Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Business Combinations under Common Control**	**Meeting:**	M182
Topic:	**IASB DP/2020/2 proposals – staff analysis**	**Agenda Item:**	3.1
		Date:	26 July 2021
Contact(s):	Eric Lee elee@aasb.gov.au Evelyn Ling eling@aasb.gov.au Helena Simkova hsimkova@aasb.gov.au	**Project Priority:**	Medium
		Decision-Making:	High
		Project Status:	Develop Board response to IASB DP/2020/2

Objective of this paper

1 At its 24-25 February 2021 meeting, the Board agreed to make a submission to the IASB on IASB Discussion Paper DP/2020/2 *Business Combinations under Common Control* (IASB DP/2020/2 or IASB DP). The objective of this agenda item is for the Board to consider the feedback received and **decide** its response to each of the 12 specific matters for comment posed in the Discussion Paper, and matters for inclusion in the cover letter.

Background

2 In November 2020, the International Accounting Standards Board published IASB Discussion Paper DP/2020/2 *Business Combinations under Common Control* for comment by 1 September 2021. IASB DP/2020/2 set out the IASB's preliminary views on reporting requirements that would help companies provide better information about their business combinations under common control. The DP is the first step in the IASB's project to filling the gap caused by excluding business combinations under common control from the scope of IFRS 3 *Business Combinations*.

3 AASB Invitation to Comment, ITC 42 *Business Combinations under Common Control*, corresponding to IASB DP/2020/2 was issued in December 2020.[1] The ITC 42 comment period closed 17 July 2021.

Attachments

4 The following documents are included for Board member reference:

(a) Agenda Paper 3.2 IASB DP/2020/2 *Business Combinations under Common Control*;

(b) Agenda Paper 3.3 Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) submission to ITC 42

(c) Agenda Paper 3.4 IASB DP/2020/1 *Business Combinations—Disclosures, Goodwill and Impairment*.

1 ITC 42 is available on the AASB website at https://www.aasb.gov.au/admin/file/content105/c9/ITC42_12-20.pdf

Structure of the paper

5 The staff paper is structured as follows. Each section includes a summary of stakeholder feedback received and staff analysis of the IASB DP proposals:

(a) Outreach activity – paragraphs 6 – 10;

(b) Section 1 – Objective, scope and purpose – paragraphs 11 – 18 (AASB Questions 1 & 2);

(c) Section 2 – Selecting the measurement method – paragraphs 20 – 36 (AASB Questions 3 – 5);

(d) Section 3 – Applying the acquisition method – paragraphs 39 – 52 (AASB Question 6);

(e) Section 4 – Applying a book-value method – paragraphs 53 – 78 (AASB Questions 7 – 11);

(f) Section 5 – Disclosure requirements – paragraphs 79 – 102 (AASB Questions 12 & 13);

(g) Cover letter and other matters – paragraph 103 (AASB Questions 14 & 15); and

(h) Next steps – paragraphs 104 – 105 (AASB Questions 16 & 17).

Outreach activity

6 Staff conducted the following educational and outreach activity to gather views from stakeholders:

(a) 4 March and 1 June 2021 – AASB User Advisory Committee meeting;

(b) 30 March 2021 – IASB and AASB webinar (educational session);

(c) 5 May 2021 – AASB virtual roundtable (16 participants); and

(d) 16 June 2021 – AASB Business Combinations Panel and invited stakeholders meeting (15 participants; 3 participants also attended the roundtable event).

7 Stakeholder feedback from the outreach event on 16 June 2021 is included in this paper and summarised together with the feedback from the first four events.[2] The Business Combination Panel meeting was attended by invited stakeholders from the public sector (4 organisations, including a government-owned business enterprise), academics (2), regulators (2), audit firms (2) and for-profit companies (2)). IASB project staff and/or IASB Board member Ann Tarca attended each event.

8 In addition to the staff outreach events, one (1) formal submission was received in response to ITC 42 (attached as Agenda Paper 3.2). Additionally, staff received informal feedback on the IASB's proposals from two (2) other organisations and an (1) academic.

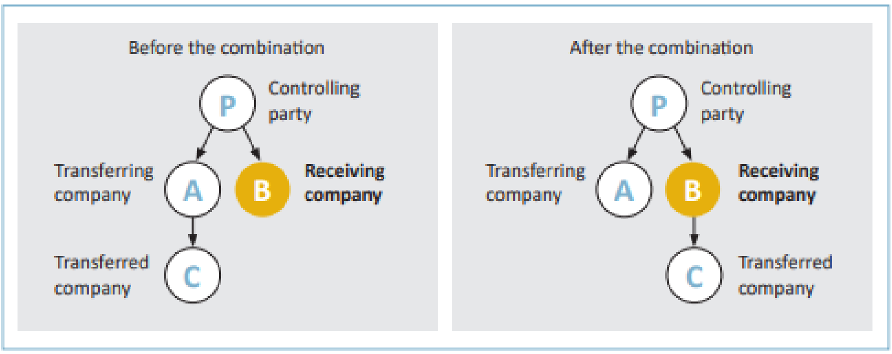
9 In the main, the feedback received related to the applicability of the proposals to for-profit entities, rather than not-for-profit entities or public sector entities. However, some public sector stakeholders sought clarification from the AASB on how the proposals would apply to

2 Staff presented feedback from the first four events at the 21-22 June 2021 AASB meeting as part of Agenda Paper 11.1 *Summary of AASB Virtual Roundtable on AASB ITC 42 Business Combinations under Common Control* (link to the agenda paper: https://www.aasb.gov.au/media/bvphbhtg/11-1_sp_bcuccroundtablesummary_m181_pp.pdf)

public sector entities. A stakeholder suggested the AASB develop guidance on the definition of a "business", for application by public sector entities.

10 The remainder of this paper summarises the feedback received throughout the outreach period and staff's analysis and recommendations to the IASB DP specific matters for comment. The staff paper references the following entities, where relevant, for descriptive clarity (image sourced from IASB DP/2020/2):

Diagram IN.1—A business combination under common control



IASB DP/2020/2 Section 1 – Objective, scope and purpose (Question 1)

11 The first part of the IASB DP addresses the scope of the project. Question 1 of the IASB DP is as follows:

Question 1
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?

Summary of stakeholder feedback

12 Limited direct feedback was received to Question 1, as in the interests of time, the AASB outreach events focused mainly on Section 2 – 4 proposals. However, stakeholders generally supported (or did not raise concerns about) the scope of the IASB project, including the proposed scope-in of:

(a) transfers for which control might be transitory due to sale of one or more of the combining companies following the combination, and

(b) group restructuring activity that would not meet the definition of a 'business combination'.

13 A stakeholder noted the potential for (b) – group restructuring activity that would not meet the definition of a 'business combination' – to create confusion for users of the accounting

standard, and recommended that the IASB exercise care in the terminology used. For example, a transaction in which a business is transferred into a 'NewCo' does not meet the definition of a 'business combination' but is referred to as such in the IASB DP.

14 Several stakeholders observed the IASB should also:

(a) consider, as part of a longer-term multi-phased project, other 'gaps' in IFRS 3, including the accounting for other forms of transfers not involving a business; or

(b) address the accounting by the transferring company, to address the non-symmetrical result otherwise on the application of the book-value method and in order to provide clarity as to the practical impact of the business combination on the group's consolidation processes. For example, a stakeholder suggested the IASB develop examples to clarify that Transferring Company A should deconsolidate all former consolidation adjustments it might have made relating to its consolidation of Transferred Company C, and that following the combination, these consolidation adjustments are only made by Controlling Party P;

(c) having regard to a transfer of an unincorporated business, better explain how its proposed reporting requirements would apply to the separate financial statements of an entity;

(d) develop further guidance and clarification on identifying the receiving company when there is a merger of two companies under common control; and

(e) clarify whether these proposals would apply to transfers of businesses within a jointly controlled group.

<u>Staff analysis</u>

15 Consistent with the stakeholder feedback received, staff support the scope of the IASB project, including the proposed scope-in of (1) transfers for which control might be transitory due to sale of one or more of the combining companies following the combination, and (2) group restructuring activity that would not meet the definition of a 'business combination'. Staff consider better comparability for such combinations would provide useful information to users of the receiving company's financial statements.

16 However, staff think the IASB project scope should also extend to:

(a) developing proposals that address the reporting by the Transferring Company for all transfers of a business under common control. Staff consider that:

(i) it would be appropriate for this project to develop application guidance or illustrative examples responding to the practical clarifications requested by stakeholders; and

(ii) the IASB should consider the appropriateness of the IFRS 10 accounting by the Transferring Company given the lack of symmetry and other concerns (see discussion at Question 5) otherwise resulting from the IASB preliminary views. Staff note that IASB staff have explained that symmetry in accounting in this regard is not necessary, as other instances exist where the accounting is not symmetrical. Nevertheless, staff agree with the concern raised by stakeholders and consider that it would be appropriate for the IASB to reaffirm that accounting as part of this project and explain why it has reached this conclusion.

(b) addressing transfers of interests in an associate to another entity within the group, and transfers of businesses within a jointly controlled group. Staff note that we did not receive any feedback requesting transfers of associates or joint ventures to be addressed as part of this project. However, staff think the IASB should consider these aspects as conceptually, the same proposed accounting should apply to such transfers. For example, where nothing has changed other than which group entity has ownership of the associate asset, IAS 28 *Investments in Associates and Joint Ventures* might be read as requiring the excess of the Receiving Company's share of the net fair value of the transferred investee's identifiable net assets over the cost of the investment to be recognised in profit or loss (IAS28.32). Such accounting would appear to be inconsistent with the IASB's proposals for the book-value method applicable to transfers of subsidiaries within a wholly-owned group, where the Receiving Company would recognise an equity contribution rather than gain on bargain purchase.

17 In response to other stakeholder feedback received, staff:

(a) concur that the application of "business combination accounting" to a combination that is not a "business combination" as defined has the potential to create confusion;

(b) concur that there are other 'gaps' or improvements that the IASB could address. However, staff think that the appropriate place to make this comment would be as part of the AASB response to the IASB's request for comment on its Third Agenda Consultation to the extent these matters had not formed part of the findings from the IASB's post-implementation review of IFRS 10 -12. (Consequently, staff do not suggest the AASB submission to the IASB DP include comment in this regard. Staff note that the Board formed at its 21-22 June 2021 meeting a preliminary response to the Third Agenda Consultation – this did not include identifying projects relating to group accounting or transfers of collection of assets);[3]

(c) think there is no need at this time to, where an unincorporated business is transferred, seek more clarity on how the proposed reporting requirements would apply to the separate financial statements of an entity. This is because the project is only at a discussion paper stage. Staff think that whether more clarity is needed on how requirements would apply to separate financial statements can be considered at the project's exposure draft stage;

(d) think there is no need at this time for the AASB submission to encourage guidance be developed on how to identify the receiving company when there is a merger of two companies under common control. This is because similar considerations already apply to business combinations between unrelated parties for combinations accounted for using the acquisition method.[4] For combinations accounted for using a book-value method, the IASB DP/2020/2 proposal is that the legal acquirer in these instances (whether one of the combining parties or a newly established company) is identified as the accounting acquirer.

18 **Staff recommendation.** Staff think the Board submission should:

(a) **agree** that scope of the IASB's project should include the transactions proposed;

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3 The tentative content of the AASB submission is detailed in AASB Action Alert 21-22 June 2021 (https://www.aasb.gov.au/media/zx0fzkh5/208-actionalert.pdf)

4 The AASB submission to the IASB *Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities* did not include comment in this regard.

(b) additionally support the scope of the IASB project being extended to developing proposals that address the reporting by the Transferring Company for all transfers of a business under common control; and

(c) observe the potential for confusion caused by the extension of the definition of a 'business combination' to transfers that are not business combinations as defined.

19 Staff have mixed views whether the Board submission should seek the scope of the IASB project being extended to transfers of interests in an associate to another entity within the group, and similarly, to transfers of businesses within a jointly controlled group:

(a) some staff consider the submission should observe that the scope of the project should include these transactions given their similarity to combinations already within the project scope; while

(b) other staff consider the submission should not include such comment as stakeholders did not raise concerns about the accounting for such transfers during staff outreach activity; suggesting that it is not a significant concern of stakeholders and therefore not a priority for a standard-setting activity. Staff also noted that any scope extension could result in further delay of the project.

Questions for Board members

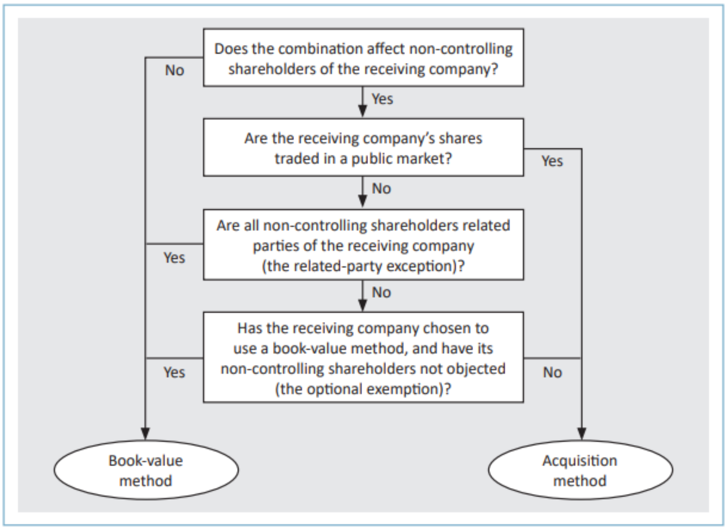
Q1 Do Board members agree with the staff analysis and proposed response in paragraph 18 to Question 1 to IASB DP/2020/2? If not, how do Board members want to respond to the question?

Q2 Do Board members want to include comment on extending the project scope to transfers of interests in an associate to another entity within the group, and transfers of businesses within a jointly controlled group (paragraph 19)?

IASB DP/2020/2 Section 2 – Selecting the measurement method (Questions 2 – 4)

20 The IASB's measurement method selection proposals are summarised in the flowchart below (flowchart extracted from IASB DP/2020/2).

Diagram IN.2—Summary of the Board's preliminary views



21 Questions 2 – 4 of the IASB DP are as follows. The feedback and staff analysis to these questions have been presented together as the discussion is linked:

Question 2
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?
Question 3
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?
Question 4
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?

Summary of stakeholder feedback

22 Stakeholders, in the main, supported the IASB's preliminary view that neither the acquisition method nor a book-value method should be applied to all business combinations under common control. Two user-stakeholders considered that, in principle, the acquisition method should apply to all business combinations under common control, but for cost-benefit reasons, regarded a book-value method as an acceptable alternative measurement approach.

23 Several stakeholders observed that book-value method was more widely used in Australia; others reported the converse. Two preparers noted that they use a book-value method to account for their business combinations under common control involving wholly-owned subsidiaries. Several auditors observed that the measurement choice for some restructurings was made either to avoid recognition of an impairment loss or to achieve a desired fair value reset. A stakeholder recounted their experience of significant value being 'unlocked' when the acquisition method applies (e.g. through recognition of previously unrecognised intangible assets).

24 Whilst most stakeholders agreed that, in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company, many of these expressed concern with the IASB's measurement method selection proposals. Consequently, there was little stakeholder discussion about the IASB preliminary view that a book-value method be applied to all other business combinations under common control. Some stakeholders vocally supported 'true' internal restructures being accounted for by use of a book-value method.

25 In general, stakeholders did not object to the preliminary view that the acquisition method should apply if the receiving company's shares are traded in a public market. However, the stakeholder response to this question was qualified. While noting that drawing the 'dividing line' is difficult, many stakeholders were not supportive of the measurement model's focus on the ownership composition of the Receiving Company nor its limits on use of the acquisition method. Some stakeholders observed that a change in ownership interest in the economic resources transferred in the combination may occur for reason other than the Receiving Company having non-controlling shareholders. A stakeholder considered that if the exchange is not to be treated similarly to other acquisitions, the IASB should achieve comparability through mandating the approach most commonly recommended by audit firms experienced in business combinations under common control.

26 Stakeholders raised the following concerns:

(a) that the IASB has departed from a principle-based approach; here, form, rather than substance, appears to be driving the accounting outcome. As such, the proposals accord the group structuring opportunity to achieve the desired accounting outcome (e.g. through use of share-based payments to directors, or issue of convertible debt). Of note:

(i) several stakeholders questioned why the accounting should be different between (1) a receiving company with existing non-controlling shareholders and one with expected potential shareholders, or (2) a receiving company with publicly traded debt rather than publicly traded shares, or (3) a listed receiving company and private receiving company. Likewise, a stakeholder observed that a Receiving Company might be wholly-owned, but that its immediate parent entity may have non-controlling shareholders[5] – under the IASB proposals, the Receiving Company in this structure would be required to apply the book-value method; and

(ii) several stakeholders observed that the proposed measurement model creates challenges for comparability; for example between listed and non-listed companies or between companies undertaking similar combinations but for which non-controlling shareholders have made different book-value/acquisition method choices;

(b) that the proposals do not give sufficient regard to the needs of other primary users of the general purpose financial statements (e.g. preference debt/shareholders, potential shareholders), or acknowledge that non-controlling shareholders of publicly traded receiving companies might be prepared to accept book-value accounting for the combination. Of note:

(i) some stakeholders observed that more groups might want to use the acquisition method than as allowed under the proposals, including for reason that their users might prefer fair value information. A stakeholder opined that fair value information should be encouraged, especially where this provides users with more useful information;

(ii) other stakeholders considered that non-controlling shareholders of a listed Receiving Company have less 'say' or a disproportionate amount of 'say'. For example, the non-controlling shareholders of a listed Receiving Company may be a small number of parties or comprise a small percentage of the outstanding shares – yet the IASB DP preliminary view concludes that these shareholders will always want fair value information about the acquisition.

27 Many of the stakeholders consulted, having regard to the opportunity for structuring and for other reasons noted above, or because of practical application concerns, did not support the proposed related party exception and expressed only reserved support for the optional exemption.[6] For example:

(a) two stakeholders observed the interplay between the related party exception and the optional exemption as presented in the IASB diagram (replicated in paragraph 0 above), and were concerned that the related party exception could disadvantage related party shareholders who may not agree with a book-value approach. These stakeholders urged that consideration be given to providing related parties with the same choice available to other non-controlling shareholders;

(b) some stakeholders observed that identifying all related parties might be challenging. A stakeholder also recommended that the IASB consider whether there are any unintended

5 e.g. With reference to the structure presented in paragraph 10, assume non-listed Receiving Company B was only partially controlled by Controlling Party P (i.e. Receiving Company B has non-controlling shareholders). If Receiving Company B conducted the combination through a wholly-owned subsidiary between itself and Transferred Company C, the proposals would require the combination to be accounted for using the book-value method, even though after the combination there will be 'new' non-controlling shareholders with an interest in Transferred Company C. However, if the combination had been effected directly via Receiving Company B, the optional exemption becomes available.

6 One stakeholder agrees, in principle, with the proposed related party exception and the proposal that the related party exception and optional exemption should not be extended to listed receiving companies. However, that stakeholder also qualified its support.

consequences of linking the exemption to IAS 24 *Related Party Disclosures*, as IAS 24 applies to situations beyond a parent-subsidiary relationship;

(c) several stakeholders observed that a single shareholder would appear to have the ability to force selection of the measurement method for a non-listed company;

(d) a stakeholder sought further clarity as to what constitutes non-controlling shareholder objection, for example, whether agreement conditional on third party action constitutes full agreement or partial objection. That stakeholder also observed that comparability may suffer as similar transfers of businesses might be accounted for differently because of decisions by non-controlling shareholders; and

(e) a stakeholder noted that it may be difficult, practically, for the Receiving Company to inform all its non-controlling shareholders about the use of a book-value method to accord them the opportunity to object. The stakeholder gave as examples shareholders who cannot be contacted or who are under a legal disability such as bankruptcy or a deceased estate. Another stakeholder questioned whether non-controlling shareholders might necessarily be sufficiently knowledgeable to be able to make an informed decision about whether they should want the acquisition method to be applied.

28 Stakeholders also raised the following concerns:

(a) some stakeholders observed that the IASB's proposals focused on companies, rather than a broader set of reporting entities. These stakeholders questioned whether, and if so, how the DP's proposals might be extendable to other forms of Australian reporting entities (e.g. managed investment schemes, non-corporate public sector entities);

(b) a stakeholder considered that the IASB should clarify what it means by "traded". The stakeholder questioned whether this would extend to, for example, securities lending arrangements;

(c) two stakeholders suggested more care in the use of "do/does not affect non-controlling shareholders", as the reference is to the existence of non-controlling shareholders, rather than whether the non-controlling shareholders are impacted by the combination.

<u>Staff analysis</u>

29 Staff think that the accounting treatment for business combinations under common control should have regard to the substance of the transaction. Consequently, consistent with stakeholder feedback, staff agree with the IASB premise that neither the acquisition method nor a book-value method should be applied to all business combinations under common control.

30 However, staff do not support the IASB DP proposals for selection of the measurement method, nor the related party exemption. Staff think that the focus on changes in direct ownership interest in the economic resources transferred in the combination is inappropriate for the reasons given by stakeholders in paragraphs 25 – 28 above (other than paragraph 27(e))[7] and as noted in paragraph 31(a) below. Staff are particularly concerned that the proposals:

7 Staff observe this exception is not different to the exception from consolidation permitted by AASB 10/IFRS 10, which requires owners to be informed, and not object, to the parent entity not presenting consolidated financial statements. The AASB submission to the post-implementation review of IFRS 10-12 did not observe there to be any stakeholder concern with operation of this exception.

(a) do not appear to be principles-based, and are subject to entity manipulation through structuring. As such, the proposals may not improve comparability in the reporting for such business combinations;

(b) do not give sufficient regard to the needs of other primary users of the general purpose financial statements. For example, it is not clear why an entity financed via listed debt should account for a business combination under common control differently from an entity that is financed via listed shares, as the substance of such combinations appears to be similar and as such debtholders and potential debtholders will unlikely be able to obtain information via means apart from the financial statements. Whilst staff agree with the IASB view in paragraph 2.32 of the IASB DP that the less costly book-value method would provide useful information to potential shareholders, lenders and other creditors, staff think it is inappropriate for the selection of the measurement method to be apparently dictated by the information needs of the non-controlling shareholders.

(c) potentially create challenges for Australian for-profit entities that do not use a company structure or otherwise does not issue shares to assert compliance with IFRS.

31 Staff further observe the following:

(a) staff note that the Receiving Company could be the publicly traded parent of the group, rather than another subsidiary of the group (e.g. Controlling Party P acquires Transferred Company C from Transferring Company A). In this case, there is no change in ownership interest in the economic interests transferred in the combination even though the Receiving Company has non-controlling shareholders. It is unclear whether the proposals would require the Receiving Company (Controlling Party P) to account for the business combination under common control or to ignore the combination as being a transaction of no substance to the group; and

(b) staff think the related party exception is unnecessary, and unfairly disadvantages related parties that are not able to command information from the Receiving Company. For example, the information needs of a non-controlling shareholder that is an associate of the group or a director-controlled entity may not necessarily be the same as that of a non-controlling shareholder that is another wholly-owned entity in the group. Yet, because the shareholders are all related parties, the IASB DP preliminary views require the book-value method be applied; and

(c) while staff concur with the stakeholder observation that a single shareholder could impact the selection of the measurement method under the optional exception, staff observe that the exception is similar to the exception from consolidation in IFRS 10 *Consolidated Financial Statements*. For this reason, staff support the IASB's cost/benefit rationale for proposing the optional exception, subject to any feedback from the IASB Post-Implementation Review of IFRS 10 – 12 that might suggest that that exception is not operating as intended.

Possible alternative approaches for selecting the measurement model

32 Question 2(b) and 2(c) sought the submitter's views as to when the acquisition or book-value method should be applied, if the submitter disagreed with the IASB's proposals. As noted in paragraph 25 above, a stakeholder considered that the IASB should progress this project by dictating the accounting having regard to the approach most commonly used in practice. Staff do not support that approach, as practice may vary across jurisdictions. Instead, staff considered the following approaches as possible manners of progressing this project:

(a) Approach 1: Requiring all business combinations to be accounted for using the acquisition method (or book-value method)"if it meets all of the following conditions". This requirement would be similar to the optional exemption from consolidation accorded to some entities having regard to IASB considerations of the cost/benefit of having that information (refer AASB 10.4).

Some staff think such approach would allow for key supported elements (specified treatment for companies with publicly traded shares – and possibly debt – and the optional exemption) of the current IASB proposals to continue to be retained as "conditions", without placing undue emphasis on the existence of direct non-controlling shareholders.

Other staff are concerned that this approach does not appear to be consistent with the IASB DP's focus being on the information needs of the Receiving Company's non-controlling shareholders, who cannot direct the company to undertake the business combination or to provide them with the required information but must rely on the company's general purpose financial statements disclosures instead. These staff think this possible approach does not sufficiently emphasise that the existence of Receiving Company non-controlling shareholders should drive the measurement method.

(b) Approach 2: Requiring the receiving entity to determine its measurement method for a business combination under common control having regard to how similar the business combination is to a business combination conducted on arms'-length terms between unrelated parties.

Some staff think this approach recognises that the business combination has economic substance to the receiving entity, but that the significance of that economic substance is reflected by how close the transaction is to a business combination between unrelated parties.

Other staff think this approach is not plausible, as determining whether a business combination under common control is similar to one between unrelated parties is not feasible in practice or might be costly.

(c) Approach 3: Not specifying how the measurement method should be selected, but allowing the legal acquirer to make a combination-by-combination decision for each business combination under common control. This is similar to the approach the IASB took with regards to how non-controlling interest should be initially measured in a business combination (by reference to the proportionate share of the identifiable net assets acquired or at fair value).

Some staff think that even though the IASB may not specify the selection of the measurement method, this project could still reduce diversity in existing practice through specification of the accounting under an acquisition method and book-value method. These staff consider that the resource investment required to resolve and further proposals on specifying selection of the measurement model may be better diverted to other IASB projects.

Other staff consider that this approach is not a plausible alternative, as it does not assist in achieving the project objectives and therefore results of the project would not bring significant benefits over the current situation.

33 The approach suggested in 32(b) above was considered and rejected by the IASB (see IASB DP/2020/2 paragraph 2.18). Part of the IASB's rationale for rejecting this approach was its view that the assessment is subjective and as such, may not help reduce diversity in practice.

However, staff think this approach would provide the most useful information to users of the receiving entity's financial statements, as the approach is principles-based and requires transactions to be treated in accordance with their substance. This should help reduce diversity in practice. Staff note that diversity in practice will also be reduced through the IASB's proposals to specify requirements for the acquisition method and book-value method. Further, such approach, while subjective, would be more easily extendable to other entity types, such as companies limited by guarantee.

34 Additionally, staff think that 'subjectiveness' is not a sufficiently strong rationale to reject this approach. There are other instances in IFRSs subject to a high extent of subjectiveness, for example, impairment assessments or sensitivity analyses based on management forecasts and assumptions, or even some control/significant influence assessments. Staff consider that the subjectiveness of the evaluation should be reflected in the entity's IAS 1 *Presentation of Financial Statements* disclosures about its key judgements.

35 Another reason the IASB rejected the approach was a concern that it would be difficult for it to provide a workable set of indicators for companies to use in making the evaluation. Staff think that indicators are helpful to foster consistent conclusions. However, their absence alone should not cause the approach to be rejected.

36 **Staff recommendation.** Staff think the Board submission should **agree** with the IASB premise that neither the acquisition method nor a book-value method should be applied to all business combinations under common control (Question 2(a)).

37 However, staff have mixed views on how to respond to the remaining questions in IASB DP Questions 2 – 4:

(a) Some staff think that even though there are concerns with the IASB proposals, because the possible alternative approaches mooted may not be workable in practice or do not accord non-controlling shareholders the opportunity to influence the measurement method or achieve the IASB's objectives in undertaking the project (i.e. may also be problematic), the Board submission should **agree** with the remaining IASB's proposals relating to selection of the measurement method. That is, these staff think the Board submission should **agree** that:

(i) 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;

(ii) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly-owned companies;

(iii) the acquisition method should be required if the receiving company's shares are traded in a public market;

(iv) if the receiving company's shares are privately held, 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);

(v) if the receiving company's shares are privately held, 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); and

(vi) the optional exemption and related party exception from the acquisition method should not be available for publicly traded receiving companies.

38 Other staff think the Board submission, for the reasons and concerns described by stakeholders and in the staff analysis, should:

(a) **not support** the remaining IASB's proposals relating to selection of the measurement method, including (1) **disagreeing** with the focus on changes in direct ownership interest in the economic resources transferred in the combination, (2) **disagreeing** with the proposed related party exemption. These staff think the Board submission should support retention of the optional exception for the cost-benefit reasons given for its inclusion, if the IASB DP proposals are progressed in the manner proposed; and

(b) additionally, where Board members support one (or more) of the possible alternative approaches described in paragraph 32, propose the IASB consider the suitableness of the alternative approach(es).

These staff consider that an approach focussing on changes in direct ownership interest in the economic resources transferred in the combination should not be supported even if the Board is not able to identify a possible suitable alternative method for selecting the measurement method.

Questions for Board members

Q3 Do Board members agree with the staff analysis and proposed response to Question 2(a) of IASB DP/2020/2? If not, how do Board members want to respond to the question?

Q4 Do Board members agree that the Board submission should support the remaining IASB's proposals relating to selection of the measurement method (see paragraph 37(a))?

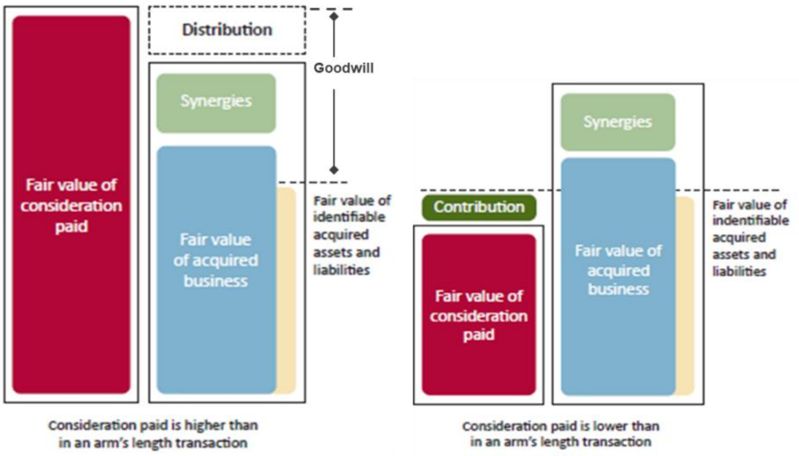
Q5 If the answer to Q4 is no, do Board members support any of the staff suggested alternative approaches noted in paragraph 32 for selecting the measurement model?

IASB DP/2020/2 Section 3 – Applying the acquisition method (Question 5)

39 As depicted in the image below (source: IASB DP/2020/2, slightly modified), the key differences from the acquisition method specified by IFRS 3 are that:

(a) goodwill is recognised for the excess between the fair value of the consideration paid and the fair value of the identifiable net assets acquired. This amount may include an element that is, in substance, a distribution from equity of the Receiving Company; and

(b) rather than a gain on bargain purchase, the Receiving Company should recognise a contribution to equity when the fair value of consideration paid exceeds the fair value of the identifiable net assets acquired.



40 Question 5 of the IASB DP is as follows:

Question 5
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?

<u>Summary of stakeholder feedback</u>

41 The majority of stakeholders consulted did not provide specific feedback to these IASB DP proposals. However, some stakeholders were concerned that:

(a) modification from IFRS 3 adds to the complexity in reporting;

(b) there was a lack of symmetry in treatment between the Transferring Company – which recognises a gain or loss on sale in profit or loss – and the Receiving Company;

(c) the preliminary view might not appropriately reflect the substance of the transaction. A stakeholder noted that in situations when consideration paid is higher than in an arm's length transactions, some of the excess consideration paid may not represent a distribution to the transferring entity. This stakeholder observed that the Transferring

Company may be only partially-owned by the controlling party, and that consequently the Transferring Company's non-controlling interest share of the excess is a cost to the group rather than a transaction with owners acting in their capacity as owners. The stakeholder considered that that portion should be expensed (rather than capitalised as goodwill) as the group does not receive a benefit from that portion of the excess consideration;

(d) there was a lack of consistency in the treatment of contributions to equity and distributions from equity. Two stakeholders expressed concern with the conceptual soundness of concluding that a business combination under common control could create goodwill but never a bargain purchase gain; and

(e) it might be challenging to fair value the identifiable net assets of the Transferred Company in a business combination under common control. A stakeholder observed their view that the audit of certain assets and liabilities (e.g. newly recognised intangible assets) may be more challenging when consideration paid is not at arm's length.

42 Contrary to the IASB view set out in paragraph 3.6 of the IASB DP, a stakeholder considered that the excess fair value of the identifiable acquired assets and liabilities over the consideration paid should be treated as a gain on bargain purchase, consistent with the acquisition method in IFRS 3 and for reason that there is no conceptual rationale for departing from the acquisition method under IFRS 3. In addition, the stakeholder observed that a bargain purchase gain should be reflected because a component of that gain 'belongs' to the Receiving Company's non-controlling shareholders. The stakeholder acknowledged however, that there could be practical challenges in determining the fair value of consideration paid when the transfer occurs between two related parties.

<u>Staff analysis – distribution from equity (Question 5(a))</u>

43 Staff agree with the IASB's reasons described in paragraphs 3.11 – 3.13 of the IASB DP for not developing 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, and concur that disclosure may serve to provide relevant information to allow users to make assessments of whether 'goodwill' includes an amount due to overpayment for the business. Staff note that some of the IASB rationale is based on the focus of its proposals on non-controlling shareholders of the receiving company, and may consequentially require revisit, depending on the IASB's decisions in Section 2.

44 Staff think the concern raised by stakeholder in paragraph 41(c) above is valid, and reflects a further component to the consideration paid in exchange for the business. However, staff think that where the group does not wholly own the Transferring Company, it is less likely that the combination would be priced in a manner that transfers wealth out of the group. For this reason, staff do not think it is necessary for the IASB to develop a requirement to treat such component separately from goodwill.

45 Staff concur with the concerns raised by stakeholders in paragraph 41(a) above, and consequently consider that the IASB must explicitly address the accounting by the Transferring Company as part of this project. (This was noted as part of the staff analysis to Question 1)

46 **Staff recommendation.** Staff think the Board submission should:

(a) **agree** that the receiving company should not be required to separately identify, measure and recognise a distribution from equity; and

(b) **recommend** the IASB consider, as part of this project, whether the accounting by the Transferred Company should be consequentially amended.

<u>Staff analysis – contribution from equity (Question 5(b))</u>

47 In principle, staff disagree with the IASB preliminary view in paragraph 3.19 of the IASB DP that the excess fair value of the identifiable acquired assets and liabilities over the consideration paid always represents a contribution to equity. Staff think that paragraph 3.6 of the IASB DP contemplates that the transaction with owners acting in their capacity as owners exists as an additional component of the transaction, rather than as a subsumption of any bargain purchase element. Consistent with the stakeholder feedback in paragraph 41(d), staff think that, just as it is possible that an amount may be paid for synergies, it is possible that a business combination under common control may include a 'true' bargain purchase gain in addition to a transaction with owners acting in their capacity as owners.

48 However, staff think that such instances are likely to be highly rare. Further, the identification, recognition and measurement challenges of separating any bargain purchase gain component from a transaction with owners acting in their capacity as owners is likely to be challenging. Given that any resultant amount would be an estimate, staff consider that the costs of separately accounting for a bargain purchase gain apart from a transaction with owners acting in their capacity as owners would outweigh the benefits of having that information. Consequently, staff support the IASB preliminary view that the receiving company should recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity.

49 **Staff recommendation.** Staff think the Board submission should **agree**, for the cost/benefit reason given above, that the receiving company should 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.

<u>Staff analysis – any other special requirements for the receiving company on how to apply the acquisition method (Question 5(c))</u>

50 Staff note the feedback received observing that it might be challenging to fair value or audit the identifiable net assets of the Transferred Company in a business combination under common control. Because such challenges are not unique to business combinations under common control, staff do not think any special requirements should be developed in this regard.

51 Staff have not identified any other special requirements necessary for the receiving company on how to apply the acquisition method.

52 **Staff recommendation.** Staff think the Board submission should note that no other special requirements necessary for the receiving company on how to apply the acquisition method have been identified at this time.

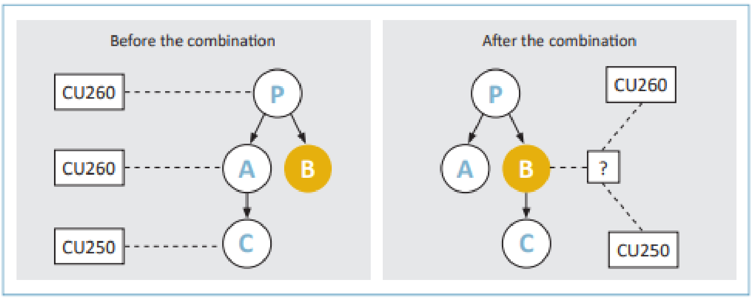
Question for Board members
Q6 Do Board members agree with the staff analysis and proposed responses to Question 5 of IASB DP/2020/2? If not, how do Board members want to respond to the question?

IASB DP/2020/2 Section 4 – Applying a book-value method (Questions 6 to 10)

53 When forming views about features of the book-value method, one of the issues considered by the IASB was which book value the receiving company should use to measure the assets and liabilities received. This is relevant for the consolidated financial statements of the receiving

company, where prepared. As shown in the image below (extracted from IASB DP/2020/2), it is possible that Transferred Company C book values differ from the book values accorded to the equivalent assets and liabilities in Transferring Company A's and Controlling Party P's (consolidated) financial statements; e.g. because Transferred Company C was acquired in an IFRS 3 business combination rather than being incorporated by Transferring Company A:

Diagram 4.1—Book values in a business combination under common control



54 For the reasons described in paragraphs 4.14 – 4.17 of the IASB DP, the IASB formed a preliminary view that Receiving Company B should measure the assets and liabilities received using Transferred Company C's book values (CU250), rather than those recognised by the group (Transferring Company A/ Controlling Party P) (CU260). These included the IASB's view that use of the transferred company's book values appears more conceptually appropriate than that of the group, as the controlling party is not (directly) a party to the combination of Receiving Company B with Transferred Company C.

55 Question 6 seeks feedback on the IASB DP proposal:

Question 6
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?

<u>Summary of stakeholder feedback</u>

56 Public sector stakeholders generally observed that these proposals were unlikely to significantly impact their existing practice given the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) Manual requirement for public sector assets to be measured at market value. Stakeholders noted AASB 1004 *Contributions* similarly requires a contribution to/distribution from equity for restructures of administrative arrangements but that it does not specify the measurement for the net assets transferred.

57 Preparers provided feedback indicating different practice. Several preparers observed that their current practice (and preferred view) was to measure the assets and liabilities received using the controlling party's book values (per the diagram above, CU260). They observed this to be consistent with widespread industry practice, and that doing so avoids the need to adjust for any fair value uplifts and/or goodwill as a result of previous combinations only at the highest consolidation level. One of these preparers noted that they would not be opposed to using the proposed book value. One preparer reported that its accounting policy had been to measure the assets and liabilities received using the transferred party's book values (CU250).

58 A stakeholder observed that it may be simpler to require the receiving company to consolidate using the transferring entity's book-values for the transferred entity (CU260). However, the

stakeholder also noted that there is no conceptual basis to justify whether using transferred entity's book values is more or less appropriate than the IASB DP proposal. Other stakeholders made the following observations in support of allowing the use of the group's book-values:

(a) the group book-values will already be known from consolidation journal entries and may already be tracked for the purposes of identifying consolidated depreciation and other amounts;

(b) the acquisition method may have previously been used and achieved certain tax positions for the acquired assets and liabilities. A stakeholder observed that, under the IASB DP proposals, the Australian group might not have access to those reset values following the business combination under common control. That stakeholder observed that global acquisitions involving Australian subsidiaries often involve some reorganisation following the acquisition – whether it takes place immediately or in few years – and that an IFRS requirement to use the (lower) book-values of the transferred entity for the subsequent business combination under common control will 'change the playing field'. Depending on the IASB's future decisions on transitory control, this might put onus on the group to perform such reorganisation activity in a timely manner following the external acquisition;

(c) requiring only a single specified book-value could be problematic, as the transferred company's book-values may not always be available, e.g. if the entity in question is not required to prepare financial statements, or not required to prepare IFRS-compliant financial statements.

59 Stakeholders mooted a suggestion that the IASB investigate allowing a rebuttable presumption regarding the applicable book-value. The suggestion was for Receiving Company B to measure the assets and liabilities received using the book values of the group (CU260), reverting to the Transferred Company C's book values only where the group book values 'do not make sense' or are difficult to calculate.

Staff analysis

60 Staff agree with the IASB's observations about the 'pros' set out in paragraph 4.13 of the IASB DP of using Transferred Company C's book values to measure the assets and liabilities received. However, staff support Receiving Company B measuring the assets and liabilities received using the book values of Controlling Party P for the following reasons:

(a) staff consider that allowing the business combination to be measured using a book-value method already regards the business combination under common control as being conceptually different to other business combinations. Staff think this should then flow on through to the determination of an appropriate book value to use. Consequently, staff think that the book value determination does not need to necessarily have regard to the parties to the combination, but rather the book value applicable to the larger group in recognition of the different 'nature' of that combination;

(b) staff note the assertion in paragraph 4.12(c) of the IASB DP that measuring the assets and liabilities received using the book values of Transferring Company A/ Controlling Party P would treat the assets and liabilities of the combining companies on a different basis, depending on how the combination is structured. Staff do not view this as of significant import, as measuring the assets and liabilities of Transferred Company C using the book values of the group better reflects the previous value of Transferred Company C to the group. It will also allow for assets and liabilities (or fair value adjustments thereof) that were previously recognised by the group to continue to be recognised at a level lower than that of the ultimate parent's consolidated financial statements.[8] The resultant equity contribution/distribution amount may then be more representative of the 'true' transaction with owners acting in their capacity as owners component of the combination;

(c) appears to be more consistent with practice reported by preparers, suggesting that the costs of doing so are not necessarily 'greater' than if Transferred Company C's book values were used; and

(d) staff note the stakeholder observation described in paragraph 58(b) of the possible economic impact resulting from tax implications of requiring Transferred Company C's book values to be used. Staff's tentative view is that the specified book value should not remove tax advantages obtained when initially acquiring the transferred company in an external acquisition.

61 Staff do not support the stakeholder proposal that the IASB introduce a rebuttable presumption for the book value to be used, as staff think that this provides opportunity for unnecessary diversity in practice. Staff concur with the stakeholder feedback that obtaining the transferred company's book-values may sometimes be challenging, but think this issue exists whether or not there has been a combination. However, in recognition of the stakeholder concern that a single book value method may not always be appropriate, staff think the IASB could consider introducing an 'impracticable out' if it decides to continue with its proposal that the assets and liabilities received should be measured using the transferred company's book values.

62 **Staff recommendation.** For the reasons noted in paragraph 60 above, staff think the Board submission should **disagree** with the IASB 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. Staff think the comment letter should also ask the IASB to consider introducing an impracticable out exemption if it does not change its preliminary views in this regard.

Question for Board members	
Q7	Do Board members agree with the staff analysis and proposed response to Question 6 of IASB DP/2020/2? If not, how do Board members want to respond to the question?

8 For example, assume Controlling Party P is an overseas parent entity and Transferring Company A and Receiving Company B are Australian reporting entities. Transferring Company A and Receiving Company B will need to prepare consolidated financial statements under AASB 10. Should Receiving Company B be required to measure Transferred Company C's assets and liabilities at Transferred Company C's book values, although previously reflected in Transferring Company A's consolidated financial statements, following the combination there will be no recognition of any of the previous effects of acquiring Transferred Company C at an Australian consolidated level.

63 IASB DP Question 7 relates to measurement of the consideration paid for the combination. Question 7 is as follows:

Question 7
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?

Summary of stakeholder feedback

64 Staff received limited feedback to this question as this question was not specifically discussed at any outreach event. Stakeholders provided the following feedback:

(a) one stakeholder considered that the IASB should develop some high-level principles or guidance on determining an appropriate measurement approach for consideration paid in own shares, in order to reduce unnecessary diversity of practice; and

(b) two stakeholders considered that the IASB should reconsider the cost/ benefit analysis that led it to its tentative decision requiring consideration paid in assets to be measured at book value when applying the book-value method. One stakeholder agreed with the IASB preliminary view.

Staff analysis

65 Staff agree with the IASB's analysis that specifying the measurement of consideration paid in own shares would – when considered together with its preliminary views on where the excess between the consideration paid and the book value of assets transferred should be recognised – only impact amounts reported for particular components of equity. Staff also observe that specifying the measurement could consequentially impact an entity's compliance with thin capitalisation rules. Consequently, contrary to the feedback received, staff support the IASB proposal that it should not prescribe how the receiving company measures the consideration paid in its own shares when applying a book-value method to a business combination under common control.

66 Staff also support the IASB preliminary view that the receiving company should measure the consideration paid in assets at the receiving company's book values of those assets at the combination date, and consideration paid by incurring or assuming liabilities at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards. Staff do not necessarily concur with the IASB assertion in paragraph 4.35 of the IASB DP that information about a gain or loss on disposal may be of limited use to users of the financial statements. However, noting that other IASB proposals allow consideration paid in shares to be measured at an amount other than fair value and require book values to measure the assets and liabilities transferred, staff think that requiring fair value measurements in these

instances would not improve the relevance of the reported 'investment' amount or understandability of the financial statements. For cost/benefit reasons, it appears reasonable to use the measurements that are already available or specified by IFRS for both consideration paid in the form of assets or liabilities incurred/assumed.

67 In addition, staff considered the implications of these IASB proposals for the accounting for the investment in the separate financial statements of the receiving company. While staff note that the IASB has not yet discussed the accounting in separate financial statements, staff question whether the accounting here should be linked to the Receiving Company's accounting policy for investments in subsidiaries; i.e. whether consideration must be measured at fair value should the new parent's accounting policy be to measure its investments in subsidiaries in accordance with IFRS 9 (i.e. at fair value).

68 **Staff recommendation.** Staff think the Board submission should **agree** with the IASB proposals:

(a) not to 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;

(b) when applying the book value 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.

Question for Board members	
Q8	Do Board members agree with the staff analysis and proposed response to Question 7 of IASB DP/2020/2? If not, how do Board members want to respond to the question?

69 IASB DP Question 8 relates to recognition of the difference between the consideration paid and book value of the net assets received. The IASB DP acknowledges that economically, that difference may comprise components of (1) a transaction with owners in their capacity as owners, (2) unrecognised goodwill, and (3) other factors, such as measurement difference resulting from the IASB's other proposals. However, it has formed a view that the difference should be accounted for as a contributions to, or a distribution from, the receiving company's equity. Question 8 is as follows:

Question 8
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?

Summary of stakeholder feedback

70 One stakeholder agreed with the IASB proposal, subject to the IASB considering whether not prescribing the component of equity could result in diversity in practice. Stakeholders at the outreach events did not vocally object to these proposals.

Staff analysis

71 **Staff analysis and recommendation.** Staff **agree** with the IASB proposals to:

(a) recognise a contribution to, or distribution from, equity for the difference between the consideration paid and the book value of the assets and liabilities received. Staff agree with the IASB view in paragraph 4.46 that segregation into other components is not cost-beneficial and that the difference does not meet the definition of another financial statement element. Consequently, staff think presentation of the difference as equity is appropriate ; and

(b) not prescribe in which component, or components, of equity the receiving company should present that difference. This is because this is consistent with IASB practice in other IFRSs, and appropriately recognises that jurisdictions may have restrictions on use of particular components of equity.

Question for Board members
Q9 Do Board members agree with the staff analysis and proposed response to Question 8 of IASB DP/2020/2? If not, how do Board members want to respond to the question?

72 IASB DP Question 9 relates to the treatment of transaction costs incurred in undertaking the business combination. Question 9 is as follows:

Question 9
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?

Summary of stakeholder feedback

73 Staff generally did not receive any specific feedback in this regard. Staff note that the formal submission received concurred with the IASB preliminary views in this regard, and that no vocal objection to the proposals were raised at other outreach events.

Staff analysis

74 **Staff analysis and recommendation.** Staff could identify no reason for transaction costs to be treated differently from transaction costs incurred in other business combinations. Consequently, staff think the Board submission should **agree** with the IASB's preliminary views in this regard.

Question for Board members
Q10 Do Board members agree with the proposed response to Question 9 of IASB DP/2020/2? If not, how do Board members want to respond to the question?

75 Question 10 relates to the timing of accounting for the business combination. This is an aspect in which current practice varies. Question 10 is as follows:

Question 10
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?

Summary of stakeholder feedback

76 Stakeholders generally agreed with the IASB 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. One stakeholder observed that not only is this the most practical outcome, but it can be justified conceptually, as the non-controlling shareholders have no direct interest in the transferred entity except from the date the combination occurs.

77 Nevertheless, some stakeholders raised concerns about transaction consistency and the loss of information; for example, in cases involving a 'NewCo', or in carve-out financial statements/ prospectuses. Stakeholders made the following observations:

(a) a stakeholder observed their view that, in some cases, a newly created NewCo which immediately becomes the ultimate parent entity of a group (and is a receiving company) should prepare consolidated financial statements that provide comparative information, or pre-combination information, of its subsidiaries (i.e. the transferred entities);

(b) a stakeholder suggested the IASB consider allowing the preparer to identify the accounting acquirer rather than requiring the legal acquirer to be identified as the accounting acquirer;

(c) a stakeholder raised a concern that there is a general perception in the market that the requirement for only prospective financial information may give rise to "non-IFRS compliant" financial information. That stakeholder was of the view that cases such as in a pre-IPO scenario, the ability to restate comparative financial information and to provide financial information that is 'IFRS-compliant' is important.

(d) a stakeholder observed that in some cases, the restructuring might occur in response to a need to satisfy conditions imposed by a regulator, giving as an example the Australian Prudential Regulatory Authority (APRA) preference for a non-operating holding company (NOHC) ("tophat") structure. That stakeholder observed that from a 'user needs' perspective, having pre-combination information on the face of the financial statements may be preferable, as disclosure does not compensate recognition and measurement.

Staff analysis

78 **Staff analysis and recommendation.** Staff agree with the IASB preliminary view. This is because staff think that including assets, liabilities, income and expenses of the transferred company in the receiving entity's financial statements before the combination date is not a faithful representation of the economic entity that is the receiving entity. However, in acknowledgement of the stakeholder concerns about whether useful information is lost, staff think the IASB could permit disclosure in the notes to the financial statements of the financial

performance and financial position of the new group 'had the structure always been in place' (however, staff wonder whether this disclosure will really reflect meaningful information, given the IASB's proposals about which book value to use).

Question for Board members
Q11 Do Board members agree with the staff analysis and proposed response to Question 10 of IASB DP/2020/2? If not, how do Board members want to respond to the question?

IASB DP/2020/2 Section 5 – Disclosure requirements (Questions 11-12)

79 For Board member reference, the relevant AASB 10/IFRS 3 specified disclosures are set out in Appendix A to this paper and the IASB Discussion Paper *Business Combinations — Disclosures, Goodwill and Impairment* is provided as Agenda Paper 3.4.

80 Question 11 pertains to disclosure where the acquisition method applies, and is set out below:

Question 11
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?

<u>Summary of stakeholder feedback</u>

81 Limited stakeholder feedback was received to this question; hence the staff analysis below is not supported by stakeholder feedback. The sole respondent who provided feedback relevant to this question indicated support for the IASB proposals. That respondent considered that the disclosure should include a qualitative description of what the business combination represents, and any related significant judgements made.

<u>Staff analysis – extent of disclosure (Question 11(a))</u>

82 Staff concur with the IASB's preliminary view that, for business combinations under common control to which the acquisition method applies, the receiving company should be required to comply with the disclosure requirements in IFRS 3, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations — Disclosures, Goodwill and Impairment*. This is because staff consider such action to be consistent with the IASB proposals which regard business combinations impacting non-controlling shareholders to be similar to a business combination within the scope of IFRS 3, and as staff agree that the information specified by IFRS 3 would provide useful information to users of the general purpose financial statements. It would appear reasonable therefore for amendments to IFRS 3 resulting from the IASB's Goodwill and Impairment project to similarly be applicable disclosure of such business combinations. In addition, although not discussed in DP/2020/2, staff expect that the receiving entity would additionally also be required to provide the information related to the acquisition of a subsidiary specified by IAS 7 *Statement of Cash Flows*.

83 However, staff note that, the IASB considered – on observing that the consideration paid for a business combination under common control may not be an arms'-length price – whether it should require additional disclosure about the terms of the combination to help users of the financial statements understand how the amount of the consideration paid was determined and whether it was reasonable. The IASB formed a preliminary view that its mooted additional IFRS 3 disclosure requirements suggest requiring information about expected synergies set out in its Discussion Paper *Business Combinations — Disclosures, Goodwill and Impairment* would help address this issue, as the improved disclosures would provide useful information about the consideration paid, and consequently did not propose any further additional disclosure in this regard.[9]

84 The Discussion Paper *Business Combinations — Disclosures, Goodwill and Impairment* proposes that the IASB should require a company to disclose, of a business combination:

- a description of the synergies expected from combining the operations of the acquired business with the company's business;
- when the synergies are expected to be realised;
- the estimated amount or range of amounts of the synergies; and
- the expected cost or range of costs to achieve those synergies.[10]

Staff think these disclosures reflect a presumption that the combination has occurred on arms'-length terms as they regard synergy-generation as reason for the price paid for the combination. However, the consideration paid in a business combination involving entities under common control may not be as correlated to synergies as, for example, the price paid might be tax-driven or the combination undertaken for internal restructure reasons. Therefore, while informative, staff query whether such information will be sufficient to meet the needs of investors and analysts seeking information about the economics of the combination to help them make assessments of whether the consideration paid includes an overpayment. Consequently, staff are of the view that it might be necessary for the IASB to develop further proposals to respond to the reported user demand for information about how the amount of the consideration paid was determined and whether it was reasonable.

85 Staff think it is not necessary for the AASB comment letter to draw attention to the stakeholder feedback received. Staff note the feedback considered such disclosure aspects would form part of the proposed applicable disclosures (or will be required by IAS 1).

86 Additionally, staff note that the IASB's cross-cutting Disclosure Initiative—Subsidiaries that are SMEs project should impact the IASB proposals in this project for some subsidiaries. Staff think the financial statements of small and medium-sized subsidiaries will warrant reduced or different disclosures, consistent with the Board's decisions to allow certain Australian entities access to reduced disclosures as part of its Simplified Disclosures Regime.

<u>Staff analysis – application guidance (Question 11(b))</u>

87 Staff consider that it would be helpful for application guidance to be developed to assist entities in applying IFRS 3 disclosure requirements (including any improvements) together with the disclosure requirements specified by IAS 24 *Related Party Disclosures*. However, staff have the following concerns about the proposal.

9 Refer paragraphs 3.15, 5.8 and 5.9 of IASB DP/2020/2.

10 The AASB submission to the IASB DP supported the IASB proposal to require companies to disclose more comprehensive information about the synergies expected to be realised from an acquisition.

(a) staff note that a subsidiary may be acquired from a related party that is not a parent or subsidiary of the group; for example, a group might acquire a director-controlled entity or additional interest in an associate in a step acquisition. Staff think that the proposed application guidance would similarly be helpful to preparers undertaking business combinations beyond those within the scope of the Discussion Paper;

(b) the Discussion Paper does not explain why the application guidance would be limited to business combinations under common control to which the acquisition method applies, rather than all business combinations under common control. Staff think the proposed application guidance would similarly be helpful to preparers undertaking related party business combinations measured using a book-value method; and

(c) staff note Question 11 (as posed) and the Discussion Paper contemplate that disclosure of the terms of the combination is required. For example, paragraph 5.11 of the Discussion Paper states that the application guidance could, for example, explain that companies should "disclose information about the governance process over the terms of the combination, such as whether those terms were supported by an independent appraisal or were subject to an approval process involving shareholders or the governing body of the receiving company". Staff consider information about the terms of the business combination, including that contemplated by the example in the Discussion Paper, to generally be beyond the disclosures currently specified by IFRS 3, IAS 24, and those proposed by IASB DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment*, except where relevant to enabling users to evaluate the nature and financial effect of the business combination. Staff note that IAS 24.18 requires disclosure of the amount of any outstanding related party balances and their terms and conditions[11] – however, in staff's view, this refers to the terms and conditions of any outstanding payments for the business combination, rather than the terms of a business combination itself.

88 **Staff recommendation.** Staff have mixed views as to how the Board should respond to this question in its submission:

(a) Some staff think the Board submission should be limited to noting the limited stakeholder feedback received on the IASB DP's disclosure proposals. These staff consider that feedback from users on disclosures provide the most useful feedback to the IASB and that providing other response will obscure such feedback (when accumulated by the IASB).

(b) Other staff think the Board submission should:

11 IAS 24.18 specifies the following: "If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

(a) the amount of the transactions;

(b) the amount of outstanding balances, including commitments, and:

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(ii) details of any guarantees given or received;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties."

Question 11(a)

(i) **agree** that 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*; subject to the IASB's decisions on the IASB Disclosure Initiative—Subsidiaries that are SMEs project and any feedback received from users; and

(ii) **observe** that these disclosures may not be sufficient to respond to the reported user demand for information about how the amount of the consideration paid was determined and whether it was reasonable;

Question 11(b)

(iii) **support** the IASB developing application guidance, but recommend that the IASB develop guidance that assists preparers in applying IFRS 3 disclosure requirements together with IAS 24 disclosure requirements to all acquisitions involving the reporting entity's related parties, rather than the application guidance being focused solely only on business combinations involving common control; and

(iv) **note** that existing and proposed disclosure requirements do not appear to currently extend to disclosure of the terms of the business combinations.

89 While not mentioned in the Discussion Paper, staff expect that the disclosure proposals of this project will also be impacted by developments in the IASB's Disclosure Initiative – Targeted Standards-level Review of Disclosures project. Staff recommend the AASB comment letter also note this expectation.

Question for Board members
Q12 Do Board members agree that the Board submission should be limited to noting the limited stakeholder feedback received on the IASB DP's disclosure proposals (paragraph 88(a))? If no, do Board members agree with the staff analysis and proposed response to Question 11 of IASB DP/2020/2 described in paragraph 88(b) above? If not, how do Board members want to respond to the question?

90 IASB DP Question 12 pertains to disclosure where the book-value method applies, and is set out below:

Question 12
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?

Summary of stakeholder feedback

91 Limited stakeholder feedback was received to this question; hence the staff analysis below is not supported by stakeholder feedback. The majority of stakeholders who are users (4 of 5 users) supported the preliminary view that fewer disclosures should be required where the book-value method applies; however these stakeholders also indicated that they would normally have regard to Controlling Party P's financial statements, rather than analyse Receiving Company B's financial statements. Other stakeholders provided the following feedback:

(a) having regard to the disclosures already specified by IAS 10 *Events after the Reporting Period*, queried whether the requirement set out in paragraph 5.19(e) was necessary;

(b) suggested that the reporting entity should also be required to disclose information about the consideration it paid for the subsidiary; and

(c) provided mixed feedback about the IASB preliminary view not to require disclosure of pre-combination information. Three parties considered that disclosures about pre-combination information should be developed, as this information could be useful to users, including in instances when the entity is preparing for an Initial Public Offering. Four users supported the IASB proposal, however some of this group noted that their focus would generally be on the Controlling Party's consolidated financial statements, rather than that of the Receiving Company.

Staff analysis

92 Staff agree with the IASB's preliminary view set out in paragraph 5.17 of the Discussion Paper that:

(a) the requirement in IFRS 3 for companies to provide information to help users of financial statements evaluate the nature and financial effect of the combination, and

(b) the related possible requirement discussed in IASB DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* for companies to provide information to help users understand the benefits expected from the combination,

are appropriate disclosure for business combinations under common control to which a book-value method applies. Staff think these are general disclosure principles, and as such should apply to all business combinations.

93 In principle, staff agree that fewer disclosures should be necessary where the book-value method applies and where users have more ability to obtain information through other means. However, rather than 'carving out' specific disclosures, staff consider that it may be better if the IASB instead emphasised that only material IFRS 3 disclosures need be made. This puts the onus back on the preparer to determine whether certain IFRS 3 disclosures are relevant for inclusion in the financial statements, and establishes more consistency in reporting of different business combination. A materiality approach would avoid creating additional complexity in this regard.

94 Staff agree that the disclosures identified by the IASB in paragraph 5.19 of the Discussion Paper will provide useful information to users about the business combination. This includes disclosure of information about combinations that occur after the end of the reporting period but before the financial statements are authorised for issue (paragraph 5.19(e)). While staff

concur with the stakeholder observation that IAS 10 requires similar disclosure, staff note that the duplication in this regard already exists for IFRS 3 business combinations.

95 Staff further agree that 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. This detail does not impose a further cost to preparers, as it should already form part of existing IAS 1 disclosures (IAS 1.106 requires the statement of changes in equity to include a reconciliation of equity, by component of equity).

Possible further disclosure that should be made – consideration paid

96 Paragraph 5.21 of the Discussion Paper lists disclosures that the IASB considered should not be required when a book-value method is applied. Of these, staff think disclosure of the fair value of the consideration paid and of each major class of consideration at the acquisition date should be additionally required. Staff concur with the stakeholder feedback that the reporting entity should be required to disclose information about the consideration it paid for the subsidiary, as staff think this information aids non-controlling shareholders and other users in understanding the financial effects of the combination.

97 The IFRS 3 disclosure requirement could be re-expressed for application in a book-value method scenario to address the IASB concern that the costs of obtaining fair values of the consideration paid exceeds its benefits. Staff note that IAS 7.40 already requires disclosure of the total consideration paid by an entity of the subsidiaries it acquired during the period, and the cash portion thereof – consequently, specifying a re-expressed IFRS 3 requirement in this regard is unlikely to significantly add to the preparer cost burden.

98 Consistent with the staff view that information about the consideration paid should be disclosed, having regard to the disclosures identified in Table 5.1 of the Discussion Paper, staff also think that disclosure is warranted of:

(a) the amount at the acquisition date (and subsequent changes in that amount) and description of contingent consideration and indemnification assets; and

(b) information to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

The IASB rationale for excluding these disclosures at this time is for reason that the IASB has not yet discussed all aspects of a book-value method and the disclosure relates to a matter not yet considered. Staff think a view can be formed on the above disclosures regardless of whether measurement of contingent consideration remains outstanding for discussion.

Possible further disclosure that could be made – pre-combination information

99 Staff support the IASB preliminary view that the disclosure of pre-combination information should not be required, for reason that such information is not a faithful representation of the phenomena but rather a “what if” scenario. However, given IASB and AASB stakeholder feedback that such information may at times be useful, staff think the IASB should permit entities to make such disclosure where the entity determines it to be of relevance to users of its financial statements. Further, staff consider the IASB should develop proposals in this regard so that comparability is facilitated.

Possible further disclosure that could be made – synergies and other benefits for the controlling party

100 Paragraph 5.18 of the Discussion Paper suggests that – in contrast to an IFRS 3 business combination (staff read this as including business combination under common control measured using the acquisition method) – to meet the general business combination disclosure objectives, a receiving company might need to report information about synergies and other benefits <u>for the controlling party and the group it controls</u> (i.e. the ultimate group parent). The Discussion Paper explains that such disclosure might be necessary for users of the receiving company's financial statements to understand the nature and effect of the combination.

101 Staff disagree with the IASB comment. Staff think such disclosure is similarly relevant to a business combination under common control measured using the acquisition method. This is because the combination may have similarly been undertaken to create synergies and other benefits at a group, rather than Receiving Company, level.

102 **Staff recommendation.** Staff have mixed views as to how the Board submission should respond to this question:

(a) Some staff think the Board submission should be limited to reporting the limited stakeholder feedback received about the IASB DP's disclosure proposals. These staff consider that feedback from users provide the most useful feedback to the IASB in this regard. Consequently, providing other response will obscure such feedback (when accumulated by the IASB).

(b) Other staff think the Board submission should, for the reasons described in paragraphs 92 – 101 above:

(i) **agree** that some, but not all, of the disclosure requirements in IFRS 3, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations — Disclosures, Goodwill and Impairment*, are appropriate;

(ii) **agree** that the IASB should not require the disclosure of pre-combination information, but explicitly permit this to be made in the notes;

(iii) **agree** that the receiving company should disclose the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and the component, or components, of equity that includes this difference;

(iv) **note** the possible further disclosures that might be warranted; and

(v) **encourage** the IASB to consider whether the application of materiality would suffice to render some disclosure unnecessary, rather than a 'carve out' approach to specified disclosures.

Question for Board members
Q13 Do Board members agree that the Board submission should be limited to noting the limited stakeholder feedback received on the IASB DP's disclosure proposals (refer paragraph 102(a))? If no, do Board members agree with the staff analysis and proposed response to Question 12 of IASB DP/2020/2 described in paragraph 102(b)? If not, how do Board members want to respond to the question?

Cover letter and other matters

103 **Staff recommendation.** Staff recommend that the cover letter to the AASB submission express support for the IASB project but **disagree** with the approach the IASB DP takes to selection of the measurement method.

Questions for Board members
Q14 Do Board members agree with the staff recommendation on the tone of the cover letter? Are there other key points that Board members consider should be made as part of the cover letter?
Q15 Are there any other matters that Board members want to raise in relation to IASB DP/2020/2?

Next steps

104 The comment period to IASB DP/2020/2 closes 1 September 2021. As there is no further AASB meeting before the comment period close date, staff suggest a comment letter reflecting the Board's decisions from this meeting be finalised by out-of-session by a subcommittee of the Board.

105 The proposed timing is:

During week beginning	**Deliverable**
9 August 2021	A draft comment letter is circulated by staff to the subcommittee for review
16 August 2021	Subcommittee meets to discuss the comment letter (if necessary)
23 August 2021	A revised comment letter is circulated to the subcommittee for further/final comment
30 August 2021	Comment letter is signed by AASB Chair and submitted by 1 September 2021

Questions for Board members
Q16 Do Board members agree with the staff recommendation that the AASB submission be finalised out-of-session via a subcommittee of the Board? If so, do any Board members want to be on that subcommittee?
Q17 Do Board members have any comments or concerns about the proposed timing of finalisation of the AASB comment letter?

APPENDIX A: Extracts from AASB 3 *Business Combinations*

Question 11 of DP/2020/2 seeks feedback on the IASB's preliminary view that the disclosure requirements set out in IFRS 3, as augmented (or altered) by its final amendments arising from its Goodwill and Impairment project, are relevant for business combinations under common control accounted for using the acquisition method. For Board member information, this Appendix sets out the disclosure requirements of AASB 3 (equivalent to IFRS 3) that are proposed to apply.

<u>Extracts from AASB 3 *Business Combinations* (the number on the side corresponds to the AASB 3 paragraph number)</u>

59 The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either: (a) during the current reporting period; or (b) after the end of the reporting period but before the financial statements are authorised for issue.

60 To meet the objective in paragraph 59, the acquirer shall disclose the information specified in paragraphs B64—B66.

61 The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

62 To meet the objective in paragraph 61, the acquirer shall disclose the information specified in paragraph B67.

63 If the specific disclosures required by this and other Australian Accounting Standards do not meet the objectives set out in paragraphs 59 and 61, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

(a) the name and a description of the acquiree.

(b) the acquisition date.

(c) the percentage of voting equity interests acquired.

(d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.

(e) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

(f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:

(i) cash;

(ii) other tangible or intangible assets, including a business or subsidiary of the acquirer;

(iii) liabilities incurred, for example, a liability for contingent consideration; and

(iv) equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.

(g) for contingent consideration arrangements and indemnification assets:

(i) the amount recognised as of the acquisition date;

(ii) a description of the arrangement and the basis for determining the amount of the payment; and

(iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

(h) for acquired receivables:

(i) the fair value of the receivables;

(ii) the gross contractual amounts receivable; and

(iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected.

The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.

(i) the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.

(j) for each contingent liability recognised in accordance with paragraph 23, the information required in paragraph 85 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose:

(i) the information required by paragraph 86 of AASB 137; and

(ii) the reasons why the liability cannot be measured reliably.

(k) the total amount of goodwill that is expected to be deductible for tax purposes.

(l) for transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination in accordance with paragraph 51:

(i) a description of each transaction;

(ii) how the acquirer accounted for each transaction;

(iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and

(iv) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

(m) the disclosure of separately recognised transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of comprehensive income in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed.

(n) in a bargain purchase (see paragraphs 34–36):

(i) the amount of any gain recognised in accordance with paragraph 34 and the line item in the statement of comprehensive income in which the gain is recognised; and

(ii) a description of the reasons why the transaction resulted in a gain.

(o) for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:

(i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and

(ii) for each non-controlling interest in an acquiree measured at fair value, the valuation technique(s) and significant inputs used to measure that value.

(p) in a business combination achieved in stages:

(i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and

(ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42) and the line item in the statement of comprehensive income in which that gain or loss is recognised.

(q) the following information:

(i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and

(ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term ‘impracticable’ with the same meaning as in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

B65 For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph B64(e)–(q).

B66 If the acquisition date of a business combination is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer shall disclose the information required by paragraph B64 unless the initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

B67 To meet the objective in paragraph 61, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

(a) if the initial accounting for a business combination is incomplete (see paragraph 45) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the business combination thus have been determined only provisionally:

(i) the reasons why the initial accounting for the business combination is incomplete;

(ii) the assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and

(iii) the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 49.

(b) for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

(i) any changes in the recognised amounts, including any differences arising upon settlement;

(ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

(iii) the valuation techniques and key model inputs used to measure contingent consideration.

(c) for contingent liabilities recognised in a business combination, the acquirer shall disclose the information required by paragraphs 84 and 85 of AASB 137 for each class of provision.

(d) a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

(i) the gross amount and accumulated impairment losses at the beginning of the reporting period.

(ii) additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

(iii) adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph 67.

(iv) goodwill included in a disposal group classified as held for sale in accordance with AASB 5 and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale.

(v) impairment losses recognised during the reporting period in accordance with AASB 136. (AASB 136 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)

(vi) net exchange rate differences arising during the reporting period in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates*.

(vii) any other changes in the carrying amount during the reporting period.

(viii) the gross amount and accumulated impairment losses at the end of the reporting period.

(e) the amount and an explanation of any gain or loss recognised in the current reporting period that both:

(i) relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period; and

(ii) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.