invitation to Comment: Discussion Paper DP/2020/2 *Business Combinations Under Common Control.*

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

We welcome the opportunity to contribute to the debate on accounting for Business Combinations Under Common Control (BCUCC). Our main points on the IASB's Discussion Paper (DP) are outlined below. For detailed responses to the questions in the DP please see Appendix to this letter.

Overall, we support the proposals in the DP. They provide users of financial statements with information on BCUCC, a significant step forward from the minimal information required today. In particular, the proposals in the DP will lead to improvements over current financial reporting as follows:

1. Measurement and disclosure requirements in the DP will reduce diversity in accounting practice, improve transparency and lead to greater comparability between financial statements.

2. The proportionate approach, whereby the book value method is required in situations where non-controlling shareholders are not affected, will reduce complexity and cost for preparers.

In our detailed responses to the consultation questions in the appendix to this letter we suggest a number of refinements to IASB's proposals. These include, most notably, that: entities that qualify for the book value method should have the ability to "opt up" to use the acquisition method; and when considering the valuations to use for the book value method, the values recorded by the parent or "seller" company should also be permitted if they provide more relevant information.

If you have any questions about this response please contact the project team at BCUCC@endorsement-board.uk

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix Questions on DP/2020/2 *Business Combinations Under Common Control.*

Appendix: Questions on DP/2020/2 *Business Combinations Under Common Control*

Question 1: Project Scope
Paragraphs 1.10–1.23 discuss the Board's preliminary view that it should develop proposals that cover reporting by the receiving company for all transfers of a business under common control (in the Discussion Paper, collectively called business combinations under common control) even if the transfer: a) is 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) is conditional on a sale of the combining companies to an external party, such as in an initial public offering. Do you agree with the Board's preliminary view on the scope of the proposals it should develop? Why or why not? If you disagree, what transactions do you suggest that the Board consider and why?

A1 We support the scope suggested in the DP including in the situations noted above. We note the scope is slightly wider than that currently captured by IFRS 3 *Business Combinations* due to the inclusion of items such as "group restructurings". However, this is appropriate as (i) it fits the spirit of the proposals to provide users with information on intra-group company transactions and (ii) the slight difference in scope is likely to have little practical effect.

Question 2: Selecting the Measurement Method
Paragraphs 2.15–2.34 discuss the Board's preliminary views that: a) neither the acquisition method nor a book-value method should be applied to all business combinations under common control. Do you agree? Why or why not? If you disagree, which method do you think should be applied to all such combinations and why? b) in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company, subject to the cost–benefit trade-off and other practical considerations discussed in paragraphs 2.35–2.47 (see Question 3). Do you agree? Why or why not? If you disagree, in your view, when should the acquisition method be applied and why? c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly owned companies. Do you agree? Why or why not? If you disagree, in your view, when should a book-value method be applied and why?

A2 We agree that not all BCUCC have the same characteristics, and therefore will not require the same accounting solution. However, our outreach to stakeholders resulted in mixed feedback on the question of the best way to reflect this in accounting standards. From that feedback it is clear that the book value method is the most commonly used for BCUCC. Some have used fair values and agree with the proposals to do so where non-controlling shareholders are affected. Others prefer to continue to use book value in all instances. Stakeholders reported a wide range of drivers associated with BCUCC including legal, regulatory and tax drivers and are concerned that an overly rigid approach may compromise the ability to faithfully reflect the circumstances of the BCUCC.

A3 On balance, recognising the need to provide consistent information on BCUCC, we agree with the proposals in the DP. We agree that where BCUCC transactions have characteristics similar to those captured by IFRS 3 *Business Combinations* and affect non-controlling shareholders it is reasonable that the requirements of IFRS 3 be used. We welcome the DP proposal to use book value method, which is appropriate and proportionate for transactions which are internal to the group and where users do not need to rely solely on general purpose financial statements for information on the transaction. However we recommend that those who qualify for the book value method should have the ability to "opt up" to the acquisition method, which we consider the most appropriate treatment and which should always be available.

Question 3: Selecting the Measurement Method

Paragraphs 2.35–2.47 discuss the cost–benefit trade-off and other practical considerations for business combinations under common control that affect non-controlling shareholders of the receiving company.

a) In the Board's preliminary view, the acquisition method should be required if the receiving company's shares are traded in a public market. Do you agree? Why or why not?

b) In the Board's preliminary view, if the receiving company's shares are privately held: (i) the receiving company should be permitted to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected (the optional exemption from the acquisition method). Do you agree with this exemption? Why or why not? Do you believe that the exemption will be workable in practice? If not, in your view, how should such an exemption be designed so that it is workable in practice? (ii) the receiving company should be required to use a book-value method if all of its non-controlling shareholders are related parties of the company (the related-party exception to the acquisition method). Do you agree with this exception? Why or why not?

c) If you disagree with the optional exemption (Question 3(b)(i)) or the related-party exception (Question 3(b)(ii)), in your view, how should the benefits of applying the acquisition method be balanced against the costs of applying that method for privately held companies?

A4 At a principles level, more information should be provided when there are external users who will rely on that information for decision making, whereas a book value approach is likely to be more appropriate on cost-benefit grounds in instances where the users are less likely to be dependent on general purpose financial statements, such as those internal to the company or Group, related parties, or users who can command their own information.

A5 Where a company's shares are traded in a public market there are likely to be a large number of non-controlling shareholders who rely heavily on general purpose financial statements for decision making. In those instances, we support the use of the acquisition method, which requires more disclosure. To ensure a principles based approach and consistency of application we think the phrase "shares traded in a public market" will require further definition, and suggest the phrase "equity instruments traded in a public market" be used instead.

A6 We support the optional non-controlling shareholder exemption from using the acquisition method. We support IASB in trying to find a pragmatic approach to allow use of the book value method for private companies in circumstances where the non-controlling shareholders may be fewer in number, close to the activities of the company, and may not be reliant on general purpose financial statements.

A7 We agree a related party exemption should be made available as related parties are unlikely to rely on general purpose financial statements to meet their information needs, making the use of the book value method appropriate. However we recommend this is achieved using the same process as that proposed for the non-controlling shareholder exemption. This allows related parties to object if they deem it necessary. It provides the further advantage of streamlining the number of decision points in the decision tree at DP Diagram IN.2 .

Question 4: Selecting the Measurement Method
Paragraphs 2.48–2.54 discuss suggestions from some stakeholders that the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies. However, in the Board's preliminary view, publicly traded receiving companies should always apply the acquisition method. a) Do you agree that the optional exemption from the acquisition method should not be available for publicly traded receiving companies? Why or why not? If you disagree, in your view, how should such an exemption be designed so that it is workable in practice? b) Do you agree that the related-party exception to the acquisition method should not apply to publicly traded receiving companies? Why or why not?

A8 We agree that the optional non-controlling shareholder exemption should not be available to publicly traded companies. We consider this exemption to be a pragmatic approach, in circumstances where the non-controlling shareholders are fewer in number, close to the activities of the company and not dependent on general purpose financial statements to meet their information needs. As publicly traded companies are likely to have a large number of shareholders who rely on general purpose financial statements for decision making the optional exemption is not appropriate for these circumstances. There would also be practical barriers to this approach, such as the large number of shareholders to contact, and the frequency with which shareholders change.

A9 We feel that the related party exemption could be made available to publicly traded companies as related parties are unlikely to rely on general purpose financial statements for their information needs. However this is unlikely to be significant to the UK market as publicly traded companies where the non-controlling shareholders are all related parties are uncommon, so in practice such an exemption may seldom be used.

Question 5: Applying the Acquisition Method
Paragraphs 3.11–3.20 discuss how to apply the acquisition method to business combinations under common control. a) In the Board's preliminary view, it should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a business combination under common control. Do you agree? Why or why not? If you disagree, what approach for identifying and measuring a distribution from equity do you recommend and why? In particular, do you recommend either of the two approaches discussed in Appendix C or do you have a different recommendation? b) In the Board's preliminary view, it should develop a requirement for the receiving company to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, not as a bargain purchase gain in the statement of profit or loss, when applying the acquisition method to a business combination under common control. Do you agree? Why or why not? If you disagree, what approach do you recommend and why? c) Do you recommend that the Board develop any other special requirements for the receiving company on how to apply the acquisition method to business combinations under common control? If so, what requirements should be developed and why are any such requirements needed?

A10 The question as to whether consideration paid in excess of the fair value of the assets and liabilities acquired should be treated as goodwill resulted in a wide range of responses from UK stakeholders. Some favoured this approach while others felt that treating this as goodwill would cause confusion, reduce the understandability of financial statements and set an unwelcome precedent recognising internally generated goodwill.

A11 Having considered these views, on balance we agree with the IASB that if consideration paid is greater than the fair value of the assets and liabilities acquired it should be treated as goodwill. As this is a common control transaction and the parent company is likely to have been involved in setting the purchase price, and it would be inappropriate to record the difference in the statement of profit and loss. Recording this as goodwill seems preferable to recording the difference as a distribution from equity as goodwill is consistent with the IFRS 3 treatment users are familiar with, and the ongoing requirement to periodically test goodwill for impairment may provide useful information to users on the appropriateness of the transaction price set by management. As it is only applied in cases where non-controlling shareholders are affected it is likely to reflect the substance of the transaction. In arriving at this conclusion we considered whether the amount recognised as goodwill should be further disaggregated to separate goodwill (transaction synergies) from other distributions as illustrated at Diagram 3.12 of the DP, but concluded this was impracticable.

A12 Our support for this approach is predicated on IASB resolving the issues currently associated with goodwill which were raised in the UKEB Secretariat's recent response to discussion paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment.*

A13 We agree with IASB's position that, if consideration is less than the fair value of the assets and liabilities acquired, the resulting gain should be treated as a contribution to equity rather than recorded in profit and loss. We acknowledge the difference in treatment to that applied to arm's length transactions under IFRS 3. However, in a transaction under common control, the parent company is likely to have been involved in setting the purchase price, making the equity solution the appropriate reflection of that control. By ensuring that the statement of profit and loss remains unaffected by shortfalls in the purchase price this most closely reflects the substance of the transaction and reduces the likelihood of structuring opportunities within the Group.

Question 6: Applying a Book Value Method
Paragraphs 4.10–4.19 discuss the Board's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should measure the assets and liabilities received using the transferred company's book values. Do you agree with the Board's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

A14 We agree in principle that, when the book value method is used, the receiving company should measure the assets and liabilities received using the transferring company book values. This is the least complex and most cost-effective approach to accounting for such transactions. It also ensures that trend analysis of the assets and liabilities is not interrupted by the transaction for users who track this information. In addition UK stakeholders made compelling arguments that valuations in the parent or "seller" company should also be permitted in circumstances where this is considered to provided more relevant information, and we recommend the proposals be expanded to include this.

A15 With regards to applying the book value method we have already heard from, and concur with, stakeholders who recommend that further consideration should be given to the practical implications of this approach. For example, paragraph 4.17 of the DP implies that transferring entities, which do not apply IFRS standards, would need to first convert to IFRS accounting to use book value method. We agree IFRS should be used, but this should be explicitly stated. We recommend that the IASB develops further guidance and examples to assist in developing a greater understanding as to how the book value method would be applied in practice. We would be happy to discuss further detail of the feedback received on practical guidance with IASB staff if this would be useful.

Question 7: Applying a Book Value Method

Paragraphs 4.20–4.43 discuss the Board's preliminary views that:

a) the Board should not prescribe how the receiving company should measure the consideration paid in its own shares when applying a book-value method to a business combination under common control; and

b) when applying that method, the receiving company should measure the consideration paid as follows:

  (i) consideration paid in assets—at the receiving company's book values of those assets at the combination date; and

  (ii) consideration paid by incurring or assuming liabilities—at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards.

Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

A16 We agree that IASB should not prescribe how the receiving company should measure the consideration paid in its own shares when applying a book value method. This approach is consistent with other IFRS standards. Measurement of issued shares and the reporting of components of equity are more likely to be determined by national requirements and regulations, and so are generally not prescribed in IFRS standards.

A17 We agree with IASB's recommended approach for measuring consideration paid in assets and liabilities. The book value method approach of using the receiving company book values at the combination date is consistent with its aims to provide a cost-effective approach to accounting for BCUCC transactions. In the case of liabilities being created or assumed by the transaction a number of accounting standards already deal with the recognition and measurement of liabilities. There is no reason to create further requirements that are specific for BCUCC.

Question 8 Applying a Book Value Method

Paragraphs 4.44–4.50 discuss the Board's preliminary views that:

a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and

b) the Board should not prescribe in which component, or components, of equity the receiving company should present that difference.

Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

A18 We agree that when applying the book value method any difference between consideration and the book value of the assets and liabilities acquired should be recognised in equity. Our stakeholders tell us that this is a common method used in practice today. The simplicity of this approach and the use of readily available information makes it a cost-effective solution to accounting for BCUCC. The most significant benefit of the proposals in the DP is to develop consistency of practice. A simple and low cost approach, that can be easily applied by all companies adopting the book value method, is consistent with that goal.

A19 For the reasons described in A16 above, we agree that IASB should not prescribe the components of equity where any difference between the consideration paid and the book value of the assets and liabilities received should be presented.

Question 9: Applying a Book Value Method

Paragraphs 4.51–4.56 discuss the Board's preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

A20 We agree that when applying the book value method, the receiving company should recognise the transaction costs in the period in which they are incurred. This is consistent with the requirements of IFRS3. We agree that costs of issuing shares and debt instruments should be an exception to this and should be accounted for in accordance with existing IFRS standards.

Question 10: Applying a Book Value Method

Paragraphs 4.57–4.65 discuss the Board's preliminary view that, 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.

Do you agree with the Board's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

A21 We agree with the prospective approach to application. Retrospective application would be more complex and costly, which is not necessary for transactions that qualify for the book value approach.

A22 However, we think that management should have the option to choose retrospective application in certain cases. For example BCUCC undertaken in preparation for a financing transaction or regulated activity may require multiple year restated IFRS information to be made available, and it is reasonable that the financial statements are able to reflect this. Suitable disclosure, including that restatement had taken place, should be required in such cases.

Question 11: Disclosure Requirements
Paragraphs 5.5–5.12 discuss the Board's preliminary views that for business combinations under common control to which the acquisition method applies: (a) the receiving company should be required to comply with the disclosure requirements in IFRS 3 Business Combinations, including any improvements to those requirements resulting from the Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment; and (b) the Board should provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 Related Party Disclosures when providing information about these combinations, particularly information about the terms of the combination. Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

A23 We agree that the disclosure requirements of IFRS 3 *Business Combinations* should apply when the acquisition method is used. Where BCUCC have similar characteristics to a business combination under IFRS3 it is reasonable that users would have similar information needs, and would expect disclosures consistent with those of IFRS 3. We agree with IASB that application guidance will be useful to ensure consistency of application, which supports the objective of BCUCC being reported in a more consistent manner than today.

Question 12: Disclosure Requirements
Paragraphs 5.13–5.28 discuss the Board's preliminary views that for business combinations under common control to which a book-value method applies: (a) some, but not all, of the disclosure requirements in IFRS 3 Business Combinations, including any improvements to those requirements resulting from the Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment, are appropriate (as summarised in paragraphs 5.17 and 5.19); (b) the Board should not require the disclosure of pre-combination information; and (c) the receiving company should disclose: (i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and (ii) the component, or components, of equity that includes this difference. Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

A24 We agree with the IASB's proposals. Requiring only a subset of the IFRS 3 *Business Combinations* disclosures when the book value method is used is a proportionate response.

A25 We agree that the disclosure of pre-combination information should not be required. Pre-combination values are likely the same as the transferred values under the book value method, so further disclosure is unlikely to provide benefit to users which outweighs the cost to preparers

UKEB [DRAFT] FEEDBACK STATEMENT

IASB DP/2020/2 Business Combinations Under Common Control

[date] August 2021

The UK Endorsement Board (UKEB) is the UK's National Standard Setter for IFRS. Its statutory functions include influencing the development and subsequent adoption of International Accounting Standards for use in the UK. UKEB's comment letter on this IASB Discussion Paper forms part of those influencing activities and is intended to contribute to the International Accounting Standards Board's (IASB) due process.

The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

Contents

Purpose	4
Background	5
IASB's main proposals	6
UKEB comment letter	7
Project approach	8
IASB's main proposals, stakeholder views and UKEB position	9

Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB Secretariat's outreach activities on the IASB's DP/2020/2 *Business Combinations Under Common Control* and explains how the UKEB comment letter addressed those views.

UKEB

Background to the IASB's Discussion Paper

The discussion paper was produced as part of an IASB research project into business combinations under common control (BCUCC)—combinations in which all of the combining companies or businesses are ultimately controlled by the same party, both before and after the combination.

The project arose in response to stakeholder feedback that the lack of a specifically applicable IFRS Standard for such combinations has resulted in diversity in practice. Furthermore, companies often provide little information about such combinations.

The objective of the project was to explore possible reporting requirements for a receiving company that would reduce that diversity in practice and provide users of the receiving company's financial statements with better information about these combinations. The Discussion Paper summarised and sought feedback on IASB's preliminary views on these matters.

UKEB

Overview – the IASB's main proposals

The Discussion Paper addresses the accounting and disclosure requirements for the receiving company.

1. Selection of methodology

IASB propose that not all BCUCC are the same, and therefore they do not require the same accounting treatment. BCUCC where the receiving company has shares traded in a public market should be accounted for using the acquisition method, while others should use the book value method. Non-controlling shareholder and related party exemptions to the use of the acquisition method are available. When using the book value method it is the book values recorded in the transferring company that should be used.

2. Treatment of differences between consideration and the fair value of assets/liabilities acquired

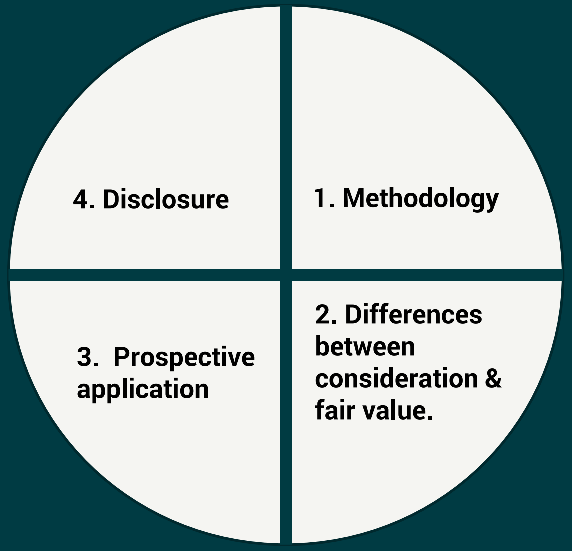
Entities using the acquisition method would treat consideration in excess of fair value as goodwill and fair value in excess of consideration as a distribution of equity (not a bargain purchase gain through the statement of profit and loss). For entities using the book value method it is proposed that all differences between consideration and fair value be treated as a contribution to/ distribution from equity.

3. Prospective application

Where the book value method is used IASB propose prospective application of the requirements, with no need for disclosure of pre-combination information or retrospective application.

4. Disclosure

IASB propose that those following the acquisition method prepare the disclosures required by IFRS 3 *Business Combinations*. Those following the book value method prepare a specified subset of the IFRS 3 disclosures.



UKEB

UKEB comment letter

The UKEB comment letter expressed the following views on IASB's main proposals:

Overall view.

The UKEB supported the IASB proposals in general, noting they provided users with consistent information on BCUCC, a significant step forward from the minimal information required today.

1. Methodology.

UKEB agreed that not all BCUCC have the same characteristics and therefore do not require the same accounting solution. UKEB supported the requirement for companies with publicly traded equity instruments to use the acquisition method, while the book value method is used in other circumstances. UKEB recommend that those who qualify for the book value method should have the option to "opt up" to the acquisition method where they consider it appropriate. UKEB supported the use of the non-controlling shareholder and related party exemptions while noting the requirements could be simplified by providing these parties the opportunity to object under both methods. UKEB recommend that when applying the book value method parent or seller company valuations could be used to identify book value, in addition to the values in the transferring company specified by IASB.

2. Treatment of differences between consideration and fair value.

UKEB agreed that where the acquisition method is used consideration paid in excess of fair value should be treated as goodwill, while noting this support is predicated on the issues currently associated with goodwill highlighted in the recent DP/2020/1 consultation being resolved. UKEB agreed that where fair value exceeds consideration the difference should be treated as a distribution of equity, and all differences under the book value method should be treated as a contribution to/distribution from equity.

3. Prospective application.

UKEB agree with the prospective approach to application however recommend that an option be made available to elect retrospective application where appropriate, for example in preparation for a financing transaction, subject to disclosure that a retrospective method has been used.

4. Disclosure

UKEB agree that entities using the acquisition method should prepare the disclosures required by IFRS 3 *Business Combinations*. Those using the book value method prepare a specified subset of the IFRS 3 disclosures.

UKEB

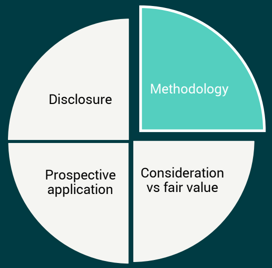
Project approach

The UKEB's outreach activities took place between March and June 2021. The outreach approach was underpinned by the UKEB's guiding principles of thought leadership, transparency, independence and accountability. Outreach activities included an educational video in conjunction with IASB to raise awareness of the proposals and the opportunity to comment, a stakeholder survey, and public consultation on the UKEB' s draft comment letter.

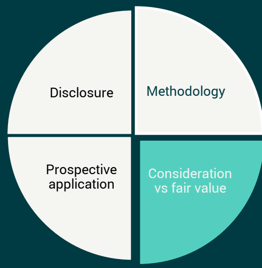
Four preparers of financial statements responded to the stakeholder survey, one investor provided feedback via interview, and one accounting membership body provided formal feedback on the UKEB draft comment letter. All comments and views shared by UK stakeholders were considered in reaching our final position. We also exchanged views with regulators and other national standard setters.

Methodology: UKEB comment letter

IASB proposals, stakeholder views, and UKEB Secretariat position



IASB proposals	Stakeholder views	UKEB draft position	UKEB final position
Not all BCUCC are the same so do not require the same accounting solution. Receiving companies with publicly traded equity to use the acquisition method.	Mixed. • Most agreed that "one size does not fit all". • One stakeholder preferred book value be used in all instances, while another preferred that the acquisition method be used as often as possible. • Concern was expressed that the dividing line between methods not be too rigid. An option for those who qualify for book value accounting to "opt up" to the acquisition method was supported.	Support	Support, but with the option for those who qualify for book value accounting to "opt up" to the acquisition method where they consider this appropriate.
Exemptions to this are available to private companies for related parties and under the non-controlling shareholder exemption.	Mixed. • One stakeholder agreed with the principle while noting there may be practical issues. • Two others preferred the decision to be an accounting policy choice rather than a shareholder exemption. • Two stakeholders thought the exemption should extend to public companies in some or all circumstances.	Support.	Support.
The book values in the transferring company should be used for the book value methodology.	Mixed. • Most stakeholders requested a wider range of values be considered, such as book values in a parent company or selling entity. • Two stakeholders noted it was unclear whether non-IFRS book values could be used for this purpose. The need for further practical guidance with the book value method was noted.	Support.	Support, but recommend that other valuations such as parent company should also be permitted. Recommend that non IFRS book values should be converted to IFRS.



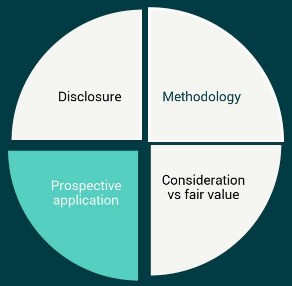
Consideration & fair value: UKEB comment letter

IASB proposals, stakeholder views, and UKEB Secretariat position

IASB proposals	Stakeholder views	UKEB draft position	UKEB final position
Acquisition method: Consideration in excess of fair value treated as goodwill.	Mixed. One stakeholder agreed with this approach, another expressed concern that this treatment would be confusing for users, particularly at company and sub-consolidation levels, inconsistent with the substance of the transaction and inconsistent with the principle that internally generated goodwill should not be recognised.	Support subject to the issues currently associated with goodwill identified in the recent response to DP/2020/1 being resolved.	Acknowledged the range of opinions on this issue. Supported goodwill treatment subject to the issues currently associated with goodwill identified in the recent response to DP/2020/1 being resolved.
Acquisition method: Fair value in excess of consideration treated as distribution of equity not as a bargain purchase gain through profit & loss.	All stakeholder feedback agreed with the IASB proposals.	Support.	Support.
Book value method: All differences between consideration and fair value treated as a distribution from/ contribution to equity.	All stakeholder feedback agreed with the IASB proposals.	Support.	Support.

UKEB

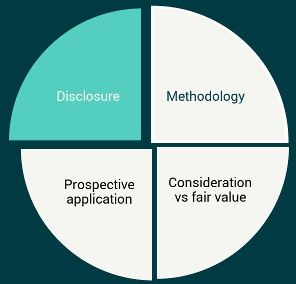
Prospective application: UKEB comment letter



IASB proposals, stakeholder views, and UKEB Secretariat position

IASB proposals	Stakeholder views	UKEB Secretariat draft position	UKEB Secretariat final position
Those using the book value method will apply the requirements prospectively, with no requirement to disclose pre combination information or perform retrospective application.	Mixed. One stakeholder disagreed with this approach, while others supported it.	Support, but expand to allow retrospective application if required for regulatory or financing purposes, subject to suitable disclosure.	Support, but expand to allow retrospective application if required for regulatory or financing purposes, subject to suitable disclosure.

UKEB



Disclosure: UKEB comment letter

IASB proposals, stakeholder views, and UKEB Secretariat position

IASB proposals	Stakeholder views	UKEB Secretariat draft position	UKEB Secretariat final position
Acquisition method to use IFRS 3 *Business Combinations* disclosures.	Most stakeholders agreed with this approach. One noted there may be some circumstances in which this disclosure could be too onerous for a common control transaction.	Support	Support.
Book value method to use a specified subset of the IFRS 3 disclosures.	Stakeholders agreed that some of the specified disclosure would be useful to users but noted that some or all of these disclosures would be burdensome to preparers. All respondents to the stakeholder survey agreed that a reduced disclosure regime in cases where the receiving company had no external debt or equity would be welcome.	Support*	Support*

* UKEB considered the concept of a reduced disclosure regime in such circumstances, but noted that there is no equivalent concept of reduced disclosure in other standards. It was concluded this would be better addressed in an IFRS-wide disclosure project rather than within individual standards such as IFRS 3/ BCUCC.

Disclaimer

This feedback statement has been produced in order to set out the UKEB’s response to stakeholder comments received on the IASB’s *Business Combinations Under Common Control* DP/2020/2 and should not be relied upon for any other purpose. The views expressed in this feedback statement are those of the UK Endorsement Board at the point of publication. Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

Contact Us

UK Endorsement Board

8th Floor | 125 London Wall | London | EC2Y 5AS | United Kingdom

Contact@endorsement-board.uk

Web: www.endorsement-board.uk