



IFRS Newsbrief

Updates on IASB's project
about Business combination
under common control

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Key points

The current International Financial Reporting Standards (IFRS) do not provide specific guidance on how to account for business combinations involving companies controlled by the same party. As a result, companies tend to provide limited information and report on these combinations in different ways, leading to inconsistencies in financial statements. This diversity in practice poses challenges for users in understanding the impact of such combinations and comparing companies engaged in similar transactions.

Recognising the need to address this issue, the International Accounting Standards Board (IASB) conducted research and published a discussion paper in 2020, seeking to explore potential reporting requirements that could reduce the variability in practice and enhance transparency and comparability in reporting on these combinations.

However, in November 2023, after its consideration, the IASB has decided not to proceed with the development of specific reporting requirements for business combinations under common control. Entities having this type of transaction would need to continue to assess and select the most appropriate accounting policy to be used.

Contents

1. Introduction and objective of the project
 2. The process
 3. Discussion paper in 2020
 4. The conclusion
 5. Current guidance
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1.

Introduction and objective of the project

A business combination under common control (BCUCC) is a type of business combination. In a BCUCC the combining entities or businesses are ultimately controlled by the same party before and after the combination.

IFRS 3 Business Combinations does not cover how a receiving entity reports a BCUCC, which has led to:


- diversity in how receiving entities report BCUCCs;
- receiving entities often disclosing limited information about BCUCCs; and
- stakeholders (such as preparers, auditors and regulators) incurring costs in determining how to account for a BCUCC.

The variety of how the receiving entities used in reporting BCUCCs in practice are:

- apply different measurement methods (for example: IFRS 3's acquisition method or a book-value method); and
- apply variations of a book-value method.

Some jurisdictions have developed local requirements for reporting BCUCCs, which reduce diversity in practice within a jurisdiction. However, because local requirements vary between jurisdictions, reporting practices vary globally.

The IASB researched whether to develop requirements for a receiving entity reporting a BCUCC and published a discussion paper in 2020 in order to decide if a new standard is required for this type of transaction. The objective of the project was to explore reporting requirements for BCUCCs for the purpose of reducing diversity and improve transparency.






2. The process

The project involved gathering evidence from stakeholders, including investors, preparers, auditors, regulators, and accounting standard-setters. The IASB also considered academic literature, local requirements, and feedback on their preliminary views. Through its desktop review over 68,000 companies worldwide and identified 267 BCUCCs (half of it were reported by entities listed in China), they found that receiving entities mostly applied a book-value method in reporting BCUCCs, with some entities using the controlling party's book values and others using the transferred business's book values, remaining (42%) is unclear which entity's book values were used. The review also identified variations in the information disclosed about BCUCCs, which could be due to materiality or the lack of specific disclosure requirements.

A Discussion Paper was published in 2020, summarizing the IASB's preliminary views on reporting BCUCCs. The Discussion Paper defined the objective, scope and focus of the project, and covered:

- selecting which measurement method to apply;
 - applying the acquisition method;
 - applying a book-value method; and
 - developing disclosure requirements.
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3. Discussion paper 2020

IASB's preliminary view about the criteria when selecting which method to apply in a BCUCC are:

- Does the combination affect non-controlling shareholders of the receiving company and are the receiving company's shares traded in a public market?
- Are all non-controlling shareholders related parties of the receiving company (the related-party exception)?
- Has the receiving company chosen to use a book value method, and have its non-controlling shareholders not objected (the optional exemption)?

Given that the transferring company has already completed the transaction of selling the transferred company with all gains or losses realised in the statement of profit or loss, the receiving company is the party most affected by the reporting requirements for this transaction. Overall, if the receiving company has no non-controlling shareholders, or (in case its shares are not traded in a public market) if all non-controlling shareholders are related parties or have not objected to the book value method, then the book value method should be used. Otherwise, the acquisition method is recommended.

Stakeholders' views on the paper were divided, particularly regarding measurement methods and the application of a book-value method. Most respondents agreed that neither method should apply universally, but had varying opinions on which cases require which method. The use of book value method received comments on which entity's book values to use (for example: the controlling party's or the transferred party's). There were also discussions on whether the receiving entity should restate pre-combination information and disclose pre-combination information about the transferred business.



4. The conclusion

After considering the feedback received and extensive consultations with various groups, the IASB has decided not to pursue the development of recognition and measurement requirements for BCUCCs. This decision was based on factors such as the infrequent occurrence of BCUCCs, diverse user information needs across jurisdictions, the lack of consensus on specific requirements, and the costs of developing and implementing new requirements being deemed to outweigh the benefits. Similarly, the exploration of disclosure-only requirements was also discontinued as it was determined that existing general disclosure requirements in the IFRS has provided disclosure requirements for this type of transaction.



5. The current guidance

The current IFRS include some general requirements that apply to BCUCCs, for example, requirements for an entity:

- to develop, and disclose information about, its accounting policies (IAS 8); and
- to disclose information about related party transactions (IAS 24).

In situations where there is no specific standard or interpretation that directly applies to a particular transaction, entities are required to exercise judgment in developing and applying accounting policies that are relevant and reliable for users. This involves considering the definitions, recognition criteria, and measurement concepts outlined in the Framework, and applying them to the specific facts and circumstances of the transaction in order to establish accounting policies and disclosures that comply with the requirements of IAS 8.



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