



AASB Staff Comments on EFRAG Discussion Paper – Accounting for Business Combinations under Common Control

Please note that the views expressed below are AASB staff views only and do not necessarily reflect the views of the Australian Accounting Standards Board.

Overall comment

We think the DP, as currently drafted, focuses on the requirements of current IFRSs and has not adequately considered methods of accounting for BCUCC absent current IFRS requirements. We think that an analysis of BCUCC from first principles, that considers alternative viable ways of accounting for such transactions, would be extremely useful in informing any future IASB project on BCUCC.

In addition, we consider that any project initiated to address issues associated with common control transactions should not be limited to a subset of common control transactions, BCUCC. Rather, the scope of the project should be expanded to incorporate other transactions under common control, including Initial Public Offerings. That said, compared with other projects that need the IASB's attention, we do not support a separate project on BCUCC (or common control more broadly) being undertaken by the IASB at this stage.

Question 1.1 – Concerns about BCUCC transactions

Chapter 1 refers to concerns expressed by the European Commission and others regarding the diversity in accounting practice that exists in relation to BCUCC because of the scope exemption in IFRS 3. BCUCC raise a number of significant financial reporting issues that needs to be addressed in the IFRS literature. This diversity in practice is evidenced by recent submissions to the IFRS Interpretations Committee and the significant amount of guidance produced by accounting firms (e.g. Deloitte 2010, Ernst & Young 2010, KPMG 2010, PricewaterhouseCoopers 2010).

Do you think that the concerns have been accurately described in relation to the issues arising from accounting for BCUCC transactions? If not, please could you suggest other significant concerns that have not been addressed?

AASB staff agree that the concerns expressed in the DP broadly describe issues arising from accounting for BCUCC transactions. In particular, AASB staff agree with EFRAG that the lack of guidance on BCUCC is an issue. However, consistent with the view expressed by the AASB in response to the IASB's recent agenda consultation, AASB staff think that the issue could be dealt with, initially at least, as part of a post-implementation review of IFRS 3.

Question 1.2 – The approaches in practice

Chapter 1 suggests that many practitioners usually select either a predecessor basis of accounting or the acquisition method (as described in IFRS 3) when accounting for a BCUCC. A number of standard-setters in the past have also considered use of 'fresh-start' accounting to account for BCUCC. However, it is unclear whether the benefits for users are justified by the costs of valuation that would be incurred by preparers for initial measurement.



In your experience, what approaches are typically applied by preparers in practice for BCUCC transactions and what justification is provided to support their application of these approaches?

AASB staff have not performed outreach to Australian constituents to specifically request information as to approaches applied in practice when accounting for BCUCC transactions. If the IASB decides to restart the BCUCC project, or include BCUCC in the forthcoming IFRS 3 post-implementation review, AASB staff will undertake such outreach.

At a high level, AASB staff are aware that diversity in practice exists in Australia in accounting for BCUCC. In particular, in response to an IFRS IC staff request in July 2011, the AASB staff provided input as to common methods for accounting for BCUCC. AASB staff would like to highlight that the comments received in response to this request may not represent approaches ‘typically’ applied by preparers, as the input to the request was limited.

As a result of the limited outreach performed to respond to the IFRS IC staff request, AASB staff were advised that, in practice, entities often account for business combinations under common control using either the acquisition method or the pooling method of accounting (a variation of the predecessor basis of accounting). Our discussions with a few constituents indicated that the predominant accounting approach in Australia for BCUCC is the pooling method of accounting. However, entity preference for one approach over the other depended on a number of factors.

For example, it was noted by some constituents that some entities in Australia may prefer to have the acquisition method as their accounting policy to account for BCUCC to enable uplifts to fair value for the assets and liabilities acquired because of particular rules under the income tax law in Australia and to synchronise the accounting values of the assets and liabilities acquired with the tax values. Others that do not want to introduce volatility to their future earnings tend to prefer the pooling method of accounting. Furthermore, AASB staff were advised that divergence in practice in the application of the pooling method of accounting may also exist. For example, some entities may choose to restate comparatives for the new reporting group whereas others may not.

Question 2.1 – The scope of the project

Chapter 2 outlines the scope of the project, which includes the initial recognition and measurement of a BCUCC in the transferee’s consolidated financial statements.

Are there any issues not included in the scope of the DP that, in your view, need to be addressed in developing an approach to accounting for BCUCC in the consolidated financial statements of the transferee?

AASB staff think that, in developing an approach to accounting for BCUCC in the consolidated financial statements of the transferee, consideration should also be given to the method of accounting for such transactions in the separate financial statements of the transferee. In particular, how BCUCC transactions should be accounted for under IAS 27 *Consolidated and Separate Financial Statements*, in particular, how the requirements in paragraph 38 (which relate to accounting for subsidiaries at cost or in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*) apply to BCUCC transactions. If



IAS 27 paragraph 38 is not applicable to such transactions, the project would need to clarify how such transactions should be accounted for in the separate financial statements.

Question 2.2 – Separate and individual financial statements of the transferee

Chapter 2 highlights that the accounting for BCUCC in the separate and individual financial statements is not included in the scope of the project. It was considered that it was not feasible to adequately address all the issue in this DP therefore a decision was made to address them in a separate EFRAG proactive project. Accordingly, we welcome input from constituents to help with the development of that project.

There are a number of questions that relate to separate and individual financial statements. For instance, it may be questioned whether information needs of users of separate and individual financial statements differ from those of consolidated financial statements and whether those different user needs justify different accounting at initial recognition and measurement.

Do you believe that there are any specific issues to be addressed in the initial recognition and measurement of BCUCC in the separate and individual financial statements? If so, please explain what those issues are and how they should be addressed?

As noted in our response to Question 2.1 above, AASB staff think that consideration would also need to be given to the method of accounting for such transactions in the separate financial statements. In particular, we think that the issue of whether BCUCC transactions are within the scope of IAS 27, such that the requirements paragraph 38 applies to BCUCC transactions would need to be addressed. If IAS 27 paragraph 38 is not applicable to such transactions, the project should clarify how such transactions should be accounted for.

We note that the IASB staff have previously identified a number of potential measurement bases used for accounting for common control transactions in separate financial statements including consolidated, separate and individual financial statement carrying values, fair value and exchange amounts (see IASB Agenda Paper 5C, December 2007).

Question 2.3 – Disclosures

Chapter 2 states that the project does not address disclosures, because at this stage there seemed to be little value in proposing disclosures ahead of reaching a conclusion on initial recognition and measurement of BCUCC transactions.

Are there any specific issues you think need to be addressed when considering what information about a BCUCC should be disclosed in the notes to the financial statements of the transferee?

AASB staff agree there is little value in proposing disclosures prior to reaching a conclusion on initial recognition and measurement of BCUCC transactions. On this basis, we do not think there are any specific disclosure issues that would need to be addressed as part of the current EFRAG project at this stage.



Question 3.1 – Addressing the information needs of primary users

In Chapter 3, when considering how to frame an appropriate approach for BCUCC the objective was to develop approaches that are most likely to produce information that is decision-useful to primary users of the financial statements. The objective of financial reporting according to the *Conceptual Framework* is to provide financial information that is useful to existing and potential investors, lenders and other creditors ('primary users') that cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need.

Do you agree that an important step is to understand the information needs of users in the financial reporting of a BCUCC transaction? If not, how else would you set out an approach that satisfies the objective of financial reporting?

AASB staff agree that an important step in the development of any financial reporting project is to understand the information needs of users. AASB staff also note that 'the relevance to users of the information involved, and the reliability of information that could be provided', is one of the criteria the IASB considers in deciding whether to add a potential item to its agenda.

Question 3.2 – The transferee is a reporting entity

The analysis in the DP looks at financial reporting from the perspective of the transferee consistent with the entity perspective. It also assumes that the transferee is a reporting entity.

It is noted above that the analysis in this DP is taken from the perspective of the transferee (entity perspective) as opposed to the perspective of the owners (proprietary perspective). Do you agree that, to be consistent with existing IFRS, the entity perspective should be dominant when considering BCUCC? If not, why not?

AASB staff generally agree with approaching the analysis from the perspective of the entity (entity perspective) as opposed to the perspective of the owners (proprietary perspective). We agree that IFRS favour an emphasis to the entity perspective. However, consideration would need to be given as to the extent to which adoption of such a perspective implies that the requirements of IFRS 3 should be applied to BCUCC. In that regard, we note that aspects of the proprietary perspective still exist within IFRS, for example, the treatment of non-controlling interests under IAS 27. Consistent with our comment in relation to Question 3.1, the perspective adopted should have regard to user needs.

Question 3.3 – Applying the logic of the IAS 8 hierarchy to help develop an approach on how to account for BCUCC

The DP proposes that the development of accounting approaches for BCUCC should be based on the principles of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to ensure that any accounting approach:

- a) is consistent with the *Conceptual Framework*, particularly with the objective of financial reporting; and



- b) achieves consistency with other parts of the existing IFRS literature, which deal with measurement.

In our view, this 'logic' reflects the steps that the IASB would typically consider in developing an accounting approach for a class of transactions. This allows for analogies to be made to existing IFRS, where appropriate.

Do you agree with applying the 'logic' of the IAS 8 hierarchy in developing an approach to accounting for BCUCC transactions? If not, what alternative would you propose and how would you reconcile that approach with existing IFRS?

We do not agree with applying the logic of the IAS 8 hierarchy in developing an approach to accounting for BCUCC transactions.

We think the fundamental characteristics of a BCUCC would need to be revisited as a basis for developing, from first principles, alternative viable ways of accounting for such transactions. We think the DP, as currently drafted, focuses on the requirements of current IFRSs and has not adequately considered methods of accounting for BCUCC absent current IFRS requirements.

In addition, we do not think that applying that logic would necessarily lead to a BCUCC being required to be accounted for in accordance with the requirements of IFRS 3 because other levels in the hierarchy might be judged to be best for a particular BCUCC.

Questions 3.4 and 3.5 – Initial recognition and measurement

The key issue considered in the DP is how the transferee should measure in its consolidated financial statements, the assets received and liabilities assumed (that together constitutes a business) in a transaction with another entity in the group.

When the analogy to IFRS 3 is valid and it is concluded that the transaction is similar to the acquisition of a business, we do not challenge the presumption in IFRS 3 that applying fair value at initial measurement is always likely to provide users with financial information that is relevant and a faithful representation of the underlying BCUCC.

Do you agree that if and when an analogy to IFRS 3 is considered to apply, it is appropriate to assume that fair value at initial recognition provides information that is more decision-useful than values based on previously recognised amounts or any other measurement attribute? If not, please explain why?

In developing and applying an accounting policy, IAS 8 requires that the policy result in information that is relevant to the economic decision-making needs of users (para. 10(a)). On this basis, AASB staff agree that when an analogy to IFRS 3 is considered appropriate by applying the requirements of IAS 8 paragraph 11(a) (circumstances where the requirements in an IFRS deal with similar and related issues) it is appropriate to assume that fair value at initial recognition provides information that is more decision-useful than other values.

Furthermore, AASB staff think that if an analogy is being drawn to a standard, the relevant recognition and measurement requirements should be applied in full. That is, it is not appropriate to analogise to 'part' of a standard and therefore be selective about which aspects of the standard apply by analogy. Therefore, staff think that it is appropriate to apply the measurement principle in IFRS 3 to BCUCC when an analogy to IFRS 3 is valid.



Do you agree that if the analogy to IFRS 3 does not apply, defining an appropriate measurement attribute should be guided by an analysis of the information needs of users? If not, why not?

As noted in our response to Question 3.4 above, IAS 8 requires an entity to consider the economic decision-making needs of users when developing and applying accounting policies. AASB staff do not think this requirement is limited only to circumstances where other IFRSs are applied by analogy. Therefore, we agree that defining an appropriate measurement attribute should be guided by an analysis of the information needs of users. However, we do not think this is the *only* issue to consider when determining an appropriate measurement attribute. We think that the requirements of IAS 8 paragraph 10(b) should also be considered. That is, the accounting policy should also result in information that is reliable.

Questions 4.1 and 4.2 – The unique features of a BCUCC transaction

Identifying the unique features of a BCUCC is a complex exercise as the nature of the BCUCC transaction can significantly vary from a business combination under IFRS 3. The unique features of a BCUCC, which can have an effect on whether the analogy to IFRS 3 applies, can be characterised as follows:

- a) *purpose of the transaction*: the purpose of the transaction does not alter its economic substance; however, it can play a significant role in selecting a measurement attribute to apply to the BCUCC at initial measurement that results in decision-useful information for users of the transferee consolidated financial statements.
- b) *the absence of the market conditions*: the lack of a market-based transaction challenges the assumption in IFRS 3 that the transaction price is deemed to represent fair value; and
- c) *nature of the consideration*: it does not alter the economic substance of the BCUCC transaction. The nature of the consideration could in some circumstances have no effect on previous decisions taken regarding the entity's prospects for generating future cash flows (e.g. in a share-for-share exchange).

Do you agree with the main features of a BCUCC identified above? If not, what other features would you highlight?

AASB staff agree with the main features of a BCUCC identified in the DP.

It is noted above that BCUCC can be substantially different in nature from business combinations between unrelated parties. Do you agree that a BCUCC can be different to a business combination under IFRS 3? If so, describe examples you have encountered in practice that verifies this. If not, please explain why?

AASB staff agree that it is conceivable that a BCUCC would be different from a business combination under IFRS 3, for the reasons described in the DP. We think an assessment of whether BCUCC transactions are a diverse group of transactions requires analysis of the different types of BCUCC transactions occurring in practice. Absent this analysis it is difficult to fully understand whether BCUCC transactions are homogenous and whether such transactions can be considered to be similar to business combinations under IFRS 3.



AASB staff have not performed outreach to constituents at this stage to verify these differences. However, if the IASB decides to restart the BCUCC project, or include BCUCC in the forthcoming IFRS 3 post-implementation review, AASB staff will undertake such outreach.

Question 4.3 – Understanding the information needs of users about BCUCC transactions

When comparing the information needs in relation to a business combination under IFRS 3 and a BCUCC there is one view that differences exist when the controlling shareholder is a user of the financial statements of the transferee and when existing and potential lenders (and other creditors) do not focus on the consolidated financial statements of the transferee, but on other information, including the separate/individual financial statements. These differences give support to the view that BCUCC represent a diverse group of transactions. Accordingly, BCUCC cannot be treated as a homogeneous class of transactions and developing accounting approaches that consider the most relevant measurement basis to apply at initial measurement will depend on facts and circumstances.

There is another view that the information needs from business combination under IFRS 3 and a BCUCC do not differ when the controlling shareholder is not a user of the consolidated financial statements of the transferee. This is because such users want information about any change to the prospects of future net cash flows and about the subsequent performance of the management of the transferee. Accordingly, BCUCC can be treated as a homogenous class of transactions and are sufficiently similar to a business combination under IFRS 3 in terms of the information needs of users.

Do you agree with the analysis that has been performed in relation to the information needs of users? If not, why not?

AASB staff note that the purpose of the analysis performed in the DP in relation to the information needs of users is to ‘consider whether BCUCC represent a diverse group of transactions that warrants a different accounting approach than that applied to business combinations under IFRS 3’. AASB staff do not think that the subsequent analysis, as described in the paper, achieves that objective.

We agree that an accounting approach should be developed that results in decision-useful information. We broadly agree that it is conceivable that the information needs of users in relation to a business combination under IFRS 3 and BCUCC may be different. However, as noted in our response to Question 4.2 above, we think that without further analysis it is difficult to fully understand whether BCUCC transactions are homogenous and whether such transactions can be considered to be similar to business combinations under IFRS 3.

We also broadly agree that it is conceivable that the information needs of the holders of non-controlling interests may be different from the controlling shareholders’ information needs.

Questions 4.4 and 4.5 – Identification of an acquirer

There are two views expressed in the DP on identifying an acquirer:

View A: it may be difficult to identify an acquirer because the transaction is under common control; and



View B: an acquirer can always be identified. However, the ultimate parent entity can select the accounting acquirer and direct an entity to acquire a business within the ultimate reporting entity group with an objective to achieve an optimal accounting outcome that does not represent a neutral depiction. According to the Conceptual Framework (QC14), “A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users.” It could be viewed that this problem arises due to the asymmetry in accounting that result from applying the measurement principle in IFRS 3.

Do you think that with BCUCC it may be difficult in some circumstances to identify an acquirer (View A) or do you believe that an acquirer can always be identified (View B)?

AASB staff support View A. It may be difficult to identify an acquirer in a BCUCC transaction. However, it can also be difficult to identify an acquirer in a business combination under IFRS 3. Given the varied nature of BCUCC transactions, AASB staff think that it is likely that a meaningful acquirer cannot be identified in all circumstances.

If you believe that an acquirer can always be identified in a BCUCC, do you think that an analogy to IFRS 3 is not valid because the ultimate parent entity can direct the identification of an acquirer so that the accounting outcome is not a faithful representation of the underlying BCUCC transaction?

n/a

Question 4.6 – Obtaining control over one or more businesses

IFRS 3 establishes a principle that for each business combination, one of the combining entities shall be identified as the acquirer. That is, the guidance in IFRS 10 *Consolidated Financial Statements* (IASB 2011) shall be used to identify the acquirer – the entity that obtains control of the acquiree.

This principle could be considered to be flawed for a BCUCC because the current ability to direct the relevant activities (i.e. the power element of the control definition in IFRS 10 of the acquired/transferred business is retained before and after the BCUCC by the ultimate reporting entity. In other words, the ability to control the transferred does not change.

However, this line of reasoning may be inconsistent with the control notion in IFRS 10, which defines control from the perspective of the separate reporting entity and not the ultimate reporting entity.

Do you agree with the analysis above that under IFRS 10 ‘control’ should be assessed from the perspective of the reporting entity and not from that of the ultimate parent entity? If not, why not?

Consistent with our response to Question 3.1, AASB staff agree that control should be assessed from the perspective of the reporting entity and not from the ultimate parent entity perspective. However, AASB staff have difficulty in understanding the nature of the issue that paragraphs 90-91 of the DP is addressing and recommend the concerns and potential implications be clarified.



Question 4.7 – Acquisition of a business

It is argued that the identification of a business, as contemplated in IFRS 3, does not cause any particular difficulty in the context of transactions between entities under common control since the definition of a business in IFRS 3 can also be applied to a BCUCC.

Do you agree that the definition of a ‘business’ in IFRS 3 raises no particular issues for BCUCC? If not, why not?

AASB staff agree that the definition of a business in IFRS 3 does not appear to raise any particular issues for BCUCC.

Questions 4.8 and 4.9 – Applying the ‘mechanics’ of IFRS 3 – the recognition and measurement principle

The recognition principle in IFRS 3 (Paragraph 10) states that “the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non- controlling interest in the acquiree”.

If the analogy to IFRS 3 could be made then the lack of a market-based transaction could result in goodwill (where the consideration transferred in a BCUCC is greater than the fair value of the net identifiable assets acquired) and other identifiable intangible assets not being recognised because they cannot be measured reliably due to the absence of a market-based transaction.

The measurement principle in IFRS 3.18 states: “the acquirer shall measure the identifiable assets and the liabilities assumed at their acquisition date fair values”.

An important principle in IFRS is that similar transactions should be accounted for in a similar way. A possible view was stated that the three building blocks could equally apply to BCUCC. Accordingly, there is a view that it is difficult to justify not applying the IFRS 3 measurement principle to the extent that an IFRS 3 accounting outcome is relevant to the users of the financial statements of the acquirer. The unique characteristics of a BCUCC do not invalidate the analogy to IFRS 3 but it could lead to some assets not being recognised due to the absence of a market-based transaction.

Do you think the absence of a market-based transaction can have consequences when applying the recognition principle in IFRS 3 because of a lack of measurement reliability? If so, do you agree with the analysis? If not, why not?

As noted in our response to Question 1.2, AASB staff have not performed extensive outreach to Australian constituents to specifically request information as to approaches applied in practice when accounting for BCUCC transactions, therefore, we are not able to conclude as to whether the absence of a market-based transaction has consequences when applying the recognition principle in IFRS 3. We acknowledge the view that the recognition of identifiable intangible assets absent a market transaction may not be appropriate, but note that in the absence of a market for identifiable intangible assets does not seem to be an impediment in applying IFRS 3 to acquired intangible assets. However, we would be concerned if BCUCC are used as a device to circumvent the restrictions on recognising internally generated intangible assets in IAS 38 – although we are of a view that IAS 38’s restrictions should be fundamentally reviewed.



Do you think it is appropriate to apply the measurement principle in IFRS 3 to BCUCC when the analogy to IFRS 3 is valid? If not, why not?

In relation to whether it is appropriate to apply the measurement principle in IFRS 3 to BCUCC when an analogy to IFRS 3 is valid, AASB staff think that if an analogy is being drawn to a standard, the relevant recognition and measurement requirements should be applied in full. That is, consistent with our response to Question 3.5, it is not appropriate to analogise to 'part' of a standard and therefore select which aspects of the standard the entity chooses to apply in its analogy. Therefore, staff think that it is appropriate to apply the measurement principle in IFRS 3 to BCUCC when an analogy to IFRS 3 is valid.

Questions 5.1, 5.2 and 5.3 – View one: IFRS 3 can always be applied by analogy

The definition of a business combination equally applies to BCUCC; however, the unique features of a BCUCC can affect the application of the mechanics of IFRS 3.

There are three variants to consider:

Variant one: The recognition and measurement principle in IFRS 3 should equally apply to BCUCC. There is no justification to apply different recognition and measurement principles because, the fair value of the business acquired can be reliably measured on the basis of Level 3 inputs and it does not undermine the reliability of measurement. However, if the transaction price is not subject to market forces it may be difficult to determine its fair value. In such cases the consideration transferred should be referenced against the fair value of the business acquired. Similarly, where the transaction price is greater than fair value of the business acquired, it should be bifurcated into 1) a distribution to the ultimate parent entity and 2) the consideration transferred being measured at the fair value of the business acquired.

Variant two: Goodwill should not be recognised in the balance sheet of the transferee. This is justified on the basis that goodwill cannot be faithfully represented due to the absence of a market-based transaction. Under this approach, the consideration transferred would not be referenced against the fair value of the business acquired. As the transaction is not a proxy for the fair value of the business acquired then it is possible that the transaction price could either be greater or less than the fair value of the acquired net identifiable assets.

Variant three: Goodwill and intangible assets should not be recognised in the balance sheet of the transferee. Similar to the arguments outlined in variant two, the recognition of such assets would not be justified because it could not be reliably measured. This is for two reasons: 1) the BCUCC is never subject of market forces which is arguably a pre-condition of satisfying the reliability criterion and 2) there may be no history or evidence of such exchange transactions. Using this approach, the consideration transferred would not be referenced against the fair value of the business acquired. As the transaction does also not represent a proxy for the fair value of the business acquired then it is possible that the transaction price could either be greater or less than the fair value of the acquired net identifiable assets.

Do you believe that the transaction price should be referenced against the fair value of the business acquired and bifurcated (when the transaction price exceeds the fair value of the business acquired) if the transaction price does not reflect a proxy for fair value?



This ensures the BCUCC transaction reflects two transactions: a) a contribution from (distribution to) the ultimate parent entity, and b) a business combination.

Do you believe that goodwill and/or identifiable intangible assets should not be recognised in the balance sheet of the acquirer on the basis that they cannot be reliably measured?

AASB staff think that a detailed response to this question at this stage would not be appropriate on the basis that all the potentially appropriate methodologies for accounting for BCUCC have not yet been identified or fully developed.

The absence of a market-based transaction and not analysing the consideration could result in the transaction price being lower than the fair value of the identifiable net assets acquired. The recognition of a bargain purchase may be inconsistent with the *Conceptual Framework* because it may not meet the definition of income; but represent equity.

Do you believe that where the consideration transferred is lower than the fair value of the net assets acquired, the difference should reflect a contribution from the ultimate parent entity or recognised as income?

AASB staff think that a detailed response to this question at this stage would not be appropriate on the basis that all the potentially appropriate methodologies for accounting for BCUCC have not yet been identified or fully developed.

Questions 5.4 and 5.5 – View two: It is not appropriate to apply IFRS 3 by analogy

Applying an analogy to IFRS 3 may not be appropriate because there could be difficulty in identifying an acquirer or the accounting outcome may not represent a faithful representation of the BCUCC transaction where the ultimate parent entity directs the selection of the accounting acquirer (refer to the reasoning in Question 4.4 and 4.5).

Two accounting treatments could be applied under these unique circumstances: 'fresh start' accounting and a predecessor basis of accounting. The selection of an accounting treatment is dependent upon who the users are and their information needs. That is 'fresh start accounting' could apply where users deem that the assessment of the prospects of future net cash inflows is best reflected through fair value measurement. A predecessor basis of accounting could be applied when the information needs of users are best served through a historical trend analysis of the income and cash flow statements and the statement of financial position.

Where the analogy to IFRS 3 is not applicable then the BCUCC could be characterised as the 'transfer' of a business rather than the acquisition of a business.

Do you think that the BCUCC should be viewed as a 'transfer' of a business rather than an acquisition of a business when the analogy to IFRS 3 can never be applied?

Do you believe that all the arguments and views presented are valid when it is not appropriate to apply an analogy to IFRS 3?

AASB staff think that a detailed response to this question at this stage would not be appropriate on the basis that all the potentially appropriate methodologies for accounting for BCUCC have not yet been identified or fully developed.



Questions 5.6, 5.7 and 5.8 – View three: The analogy to IFRS 3 may apply

It is often stated that BCUCC represent a diverse group of transactions that are carried out for many different reasons to achieve a purpose that is very different to a business combination under IFRS 3. It was also demonstrated that the information needs of users of the financial statements of the transferee/acquirer are diverse so that BCUCC do not represent a homogeneous class of transactions.

Over the course of developing this DP, several accounting models were developed that, to some extent, were largely based on the unique features of BCUCC transactions that attempted to cater to the diversity. There seemed to be an intuitive appeal to developing indicators that served as the basis for establishing under what conditions different bases of measurement at initial recognition were justified. The indicators considered were similar to many of the drivers that lie behind existing approaches that have been developed and applied in practice.

These approaches were contemplated, but not taken further because they were considered to be too arbitrary. It was questionable whether the approaches would produce information that was relevant and a faithful representation of the underlying BCUCC transaction. Further details of these approaches and the reason for not considering them further are set out in **Appendix 3**.

Do you agree that the approaches outlined in Appendix 3 are unlikely to result in decision-useful information? If not, why not?

View three outlines an approach whereby IFRS 3 applies when the BCUCC leads to a re-evaluation of previous economic decisions taken by of the consolidated financial statements of the transferee. Such an approach is consistent with the objective of financial reporting which is to provide “information that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.”

Such a principle is made operational by focusing on whether or not the BCUCC changes the ability of the reporting entity (entity) to meet the claims against the combining entities that existed prior to the BCUCC. It is argued that if the BCUCC transaction leads to an economic effect on the claims of user that existed prior to the BCUCC, then this would lead to a change in the previous economic decisions taken by them. Therefore, users would want to understand the effect of that change.

Chapter 4 highlighted that there is diversity in information needs of users in a BCUCC when compared to a business combination under IFRS 3 when 1) the controlling shareholder is considered to be a user of the financial statements of the transferee, and 2) when existing and potential lenders (and other creditors) focus on the separate/individual financial statements of the combining entities as opposed to the consolidated financial statements of the combining entities.

The diversity in the information needs of users provides the justification to consider whether the BCUCC transaction has an economic effect on the claims of users that existed prior to the BCUCC transaction. If it does not, then arguably, the user would not be interested in an accounting approach based on IFRS 3.

Do you believe that the diversity in the information needs of users when compared to a business combination and the cost constraint in financial reporting provide justification



to consider whether or not the recognition and measurement principle in IFRS 3 are appropriate when accounting for BCUCC?

Do you believe that all the arguments presented in relation to view three are valid or are there others that you would consider?

AASB staff think that a detailed response to this question at this stage would not be appropriate on the basis that all the potentially appropriate methodologies for accounting for BCUCC have not yet been identified or fully developed.