IFRS Alert

Discussion paper ‘Business Combinations under Common Control’

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Executive Summary

The International Accounting Standards Board (IASB) has issued a discussion paper DP/2020/2 ‘Business Combinations under Common Control’ for public consultation on possible accounting requirements of acquisitions involving the same group. These acquisitions are commonly known as business combinations under common control (BCUCC).

The discussion paper is open for comment for 270 days (extended from its usual 180 day period due to COVID-19) until 1 September 2021 and Grant Thornton International Ltd will be responding.

Background

IFRS 3 ‘Business combinations’ sets out the accounting and disclosure requirements for business combinations. IFRS 3 applies to all business combinations identified as such under IFRS 3 with three exceptions, one of which is a combination of entities or businesses under common control. Business combinations involving common control frequently occur.

Broadly, these are transactions in which an entity obtains control of a business (hence a business combination) but both combining parties are ultimately controlled by the same party, or parties, both before and after the combination and that control is not transitory. These combinations often occur as a result of a group reorganisation in which control of subsidiaries changes at a certain level within a group as a result of reclassification of ownership interests between the members of the group, but where control by the ultimate parent remains the same over those subsidiaries.

As a result of the lack of guidance there is diversity in practice on how these transactions are accounted for. Consequently, it is difficult for investors to compare entities that are undertaking these similar transactions and their impact.

The Discussion Paper ‘Business Combinations under Common Control’ stipulates the Board’s preliminary views on how to fill this gap in IFRS 3 caused by this scope exemption. The IASB is aiming to reduce diversity in practice and improve transparency and comparability when reporting these transactions.

The IASB's preliminary views

The IASB is suggesting two approaches. Firstly, if the BCUCC impacts shareholders outside the group, the assets acquired and liabilities assumed should be recorded at their fair values (ie using the 'acquisition method'). This is consistent with the approach already required in IFRS 3 for regular business combination accounting. Secondly, if the BCUCC does not impact any shareholders outside the group (ie a BCUCC in any other situation) then the assets and liabilities will be recorded at their book values (ie the 'book-value method').

The IASB is further suggesting that the acquisition method should be applied as it currently stands in IFRS 3. This means deducting the assets and liabilities at fair value from the consideration received and recognising the difference as goodwill. The book-value method would be a single method to be applied that will be specified in the standards (currently there are a variety of book-value methods being used).

Consultation

The IASB are seeking feedback on the following:

- The suggested methods and how they would be selected
- The application of each of the methods, and
- Disclosures required for these transactions.

Next steps

The deadline to comment on this discussion paper is 1 September 2021, after which the IASB will consider implementing some or all of its suggestions into an exposure draft.

Our thoughts

We believe this is an important topic and we strongly support guidance being issued on this matter. Common control combinations occur regularly as businesses look for ways to restructure themselves internally to maximize growth and operational efficiency. The lack of guidance in the current standard has existed for many years and in June 2018, we published our views on this in an **IFRS Viewpoint 'Common control business combinations'**. Now that the IASB is addressing this topic we should see the diversity that currently exists in practice significantly reduce, which in turn should provide better information to investors.