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GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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Islamabad, the 12th January,2022

NOTIFICATION

S.R.O. 53 (I)/2022.- In exercise of powers conferred by section 510 read with sub-section (1) of section 225 of the Companies Act, 2017 (Act No. XIX), the Securities and Exchange Commission of Pakistan is pleased to direct that the Accounting Standard on 'Accounting for Common Control Transactions' annexed to this notification, approved by the Council of Institute of Chartered Accountants of Pakistan, shall be followed, by companies while carrying out common control transactions and preparing financial statements on or after June 30, 2022.

Provided that the Commission may in the public interest, on its own motion or upon an application made to it, grant an exemption to any company from compliance with all or any of the requirements of the aforesaid standard.

[File No. SMD/ PRDD/2 (324)2021]

(Bilal Rasul)
Secretary to the Commission

Accounting Standard

Accounting of Common Control Transactions

The Accounting Standards Board

The Accounting Standards Board (the Board/ASB) of the Institute of Chartered Accountants of Pakistan (the Institute) developed the Accounting Standard, '*Accounting of Common Control Transactions*', along-with the Basis for Conclusions.

The Council of the Institute, in August 2021, approved the Accounting Standard for recommending to the Securities and Exchange Commission of Pakistan for notification under the Companies Act, 2017.

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Accounting Standard
Accounting of Common Control Transactions

Objective

1. The objective of general purpose financial reporting is to provide information about the financial position, performance and cash flows of a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

2. Entities carry out business combinations under common control (BCUCC) for various reasons, including in the context of group restructurings and reorganizations.

3. The International Financial Reporting Standards (IFRSs) do not provide guidance on the accounting for BCUCC and group restructuring transactions. The fact that BCUCC are scoped out of IFRS 3, *Business Combinations*, raises significant financial reporting issues on how to account for such transactions.

4. IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* requires that entities develop an accounting policy for transactions not specifically addressed by IFRSs. Accordingly, a reporting entity needs to develop and apply an accounting policy for BCUCC and group restructuring transactions that results in useful information to the primary users of the general purpose financial reporting.

5. The objective of this Accounting Standard is to establish the principles to account for the effects of BCUCC and group restructurings in the general purpose financial statements of a receiving entity.

   The Accounting Standard, accordingly, aims to improve the relevance, reliability and comparability of the information that the receiving entity provides in its financial statements about a BCUCC or a group restructuring transaction.

6. The Accounting Standard establishes principles and requirements for how the receiving entity:

   (a) recognises and measures in its financial statements a BCUCC or a group restructuring transaction; and

   (b) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a BCUCC or a group restructuring transaction.

Scope

[Refer: Basis for Conclusions paragraphs BC15 – BC31]

7. This Accounting Standard shall be applied by the receiving entity to account for the effects of:

   (a) BCUCC that are currently excluded from the scope of IFRS 3; and

   (b) Group restructurings.

   In this Accounting Standard the BCUCC and group restructurings are termed as ‘common control transactions’.

8. IFRS 3 describes ‘Business combination between entities or businesses under common control’ *as a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination and that the control is not transitory*.

9. IFRS 3 defines 'Business combination' and 'Business' as under:

   'Business combination' as *a transaction or other event in which an acquirer obtains control of one or more businesses.*

   'Business' *an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.*

10. The group restructuring is not defined in the IFRSs. In general, group restructurings refer to a broad range of transactions or other events that involve transfer of entities or businesses between entities under common control but may not satisfy the definition of a business combination or BCUCC. Mergers and amalgamations of group entities are the most common forms of group restructuring.

11. The common control transaction may involve transfer of an entire company, part of a company (i.e. business) or an unincorporated business.

    An entity shall determine whether a transaction or other event in a common control transaction constitutes a business. If the asset or a group of assets (including any liabilities assumed) transferred from one entity to another do not constitute a business, then the transaction is outside the scope of this Accounting Standard, and shall be accounted for as an asset acquisition under relevant IFRSs.

12. For understanding and application of this Accounting Standard, the terms as defined in the IFRSs shall be used, unless those terms conflict with this Accounting Standard.

The receiving entity

[Refer: Basis for Conclusions paragraphs BC13 – BC14]

13. In a common control transaction, the main entities involved are:

    (a) the receiving entity - the entity which receives control over one or more entities (or businesses); and

    (b) the transferred entity - the entity (or business) whose control (or control of its business) has been obtained by receiving entity.

    There could also be a transferring entity in a common control transaction, which is the entity whose control over one or more company (or businesses) is transferred to the receiving entity.

14. The Accounting Standard establishes principles and requirements for how the receiving entity shall account for and present a common control transaction in its financial statements.

Determining the date of common control transaction

[Refer: Basis for Conclusions paragraphs BC32 – BC36]

15. The receiving entity shall identify the date of common control transaction, which is the date on which it obtains the control over the company (or business) in a common control transaction.

16. This date is agreed upon by the parties to common control transaction and effective from such date, the receiving entity obtains control of the transferred entity. It is generally the date on which the receiving entity legally transfers the consideration, acquires the assets and assumes the liabilities of the transferred entity.

17. A receiving entity shall consider all pertinent facts and circumstances in identifying the date of common control transaction.

The common control transaction could require legal decree such as sanctioning or approval of the court or competent authority to put the transaction into effect. Where the court or other competent authority changes the effective date of the transaction agreed upon by the parties to the common control arrangement then this changed date shall be the date of common control transaction.

In certain cases, the date of common control transaction could precede the date of issue of last financial statements of the receiving entity, as the court or competent authority may sanction/approve the scheme/arrangement with effect from a date that precedes the date of last financial statements of the receiving entity.

Method of accounting of common control transaction

[Refer: Basis for Conclusions paragraphs BC37 – BC60]

18. The receiving entity with insignificant non-controlling interest shall account for a common control transaction in its financial statements by applying the 'Predecessor method' as explained in this Accounting Standard.

19. The receiving entity with significant non-controlling interest may elect to apply 'Predecessor method' or 'Acquisition method' to account for a common control transaction in its financial statements.

20. For the purposes of above requirements, non-controlling interest of twenty-five percent or above shall be considered as 'significant'. On the other hand, non-controlling interest of less than twenty-five percent shall be considered as 'insignificant'.

Predecessor method

[Refer: Basis for Conclusions paragraphs BC61- BC87]

Recognition principle

21. As of the date of common control transaction, the receiving entity shall recognise the assets transferred and liabilities assumed:

- of transferred entity; or
- received from the transferring entity.

22. The assets acquired and liabilities assumed must be part of what the receiving entity and the transferred entity (or transferring entity) exchanged in the common control transaction rather than the result of separate transactions. The receiving entity shall recognise as part of applying the predecessor method only the consideration transferred for the transferred entity and the assets acquired and liabilities assumed in the exchange for the transferred entity. Other transactions shall be accounted for separately in accordance with the relevant IFRSs.

Measurement principle

23. The receiving entity shall measure the assets and liabilities received from the transferred / transferring entity at their carrying amounts as reflected in the financial statements of the transferred / transferring entity, at the date of common control transaction.

There shall be no:

(a) fair-value adjustments to the assets and liabilities of the transferred / transferring entity; or

(b) recognition of new assets or liabilities for the transferred / transferring entity.

24. The court or other competent authority while granting approval/sanction of the scheme/arrangement may specify the amounts of the assets, liabilities and reserves (or the methods to determine those amounts) transferred to the receiving entity under the scheme/arrangement. In such circumstances, the receiving entity shall measure the assets, liabilities and reserves received from the transferred entity at the date of common control transaction, at the amounts based on the court or other competent authority's sanctioned scheme/arrangement.

25. The receiving entity shall on the date of common control transaction, adjust the respective item of net assets received from the transferred entity for correction of an accounting error. The receiving entity shall:

(a) make adjustment(s) to correct any accounting error in the relevant item of assets and liabilities received from the transferred entity; and

(b) measure the net assets at their corrected amounts for accounting of the common control transaction.

Consideration transferred

26. The consideration transferred by a receiving entity to the owners/shareholders of the transferred (or the transferring entity) in a common control transaction shall be calculated at the date of common control transaction as the sum of the:

(a) nominal value of shares issued by the receiving entity to the owners/shareholders of the transferred / transferring entity;

(b) carrying amounts of assets transferred by the receiving entity; and

(c) carrying amounts of liabilities assumed or incurred by the receiving entity. The carrying amount shall be determined in accordance with the applicable IFRSs on initial recognition of those liabilities at the date of common control transaction.

27. A common control transaction might take place in a way that no consideration is transferred by the receiving entity (i.e. nil consideration is paid) to the transferred entity for its net assets.

Difference between consideration transferred and net assets of the transferred / transferring entity

28. The receiving entity shall recognise within its 'equity' the difference between (a) and (b), below:

(a) consideration transferred, measured in accordance with this Accounting Standard; and

(b) net of carrying amount of the assets and liabilities received from the transferred /transferring entity, measured in accordance with this Accounting Standard.

Where no consideration is transferred by receiving entity to the shareholders/owners of the transferred entity, the receiving entity shall record within equity, an amount equal to net carrying amount of the net assets of transferred entity.

29. The receiving entity shall consider the statutory and legal requirements to account for and present the above difference within equity in the financial statements.

No recognition of new goodwill

30. There shall be no recognition of new goodwill while accounting for the common control transaction under the predecessor method.

The only goodwill that is accounted for would be any existing goodwill relating to either the receiving entity or transferred entity, that has already been recognised and presented in their respective general purpose financial statements at the date of common control transaction, in accordance with the relevant IFRSs.

Acquisition method

[Refer: Basis for Conclusions paragraphs BC88 – BC90]

Recognition and measurement principle

31. A receiving entity shall apply the requirements of the acquisition method outlined in IFRS 3 to account for common control transaction under this Accounting Standard.

Transaction costs

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[Refer: Basis for Conclusions paragraphs BC91 – BC94]

32. A common control transaction may involve incurrence of transaction costs, such as advisory, legal, accounting, valuation, finder's, and other professional or consulting fees, transfer taxes/charges, costs of issuing and registering debt and equity securities, and general and administrative costs.

33. In a common control transaction, the transaction costs shall be accounted for in accordance with the guidance provided in IFRSs, and accordingly:

(a) transaction costs relating to the issue of debt or equity instruments in a common control transaction shall be recognised in accordance with the IAS 32, *Financial Instruments: Presentation* and IFRS 9, *Financial Instruments*.

(b) all other transaction costs should not be included as part of the consideration transferred but, rather, all such costs shall be expensed as incurred or when the service is received, in accordance with the principle set out in IFRS 3.

Incorporation of transferred / transferring entity's financial information

[Refer: Basis for Conclusions paragraphs BC95 – BC99]

34. The receiving entity shall account for and present the common control transaction from the date of common control transaction. The receiving entity shall not restate pre-combination information (i.e. financial information before the date of common control transaction).

The receiving entity shall include in its financial statements the assets and liabilities received from the transferred / transferring entity from the date of the common control transaction. The statement of profit or loss of the receiving entity shall reflect the combined results of the receiving entity and transferred entity from the date of common control transaction. The pre-combination financial information, accordingly, shall be of the receiving entity only.

35. In case the date of common control transaction precedes the date of issue of last financial statements of the receiving entity, the receiving entity shall account for the common control transaction in accordance with this Accounting Standard in the financial statements prepared for the reporting period immediately after the date on which the court or competent authority sanctioned/approved the common control transaction. In this case, the receiving entity shall account for the common control transaction by restating comparative period information to incorporate net assets received and consideration transferred, with effect from the date of common control transaction.

Subsequent measurement and accounting

[Refer: Basis for Conclusions paragraphs BC100 – BC101]

36. The receiving entity shall subsequently measure and account for assets received, liabilities assumed or incurred and equity instruments issued in a common control transaction in accordance with the IFRSs applicable for those items.

37. The receiving entity and transferred / transferring entity may had accounted for similar assets and liabilities using different accounting policies. Further, in some instances the accounting period of receiving entity and transferred / transferring entity may differ. In such circumstances, the receiving entity shall, after accounting for the common control transaction under paragraphs 18-19 above, adjust the carrying amounts of the assets and liabilities received from the transferred / transferring entity to ensure the uniformity of accounting policies and accounting period, as the case may be, with those of the receiving entity. Such adjustments to the carrying amounts of the assets and liabilities received from the transferred / transferring entity shall be made on a cumulative catch-up basis.

Further, adjustments shall be made to eliminate intragroup assets, liabilities, equity, income, expenses, cash flows and unrealised gains or losses resulting from intragroup transactions applying paragraph B86(c) of IFRS 10, *Consolidated Financial Statements*.

Disclosures

38. The receiving entity shall disclose information that enables users of its financial statements to understand the nature and financial effects of a common control transaction that occurs either:

    (a) during the current reporting period; or

    (b) after the end of the reporting period but before its financial statements are authorised for issue.

39. The receiving entity shall disclose sufficient information in its financial statements that enables users of its financial statements to understand the combining entities or business and gives a basis to assess the financial effects of the common control transaction accounted for and presented in the financial statements of the current reporting period.

40. The receiving entity shall disclose the accounting policy applied in accounting for a common control transaction, including a discussion of the specific principles and measurement bases applied under the policy.

41. For each common control transaction accounted for under the predecessor method during the period, the following information shall be disclosed:

    (i) the names of the combining entities (other than the receiving entity);

    (ii) the date of the common control transaction;

    (iii) the composition of the consideration transferred, as at the date of common control transaction showing separately the:

    - Nominal value of the shares issued, and also showing separately the par value of those shares;
    - Carrying amount of each class of asset; and
    - Carrying amount of the liabilities assumed or incurred.

    (iv) the amounts at which assets, liabilities and reserves (if any) of the transferred entity are recognised and measured by the receiving entity;

    (v) the nature and amount of accounting adjustment(s) to correct any accounting error related to the assets and liabilities received from the transferred entity;

    (vi) the amount recognised in equity representing the difference between the consideration transferred (iii, above) and net assets of the transferred entity; and

    (vii) the nature and amount of significant accounting adjustments made to the net assets received from the transferred entity to achieve consistency of accounting policies or accounting period.

42. The receiving entity applying acquisition method to account for a common control transaction, in accordance with this Accounting Standard, shall comply with the relevant disclosure requirements of IFRS 3.

43. If the specific disclosures required by this and other IFRSs do not meet the objectives set out above, the receiving entity may disclose whatever additional information is necessary to meet those objectives.

Effective date

44. This Accounting Standard is applicable on common control transactions that occur on or after June 30, 2022. Earlier application is permitted. If an entity applies this Accounting Standard for an earlier period, it shall disclose that fact.

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Basis for Conclusions

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This Basis for Conclusions accompanies, but is not part of the Accounting Standard, *Accounting of Common Control Transactions*. It summarises the considerations of the Accounting Standards Board (the Board) when developing the Accounting Standard.

Introduction

BC1 The Accounting Standard sets out proposals for accounting of common control business combinations and group restructuring transactions in financial statements of a receiving entity. It responds to the need for the provision of accounting directive for the IFRS scoped out business combinations under common control and group restructuring transactions.

The Basis for Conclusions is organised as follows:

(a) Need for this Accounting Standard

(b) Objective and scope of the Accounting Standard

(c) The requirements in the Accounting Standard

Need for this Accounting Standard

BC2 The main objective of general purpose financial reporting is to provide information that is useful to the primary users of the financial statements.

Paragraph 1.2 of the *Conceptual Framework for Financial Reporting* (the Conceptual Framework) explains that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

Those decisions involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or settling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

The Conceptual Framework also explains that many existing and potential investors, lenders and other creditors 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. Consequently, they are the primary users to whom general purpose financial statements are directed.

BC3 Whilst there may be other users of the financial statements, the Conceptual Framework recognises that the general purpose financial reporting may not specifically address their information needs.

BC4 Entities carry out BCUCC or group restructuring transactions for many different reasons. Sometimes these reasons can originate from internal reorganisations for tax strategy purposes or to potentially spin-off certain businesses within a group.

BC5 However, there is no specific guidance in IFRSs on the accounting for BCUCC or group restructuring transactions. Paragraph 2(c) of IFRS 3 states that the standard does not apply, amongst other things, to a combination of entities or businesses under common control.

BC6 Paragraph 10 of IAS 8 requires that entities develop an accounting policy for transactions not otherwise addressed in IFRSs.

In the absence of specific guidance in the IFRSs, common control transactions should be accounted for in accordance with the ‘hierarchy’ described in paragraphs 10-12 of IAS 8. As a consequence, appropriate accounting policies have to be developed and applied consistently.

BC7 The Board was mindful to the fact that the International Accounting Standards Board (IASB) as part of its research programme is working on the project ‘*Business Combinations under Common Control’*. Under this project, IASB is discussing whether it can develop requirements that would improve the comparability and transparency of accounting for combinations under common control to help investors compare and better understand information that companies provide in financial statements about such transactions.

In this context, the IASB issued a Discussion Paper (DP) in November, 2020. The IASB based on the comments on the DP would decide whether and, if so, how to develop detailed proposals in the next stage of the project.

The Board noted that in accordance with the IASB due process the development and application of IFRS requirements for common control transactions still involves significant stages and decision making at the IASB’s end, requiring further time.

BC8 The Board noted that owing to lack of guidance in the IFRSs, internationally, various national accounting standard-setters have issued local accounting pronouncements and requirements for the common control transactions. Since, the common control transactions are also frequent in Pakistan, it was considered necessary that accounting requirements for such transactions are developed and prescribed.

BC9 Further, lack of guidance under IFRSs has resulted in diversity of practices in accounting for common control transactions in Pakistan. Accordingly, the Board considered it needful to develop and prescribe accounting requirements for common control transactions so that diversity of accounting practices could be eliminated and users of financial statements are provided with relevant, comparable and faithful presentation of financial information.

Objective and scope of the Accounting Standard

BC10 The objective of the Accounting Standard is to improve how common control transactions are accounted for and presented in the general purpose financial statements of a receiving entity that is a reporting entity.

BC11 Defining the reporting entity is essential to resolving the issue of initial recognition and measurement of common control transactions. Throughout this Accounting Standard the receiving entity is the reporting entity, and the financial reporting of the common control transaction is considered from its perspective.

The description of a reporting entity is intended to be consistent with the objective of general purpose financial reporting. This is because the boundaries of a reporting entity are set to ensure that the information that is reported is useful for resource allocation decisions to be taken by existing and potential equity investors, lenders and other creditors.

BC12 A transfer of business would generally involve the following parties:

(a) the controlling entity or parent;

(b) the transferring entity;

(c) the transferred entity; and

(d) the receiving entity.

BC13 This Accounting Standard focuses on information about the accounting of common control transaction provided in the general purpose financial statements of the receiving entity.

A controlling entity is the entity that controls both the combining entities or businesses. A receiving entity is the entity that obtains control over the assets and liabilities of the transferred or transferring entity. The transferred entity is the entity whose control in a business combination is transferred to the receiving entity. On the other hand, a transferring entity in a business combination is the entity which transfers its interests in the transferred entity or its business (i.e. group of assets constituting business) to the receiving entity.

The consequences of such a transfer can be analysed from the point of view of the parties involved in such transaction as discussed below (this analysis assumes that the parties involved in the transaction are reporting entities):

- The controlling party or parent: From the perspective of the controlling party, the transaction does not change the entities or businesses that the party controls. If there is no non-controlling interest affected by the transfer, the accounting consequences of such a transfer are generally eliminated in full from the parent's consolidated financial statements according to IFRS 10, *Consolidated Financial Statements* (paragraph B86 of IFRS 10). If there is non-controlling interest affected by the transaction, the transfer would involve a transaction with non-controlling interest and the parent may need to recognise a change in its ownership interest in the transferred business. Accounting for such a change in ownership interest is also covered by paragraphs 22–24 of IFRS 10.

- The transferring entity: From the perspective of the transferring entity, the transaction results in a disposal of an entity or business. The transferring entity loses control over the transferred entity or business and accounts for the transaction according to paragraphs 25 and 26 of IFRS 10.

- The transferred entity: From the perspective of the transferred entity, the transaction results in a change in its immediate parent. IAS 24 *Related Party Disclosures* requires an entity to disclose the name of its parent and, if different, the name of ultimate controlling party according to paragraph 13 of IAS 24.

- The receiving entity: From the perspective of the receiving party, the transaction results in a change in entities or businesses that the receiving party controls and needs to report on. After the transaction, its financial statements will also need to include financial information about the transferred entity.

  The accounting for such transactions by a receiving entity is not covered by existing IFRSs.

BC14 In this Accounting Standard a distinction is made between a receiving entity and an acquirer. The term 'receiving entity' is used to describe an entity which receives one or more businesses either directly (as a parent) or from the ultimate parent entity. This term is used in the Accounting Standard to avoid suggestions that one of the combining entities is the acquirer.

Business combinations under common control (BCUCC)

BC15 The accounting of BCUCC is currently not in the scope of IFRSs. However, IFRS describe and explain BCUCC.

Paragraph B1 of IFRS 3 describes BCUCC as business combinations in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

BC16 The key components of BCUCC therefore include:

(a) The transaction is a business combination.

IFRS 3 defines a business combination as "[a] transaction or other event in which an acquirer obtains control of one or more businesses."

Typically, a business combination occurs when an entity purchases the equity interests or the net assets of one or more businesses in exchange for cash, equity interests of the acquirer, or other consideration. However, the definition of a business combination applies to more than just purchase transactions: it incorporates all transactions or events in which an entity or individual obtains control of a business.

Further, for a transaction to meet the definition of a business combination, the entity or net assets acquired must meet the definition of a business. IFRS 3 defines business as 'an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.'

For a set of assets and activities to be business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. These outputs include provision of goods or services to customers, investment income or other income from ordinary activities.

(b) The transaction results in control of one or more businesses. Control has to be considered in context of the legal and statutory requirements along-with the guidance provided in IFRS 10.

(c) The combining entities or businesses are 'under common control'. The common control exists if the entities or business are ultimately controlled by the same party both before and after the business combination regardless of whether such entities and businesses are part of the same consolidated financial statements.

(d) The common control is 'not transitory' in order to avoid business combinations at arm's length being structured, so that for a short period immediately before the combination, the combining entities or businesses are under common control.

Assessing whether common control exists

BC17 In IFRSs the guidance on determining control is provided in IFRS 10. Under IFRS 10, an entity has control over an investee when all of the following elements are present:

(a) Power over the investee;

(b) Exposure, or rights, to variable returns from its involvement with the investee; and

(c) The ability to use its power over the investee to affect the amount of the investor's returns.

The entity shall also consider the legal and statutory explanations to determine whether common control exists.

BC18 An entity may be controlled by an individual or by a group of individuals acting together under a contractual arrangement. The controlling individual or group of individuals may not be subject to the financial reporting requirements of IFRSs. According to paragraph B3 of IFRS 3 it is not necessary that combining entities be included as part of the same consolidated financial statements for a business combination to be regarded as one involving entities under common control. Further, as explained in paragraph B4 of IFRS 3 the extent of non-controlling interests in each of the combining entities before and after the business combination is also not relevant in determining whether the combination involves entities under common control.

Transitory common control

BC19 For a transaction to qualify as a common control transaction, IFRS 3 outlines that the same party or parties ultimately controlled before and after the combination, and the control is not transitory. As explained in paragraph B1 of IFRS 3, common control must exist both before and after the business combination so that control is not transitory.

BC20 The IASB had decided to require common control not to be 'transitory', and IFRS 3 in its Basis for Conclusions explains the reason for this condition. The IASB required common control not to be 'transitory' to avoid business combinations between parties acting at arm's length being structured through the use of 'grooming' transactions [intending to avoid the application of the requirements in IFRS 3], so that, for a brief period immediately before and after the combination, the combining entities or businesses are under common control. Therefore, the reason for this condition is prevent the use of 'grooming' transactions, whereby a business combination is structured in a way to avoid application of acquisition accounting of IFRS 3.

BC21 A reorganization or restructuring may involve the formation of a new entity to facilitate the sale of part of a group. The IFRS Interpretations Committee has been asked whether the reorganization involving the formation of a new entity to facilitate the sale of a part of a group is a business combination within the scope of IFRS 3. The IFRS Interpretations Committee after considering specific fact pattern noted that, to be consistent, the question of whether the entities or businesses are under common control applies to the combining entities that existed before the combination, excluding the newly formed entity.

The restructuring or reorganization within a group to facilitate a spin-off or an initial public offering is a business combination involving entities under common control. This is still the case when the parent intends to dispose or loses control over the business shortly after the restructuring/reorganization. An intention to dispose of restructured or newly formed entities, shortly after the reorganization or restructuring does not by itself result control of combined entities being transitory. The disposal of restructured or newly formed entities may be an acquisition by a third party or it may be a disposal to the wider market. The disposal results in entity's loss of control over restructured or newly formed entities or businesses. The reorganization that occurs before the disposal is generally not an acquisition under IFRS 3. The Board noted that assessment of whether control is transitory would require wider series of transactions, for which business combination (including formation of a new entity) as discussed above, is only an element. Management of an entity based on the specific facts and circumstances of an arrangement between common controlled entities shall apply judgment to assess whether or not common control is transitory or not.

BC22 If control over the combining entities or businesses by the same party (or parties) is considered 'transitory', the business combination:

(a) does not satisfy the description of business combination under common control; and

(b) is accounted for by applying the acquisition method set out in IFRS 3.

BC23 If control over the combining entities or businesses by the same party (or parties) is not considered 'transitory', the business combination:

(a) satisfies the description of a business combination under common control; and

(b) is excluded from the scope of IFRS 3 (and required to be accounted for applying the requirements of this Accounting Standard.

Group restructurings

BC24 'Group restructuring' is not a defined term and its meaning is not discussed in existing IFRSs.

BC25 In common language, restructuring means organizing components of the whole in a different way. In the context of a group, restructuring or reorganization would involve organizing entities or businesses within the group in a different way. Such changes in the group structure would involve transferring control over entities or businesses between existing or newly created entities under common control. Some of those transfers would satisfy the description of business combinations under common control whereas others would not, as the definition of 'business combination' is not met.

BC26 The most common types of restructurings involving entities under common control are as follows:

(a) Creation of a new entity (NewCo) and transfer of business to the NewCo. Such an arrangement is also referred to as spin-off, and done generally in anticipation of listing of securities or sale of NewCo or debt raising or taking benefit of a tax advantageous territory etc. There could be several forms in which these transactions are structured.

(b) Group reorganization involving moving of assets or entities within the existing group entities may be undertaken for a number of reasons, mainly driven by tax or financial considerations or for simplification of group structure or for improvement in the coordination of various business. Similar to spin-offs, these could take several forms as these reorganizations are driven by varied necessities.

Mergers and amalgamations of group entities are the most common forms of group restructuring.

BC27 IFRS 3 defines business combination as a transaction in which an 'acquirer' obtains control of one or more businesses. A key component of a transaction that is a 'business combination' involves identification of an acquirer.

BC28 If the acquirer can be identified, the transaction satisfies the description of a business combination and may also relate to a common control. As explained earlier, such a transaction is not covered by existing IFRSs as IFRS 3 scopes out common control business combinations. These common control business combination transactions are included in the scope of this Accounting Standard.

BC29 However, there may be cases where none of the combining parties can be identified as the acquirer according to IFRS 3. In such cases, the transaction does not satisfy the description of BCUCC because it does not meet the definition of business combination. Such a transaction changes the structure of the group and involves the transfer of a business, however it is also not covered by existing IFRSs. Such transactions (i.e. Group restructurings) are also included in the scope of this Accounting Standard.

Nature of the transaction — group of assets or business

BC30 Determining if a transfer between entities under common control constitutes the transfer of a mere group of 'assets' or a 'business' is critical. If a transaction in a common controlled structure is not a business combination because the assets being acquired do not meet the definition of a business, such transaction is accounted for as an acquisition of assets. The acquisition of a group of assets or net assets (not constituting business) should be accounted for as an asset acquisition under the requirements of IFRS 3 paragraph 2(b), regardless of whether that acquisition is a common control transaction.

The acquisition of an asset is governed by IFRSs, for example, IAS 16, *Property, Plant and Equipment*, or IAS 38, *Intangible Assets*. Those standards would apply regardless of whether the transaction qualifies as a common control acquisition. The seller or transferor will account for the transaction under appropriate IFRS and may recognize a gain or loss on the transaction.

BC31 The subsequent measurement and accounting in the separate and consolidated financial statements of the receiving entity are not discussed in this Accounting Standard. The receiving entity, after accounting for a common control transaction under this Accounting Standard, shall subsequently measure and account for the assets acquired, liabilities assumed and equity instruments issued in accordance with the applicable IFRSs, for those items, depending on their nature.

Requirements in the Accounting Standard

Date of common control transaction

BC32 The date of common control transaction is the date on which receiving entity obtains control of the net assets of the transferred entity or business transferred by a transferring entity. When accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interests shall initially recognize the assets and liabilities transferred at the date of transfer. This date can also be termed as combination date.

BC33 To represent faithfully a receiving entity's financial position and results of operations, the receiving entity shall account for all common control transaction from the date of such transaction. In other words, the financial position should reflect the assets acquired and liabilities assumed at the date of common control transaction, not before or after they are obtained or assumed. Similarly, consideration paid in a common control transaction shall be accounted for at the amounts, as at the date of common control transaction.

Moreover, the receiving entity's financial statements for the period should include only the cash inflows and outflows, revenues and expenses and other effects of the transferred entity after the date of common control transaction.

BC34 The date of a common control transaction can be a calendar date or an event based date, as may have been mutually agreed upon by the parties to the common control transaction. For example, the event based date may be tied to the occurrence of an event such as grant of license by a competent authority or fulfilment of any preconditions agreed upon by the parties, or meeting any other requirement as agreed upon between the parties which are relevant to the arrangement.

BC35 The scheme of arrangement may be sanctioned by the court or approved by the competent authority, as the case may be. The scheme of arrangement will contain a date or event, agreed upon by the parties to such arrangement, effective which the scheme would come into force.

The common control transaction would be effective from the date agreed upon by the parties to the arrangement, as noted above, and approved by the court or competent authority. For example, the scheme of arrangement contains the effective date of 01 January 20x0, while, court sanctioned this scheme on 01 June 20x1. The date of common control transaction in this example would be 01 January 20x0.

However, where the court or competent authority while approving the scheme modifies the date/event previously agreed upon by the parties and included in their scheme of arrangement then the date as modified by the court or other competent authority shall be considered as date of common control transaction. Taking the information from above example, if court while sanctioning the scheme on 01 June 20x1, orders that the scheme would be effective from 01 January 20x1, then date of common control transaction would be 01 January 20x1.

BC36 There could be a scenario where the date of common control transaction precedes the date of issue of financial statements of the receiving entity. For example, the date of common control transaction is 01 January 20x0 and court has sanctioned this transaction on 01 June 20x1. While, the receiving company has prepared its financial statements for the year ended 31 December 20x0. In this example, the date of common control transaction i.e. 01 January 20x0 precedes the date of issue of financial statements of the receiving entity i.e. 31 December 20x0. Such a scenario would require the receiving entity to account for the common control transaction from the effective date (i.e. 01 January 20x0) in its financial statements for the accounting period prepared immediately after the date of court's approval. The accounting and presentation of common control transaction would require restatement of previous period by including the pre-combination information.

Method of accounting of common control transaction

BC37 The objective of general purpose financial reporting as explained in the Conceptual Framework is to provide useful information to primary users that enables them to make decisions relating to provision of resources to the entity.

To attain this objective, the Board seeks to ensure that the application of accounting methods specified in this Accounting Standard meet a significant need and that the overall benefits of the resulting information justify the costs of providing it.

BC38 The primary users of financial statements include a wide range as these include existing and potential investors, lenders and other creditors. Paragraph 1.8 of the Conceptual Framework states that individual primary users of general purpose financial statements have different and possibly conflicting information needs.

BC39 Paragraph 2.4 of Conceptual Framework states that financial information is useful to primary users if it is relevant and faithfully represents what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

However, as outlined in paragraph 2.39 of the Conceptual Framework it is important to consider the cost constraint on useful financial reporting, i.e. whether the costs are justified by the benefits of reporting information.

BC40 The Board recognised that evaluation of costs and benefits is necessarily subjective. In making its judgement, the Board considered the following:

(a) the costs incurred by the preparer of financial statements;

(b) the costs incurred by users of financial statements when information is not available;

(c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information; and

(d) the benefit of better economic decision-making as a result of improved financial reporting.

BC41 Paragraph 6.1 of the Conceptual Framework states that the elements recognised in financial statements are quantified in monetary terms, and this requires the selection of a measurement basis.

For the selection of measurement basis, the qualitative characteristics of useful financial information and the cost constraint are the likely determining factors.

BC42 The considerations of the Board in developing the recognition and measurement approaches for common control transactions, were, accordingly:

(a) the information needs of primary users of the receiving entity's financial statements.

(b) whether information can be provided at a cost justified by the benefits of that information.

BC43 As explained earlier when an IFRS (including IFRS Interpretations) specifically applies to a transaction, other event or condition, an entity must apply that IFRS and relevant IFRS Interpretation. However, in the absence of an IFRSs that specifically apply to a transaction, other event or condition, management uses its judgement in developing and applying an accounting policy that results in information that is relevant and reliable.

BC44 Paragraphs 11 and 12 of IAS 8, require management, when there is no specifically applicable IFRS or IFRS interpretation for a transaction, to develop an accounting policy that is relevant to the decision-making needs of users and is reliable. The entity first considers requirements and guidance in other IFRSs dealing with similar issues, and then the content of the Conceptual Framework for Financial Reporting. Management might consider the pronouncements of other standard-setting bodies that use a similar conceptual framework to the IASB's, provided that they do not conflict with the IASB's sources of guidance.

BC45 IAS 8 also requires that the financial statements need to be both relevant to the economic decision making needs of users, and reliable. Paragraph 10 of IAS 8 notes that reliable means that the financial statements:

(a) represent faithfully the financial position, financial performance and cash flows of the entity;

(b) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

(c) are neutral (i.e. free from bias);

(d) are prudent; and

(e) are complete in all material respects.

BC46 The accounting method for common control transactions should be capable to satisfy the needs of users of financial statements. While, the users are diversified groups and may have different needs.

The Board noted that in considering the needs of users, the cost of each alternative method and the benefits to be derived should be considered.

BC47 The Board noted that owing to a specific IFRS for accounting of common control transactions there is a diversity in accounting of such transactions. The common control transactions are typically reported either by applying a form of a predecessor method (i.e. book-values) or applying acquisition method (i.e. fair values), or a variant of these methods.

The use of the predecessor method results in the recognition of assets and liabilities at their carrying amounts. There are no fair value re-measurements and recognition of goodwill. Any difference between the consideration and the carrying amounts of the net assets is recognized in equity.

IFRS 3 explains the acquisition method. The use of the acquisition method results in a reassessment of the carrying amounts of assets and liabilities i.e. fair value, and the recognition of goodwill and certain intangible assets, which otherwise would not be permitted. Any difference between the consideration and the fair value of the net assets is recognized as goodwill or bargain purchase gain.

The acquisition method set out in IFRS 3 is required for business combinations that are not under common control.

BC48 A desk review of financial statements of companies registered under Pakistan corporate law, carried out to understand the accounting practices followed for common control transactions indicated that in general the BCUCC and group restructurings involved subsidiaries that were either wholly owned or had insignificant non-controlling interest.

In substance, the business in a common control transaction was simply moved from one part of a group of entities under common control to another. Largely, a form of predecessor method was used by companies to account for common control transactions. However, use of fair-values was also noticed during the desk review.

Further, a desk study of requirements and guidance issued by various international jurisdictions showed that the common control transactions are typically reported either by applying a form of a predecessor approach or applying acquisition method, or a variant of these methods. It was also noted that some of the largest jurisdictions such as United States, China and India only allow the Predecessor method (or a variant of this method) for accounting of common control transactions.

While the guidance published by accounting firms suggests that an entity has an accounting policy choice and can elect to use either the carrying amounts included in the financial statements of the transferred entity or carrying amounts included in the consolidated financial statements of the controlling party.

BC49 The Board recognised that a receiving company's non-controlling shareholders, potential shareholders and existing and potential lenders and other creditors may have different information needs. In reaching its views, the Board considered the common information needs of those users of a receiving company's financial statements, notably its shareholders.

BC50 The Board also observed that IASB in its DP on BCUCC has noted that for combinations that do not affect non-controlling shareholders of a receiving company, many stakeholders who provided feedback during the development of the DP generally supported applying a book-value method, even when the combinations affect lenders or other creditors of the receiving company or are undertaken in preparation for a sale of the combining companies, for example, in an initial public offering.

Further, some of those stakeholders, notably investors and analysts who specialize in credit analysis, also expressed the view that the outcome of credit analysis would not depend greatly on whether the acquisition method or a book-value method is applied to combinations under common control. Furthermore, some suggested that if a combination is undertaken in preparation for a sale or listing of wholly-owned combining companies, the information provided to potential shareholders about those companies should not depend on the legal structure chosen for the combination. Finally, some stakeholders noted cost–benefit reasons for supporting a book-value method for combinations that do not affect non-controlling shareholders.

The IASB'S DP with regards to the combinations that affect non-controlling shareholders of a receiving company, noted that many stakeholders in their feedback generally supported applying the acquisition method, especially when the extent of non-controlling shareholders' interests in the receiving company is 'significant'. Those stakeholders argued that use of the acquisition method would provide useful information to those non-controlling shareholders.

Some of these stakeholders also expressed a view that the presence of non-controlling shareholders may indicate that the transaction is similar to a business combination covered by IFRS 3. However, some stakeholders disagreed with applying the acquisition method to any business combinations under common control, including those that affect non-controlling shareholders of the receiving company.

BC51 With regards to the controlling entity, the Board noted that while common control transactions may result in a change in control from the perspective of a standalone reporting entity, however, it does not result in a change in control at the ultimate parent or the controlling shareholder level. In substance, in a common control transaction, there is no change in the economic substance of the group.

It can be argued that if there is no economic substance to the common control transaction and the business combination is undertaken solely for the controlling party's purposes, then the costs of making the required fair value measurements of both entities may exceed their benefits. Therefore, unlike accounting for business combinations scoped under IFRS 3, an accounting method based on book values of assets and liabilities of the transferred entity would be more effective in meeting the information needs of primary users of the receiving entity's financial statements.

BC52 However, the Board also considered that minority shareholders could have a significant interest in the receiving entity. In general, non-controlling shareholders represent ownership or interest of less than 50% of an entity.

In situations where a receiving entity has a significant non-controlling interest at the date of common control transaction, it would be proper to give due weightage to information needs of all the primary users (i.e. both controlling and non-controlling shareholders) of the financial statements. In such situations, from the perspective of non-controlling shareholders, a common control transaction and ordinary business combination would not always be different in nature. This is because some common control transactions may result in a change in the ultimate ownership interests in the economic resources transferred in the combination, just like business combinations scoped under IFRS 3.

BC53 In a common control transaction, the receiving entity will be controlled by a controlling party. In some circumstances users, notably the majority-shareholders can find sufficient information for their purposes about an entity and transaction from its separate financial statements. In addition, the users of financial statements of a subsidiary often have, or can get access to, more information. Therefore, the shareholders of receiving entity and controlling entity can obtain the information they need, in addition to receiving entity's general purpose financial statements.

In contrast, existing non-controlling shareholders rely on the receiving entity's general purpose financial statements for meeting their information needs.

BC54 The Board reached to the view that for common control transactions involving wholly owned entities or where receiving entity has insignificant minority-interest, the predecessor method should be used. The Board observed that some of the largest jurisdictions where a significant number of common control transactions take place, only allow the predecessor method i.e. accounting using the book-values. Allowing two alternate methods of accounting i.e. book-values and fair-values for similar nature of common control transactions would create diversity and could also be burdensome and not be beneficial to users.

The determination of fair values generally involves use of judgments and resources. It is a costly exercise, and the costs of applying the acquisition method in most cases may not be justified by the benefits of the information provided.

BC55 The Board also considered that the financial information needs of non-controlling-interest could be different from the majority shareholders. Therefore, despite the cost aspect, the significant non-controlling-interest holders should have the ability to obtain relevant information from the entity in the financial statements. The management of the receiving entity for the meeting the information needs of significant non-controlling shareholders should be allowed flexibility for adopting an accounting method for common control transactions, which would best serve the information needs of the significant non-controlling shareholders.

BC56 The Board concluded that where a receiving entity in a common control transaction has a significant non-controlling interest, management may elect to apply acquisition method for the common control transaction.

BC57 Having concluded on the policy choice in scenario where the receiving entity has significant non-controlling shareholders the Board decided that the mode of selection of the accounting method, including the manner of communication between management and shareholders regarding selection and application of an accounting method is primarily not an accounting matter.

BC58 The Board also recognised that the assessment of whether the non-controlling interest is significant requires judgement and there can be no accurate quantitative threshold to make this assessment. The term significant and substantive is used in various IFRSs, however, there is no fixed quantitative threshold for determination of significant or substantive.

The Board in context of the determination of significant non-controlling shareholders noted that in the absence of any quantitative threshold there is risk of diversity in practices. This diverse and divergent understanding and assessment of significant (and insignificant) non-controlling-shareholding would lead to divergent accounting of common control transactions of same and similar nature. Therefore, the Board concluded that it should advise a quantitative threshold for assessing significance of non-controlling interest in a receiving entity carrying out a common control transaction.

BC59 For determination of an appropriate quantitative threshold, the Board considered that among the capital market participants, generally a non-controlling interest of 25% (i.e. three-fourth of shareholding) or more in a listed company could be considered as significant or substantive. Under the Listing Regulations of the PSX, for example, for the companies with paid up capital up to PKR 2.5 billion, the minimum percentage of shareholding required to be held by the general public is 25%.

Consistency of the accounting policy for common control transactions

BC60 Paragraph 13 of IAS 8 requires that accounting policies are applied consistently for similar transactions, other events and conditions, unless a standard or an interpretation specifically requires or permits categorization of items for which different policies might be appropriate. Accordingly, in context of similar common control transactions, the accounting policy shall be applied consistently from period to period.

Predecessor method

Recognition and measurement principle

BC61 The predecessor method is not described in the IFRS. It involves the use of carrying amounts (not fair value). Besides predecessor method various other labels/terms are used for such method, including book-values method, pooling (or uniting) of interest method and merger accounting.

BC62 There is diversity in practice in reporting carrying amounts applying a predecessor approach.

One approach involves recognition of assets and liabilities of the transferred entity (or business) at the carrying amounts included in the financial statements of a controlling party (i.e. in the consolidated financial statements prepared by ultimate parent company). While, the other approach of predecessor accounting involves using the carrying amounts reported by the transferred or transferring entity.

BC63 The Board observed that to reduce that diversity and improve comparability, it should specify how to apply predecessor method to common control transactions.

BC64 The Board considered various aspects of the two approaches noted in paragraph BC62 above, and concluded that the receiving entity shall apply the predecessor method using the carrying amounts of the transferred or transferring entity. Under this method the assets and liabilities of the transferred entity shall be recognised and recorded by the receiving entity at their carrying amounts as of the date of common control transaction.

The carrying amounts of the assets and liabilities shall not include fair value adjustments. Further, under a common control transaction there shall be no recognition of new assets or liabilities for the transferred entity.

BC65 While deliberating on the predecessor method, the Board recognised that in general, if the transferred entity or business has always been part of the same group, the carrying amounts of the assets and liabilities of that entity or business included in the consolidated financial statements of its controlling party (including the immediate parent, an intermediate parent and the ultimate parent) will generally be equal, subject to the intercompany adjustments to the carrying amounts recognised by the transferred entity or business itself.

Where a transferred entity has previously been acquired in an acquisition, the carrying amounts of the transferred entity's assets and liabilities in its separate financial statements may be different to the carrying amounts of those assets and liabilities in the controlling entity's financial statements (i.e. in the consolidated financial statements).

BC66 An argument for using the amounts included in the financial statements of a controlling party could be that this approach is appropriate because business combinations under common control are directed by the controlling party and accounting should reflect that party's perspective. Another argument for this approach could be that the transferred entity, or business, may not have prepared financial statements in accordance with the IFRSs, or may not have prepared audited financial statements.

BC67 On the other hand, a significant argument for using the carrying amounts reported by the transferred entity is that amounts recognised by the controlling party are irrelevant from the point of view of the combining entities (i.e. receiving entity and transferred entity).

BC68 The Board was also cognizant to the developments in IASB project on BCUCC. In the IASB outreach carried out under its BCUCC project, most regulators expressed the view that carrying amounts of the transferred entity should be used. It was also noted the use of carrying amounts recognised by the controlling party would be a form of 'pushdown accounting'. Pushdown accounting is not permitted under IFRSs.

BC69 It was also observed that that the use of the carrying amounts of assets and liabilities included in the financial statements of the transferred or transferring entity would:

(a) ensure comparability with the historical financial information of that entity or business. This would help both lenders and other creditors and potential equity investors in performing trend analysis comparing the performance of the transferred business post combination with its pre-combination performance.

(b) result in consolidated or combined financial statements of the combined entities or businesses that reflect the perspective of those entities rather than its controlling party and reflect continuation of those entities or businesses in a new legal form.

BC70 As explained above, where a transferred entity has previously been acquired in an acquisition, the carrying amounts of the transferred entity's assets and liabilities in its standalone financial statements may be different to the carrying amounts of those assets and liabilities in the controlling entity's financial statements (i.e. in the consolidated financial statements). However, under the predecessor method the fair value measurements in the financial statements of the controlling entity are not pushed down to the combining entity.

BC71 The Board recognised that in certain cases the principle approach of using the carrying amounts of net assets as reported by the transferred entity in its books of account as of the date of common control transaction may not be possible. The Board noted that a possible scenario could be where the court or other competent authority while granting approval/sanction of the scheme/arrangement may specify the nature and/or amounts of the assets and liabilities (or the methods to determine those amounts) transferred to the receiving entity under the scheme/arrangement.

Further, the scheme of arrangement may also contain the provisions that all capital and revenue reserves including revaluation surpluses and un-appropriated profits of transferred entity as at the date of common control transaction shall constitute and be treated as reserves and revaluation surpluses of a corresponding nature in receiving entity and shall be accounted for on that basis in the books of accounts.

In such circumstances, the receiving entity shall measure the assets, liabilities and reserves received from the transferred entity at the date of common control transaction, in accordance with and at the amounts specified in the court's or other competent authority's sanctioned scheme/arrangement.

BC72 The Board observed that errors may occur in the recognition, measurement, presentation or disclosure of transactions or events by the transferred / transferring entity. With regards to common control transactions, in certain cases the net assets of the transferred / transferring entity may contain an accounting error in accordance with the applicable IFRSs. IAS 8 outlines the requirements for correction of an accounting error by a reporting entity.

BC73 While the accounting of a common control transaction by the receiving entity a material error may be identified for the prior period (made in the transferred entity or transferring entity's books of account, as the case maybe). In such a case, to correctly provide the relevant information to the users of financial statements about common control transaction, the carrying amount(s) of item(s) of net assets received may require correction.

BC74 A correction of error related to the net assets of the transferred / transferring entity shall be accounted for at the date of common control transaction as under:

(a) making adjustment(s) on the date of common control transaction to correct any error in the net assets received from the transferred entity; and

(b) resultantly, measure net assets received from the transferred entity at their corrected amounts.

BC75 The Board recognised that a correction of error identified in the net assets of the transferred entity would make the amounts of net assets different from the carrying amounts as reflected in the transferred entity's financial statements or court's / competent authority's approved scheme of arrangement, as the case may be. The Board also noted that the disclosure about the amount(s) and nature of adjustment(s) made to correct the accounting error should be provided by the receiving entity in its financial statements.

BC76 IAS 8 outlines the principle that all material prior period errors should be corrected in the first set of the reporting entity's financial statements authorized for issue after their discovery. Accordingly, the transferred entity being the reporting entity, if required should follow the requirements of IAS 8 for correction of error in its financial statements.

Consideration transferred by the receiving entity

BC77 Applying the predecessor method, assets and liabilities received will be recognised by the receiving entity at their carrying amounts. Common control transaction, in general, involves consideration transferred by the receiving entity for the net assets received. The consideration is paid to the transferred / transferring entity, as the case may be.

BC78 The consideration transferred by the receiving entity could be either of or a combination of the following:

- Consideration paid in the form of own shares
- Consideration paid in cash
- Consideration paid in the form of other assets (other than cash)
- Consideration paid in the form of liabilities assumed (other than transferred entity's liabilities)

BC79 The measurement of the consideration paid in the form of own shares would affect presentation within the receiving entity's equity but would not affect the total carrying amount of the entity's equity or any assets, liabilities, income or expenses recognised by the receiving entity.

The receiving entity shall measure the consideration in the form of shares at the nominal value of the shares. The nominal value of the shares represents issue price of the shares as determined and agreed between the parties under the scheme of arrangement, in compliance with the statutory requirements, including requirements of the Companies Act, 2017 and Companies (Further Issue of Shares) Regulations, 2020.

BC80 The Board considered how the receiving company should measure consideration paid in assets other than cash. They could be measured either at fair value of those assets or at their carrying amounts in the receiving company's financial statements. Measuring consideration paid in assets at carrying amounts rather than at their fair values would result in different accounting outcomes as follows:

(a) if the consideration paid is measured at carrying amounts of those assets, no gain or loss would be recognised.

(b) if the consideration paid is measured at the fair value of those assets, the receiving company would recognise a gain or loss on disposal of those assets if their carrying amounts differ from their fair value.

BC81 The Board noted that measuring the consideration paid in assets at their carrying amounts, rather than at their fair values, would be more consistent with measuring the assets and liabilities received at their carrying amounts. Such approach would arguably be more appropriate if a common control transaction is viewed as a single transaction (an exchange of the consideration for the net assets) rather than two separate transactions (a disposal of assets by the receiving entity and an acquisition of net assets by the receiving entity). The Board also considered that the benefits of measuring the consideration paid in assets at the fair value of those assets may not outweigh the costs of doing so.

Therefore, the Board reached to the conclusion that the receiving entity shall measure the consideration paid in assets at the carrying amounts of those assets at the date of common control transaction.

BC82 A receiving entity might provide part or all of the consideration for a business combination under common control by incurring new liabilities, or by assuming existing liabilities of the transferred entity. Examples of liabilities that can be incurred or assumed by the receiving entity in exchange for a business transferred in a common control transaction include, but are not limited to, financial liabilities, performance obligations, employee benefits and provisions.

BC83 The Board observed that consideration paid in a common control transaction by incurring or assuming liabilities shall be measured at the carrying amounts of such liabilities. The carrying amount of liabilities assumed/incurred should be determined using IFRSs applicable on the initial recognition of those liabilities. The use of IFRSs that apply on initial recognition of those liabilities would provide the most useful information about the liabilities incurred/assumed. Further the applicable IFRSs would continue to apply to subsequent measurement of those liabilities.

The difference between the consideration paid and the carrying amounts of the transferred net assets

BC84 Applying the predecessor method, the difference between the consideration paid and the carrying amounts of assets and liabilities received in a business combination under common control is recognised in the receiving entity's equity.

BC85 Applying IFRSs, changes in equity arise from one of two sources: (a) transactions with owners acting in their capacity as owners; or (b) comprehensive income. It can be argued that economically the difference that may arise applying a predecessor method does not arise from either of the above noted sources, or at least not the entire difference arises from the above sources (although a portion of that difference could in some cases represent a contribution from or a distribution to the receiving entity's owners and a portion of that difference could represent income or expense).

BC86 Applying the Conceptual Framework, from the point of view of the receiving entity, the difference in its entirety does not appear to represent any element of the financial statements defined in the Conceptual Framework nor does it reflect any measurement basis discussed in the Conceptual Framework. The difference in its entirety also does not constitute an item of income or expense that could be recognised in the statement of profit or loss. This is because this change does not arise from a periodic remeasurement of assets and liabilities. Recognizing the difference in its entirety in the statement of profit or loss would not appear to provide relevant information or provide faithful representation of the transaction.

BC87 The Board observed that recognizing that difference in the receiving company's equity is more appropriate. This approach is followed and development of another approach that requires the difference described above to be segregated into components could be costly and complex to apply. Presentation of the difference in equity may involve statutory and legal provisions applicable to the receiving entity. The Board observed that it could not prescribe the form of presentation within a reporting entity's equity or measurement of issued shares because these matters are affected by legal and statutory provisions applicable to respective entities. It did not prescribe that in which component, or components, of equity the difference shall be presented.

Acquisition method

BC88 The acquisition method has been outlined in IFRS 3. The Board reached to the view that a receiving entity with significant non-controlling shareholders as an accounting policy choice can apply either acquisition method or predecessor method. The management of the receiving entity shall apply its judgement considering all the pertinent facts and circumstances in determining the accounting method that would most appropriately meet the information needs of all users, especially the significant non-controlling shareholders.

BC89 The requirements of IFRS 3 in relation to the acquisition method have been developed for dealing with business combinations between parties on an arm's length basis. The consideration transferred in an arm's length transaction will generally be measured at the acquisition-date fair value of that consideration. The value of such consideration transferred generally reflects the value of business that has been received (including possible synergies). For business combinations involving entities under common control, in general, this may not be the case, as the consideration transferred may not be at arm's length and may not reflect the value of the business received. However, it is also important to note that a BCUCC remains a business combination even though it is scoped out of IFRS 3.

BC90 The Board also considered whether it should require any modifications in the application of acquisition method under IFRS 3. The Board concluded that when applying the acquisition method to a common control transaction, IFRS 3 should be applied in entirety. This requires a receiving entity to recognise identifiable assets and liabilities acquired in a common control transaction and measure them at fair value. A receiving entity that is applying acquisition method shall recognize goodwill or bargain purchase gain in accordance with the requirements of IFRS 3.

Transaction costs

BC91 Applying the Conceptual Framework, transaction costs are added in the initial measurement of an asset, and deducted in the initial measurement of a liability if that asset or liability is measured at historical cost; if the asset or liability is measured at current value, transaction costs are typically recognised as an expense when incurred.

BC92 In accordance with the principle outlined in paragraph 53 of IFRS 3, in a business combination the acquisition-related costs are considered separate transactions and should not be included as part of the consideration transferred but, rather, expensed as incurred or when the service is received. In developing IFRS 3, the IASB and the US Financial Accounting Standards Board (FASB) concluded that acquisition-related costs are not part of the exchange between the buyer and the seller for the business. Rather, they are separate transactions in which the buyer pays for the services received. In addition, the IASB and the FASB also observed that those costs do not represent assets of the acquirer because the benefits are consumed as services are received.

BC93 In a common control transaction costs are incurred by the receiving entity to affect the transaction. These costs may include finder's fee, accounting, legal, valuation, consulting and other professional fees, general and administrative costs and the costs of issuing and registering debt and equity securities.

BC94 Transaction costs incurred in a common control transaction shall be recognised as an expense in the statement of profit or loss in the period in which they are incurred, except the costs to issue debt and equity securities shall be recognised in accordance with IAS 32 and IFRS 9.

Prospective application and presentation

BC95 The entities or businesses received in a common control transaction are included in the receiving entity's financial statements from the date of common control transaction. In the receiving entity's financial statements, information prior to the date of common control transaction shall be provided only for the receiving entity.

BC96 The pre-combination information (i.e. financial information before the date of common control transaction) for all combining entities is useful. For example, such information would be particularly useful to potential equity investors in an initial public offering. However, this presentation can be challenged because it would provide a picture of receiving entity that did not exist in the past. Requiring full pre-combination information for all combining entities to be presented in the receiving entity's financial statements could also create audit complications, particularly if the pre-combination information for some of the combining entities has not been audited.

BC97 The Board reached to the view that for financial reporting purposes entities or businesses should be combined from the date of common control transaction. The financial statements of the receiving entity, accordingly, shall present and disclose pre-combination information of the receiving entity only. Presenting combining entities or businesses as if they had always been combined would result in pro-forma information. There can be operational challenges and costs involved in preparing such pro-forma information.

BC98 During IASB outreach in its Business Combinations under Common Control project, regulators (who participated in those initial discussions with IASB) also expressed a view that combining entities or businesses should be combined from the date on which the transaction takes place and pre-combination information in the primary financial statements should be provided for the receiving entity only.

BC99 The presentation of pre-combination information for the receiving entity only in its financial statements would also be consistent with the principles of IFRSs. IFRS 3 and IFRS 10 require the consolidation of an acquired business or subsidiary from the date of acquisition. In addition, this approach would be less costly for a receiving entity than providing full pre-common control transaction information for all combining entities.

Uniform accounting policies and accounting period of combining entities

BC100 There may be situations where combining entities might have different reporting dates and different accounting policies for like transactions and events in similar circumstances. For example, a receiving entity in a common control transaction may have adopted revaluation model for subsequent measurement of property, plant and equipment while the transferred / transferring entity may have adopted cost model.

In such situations, it is essential that the adjustments are made to the carrying amount of assets and liabilities of the transferred / transferring entity for effects of aligning the accounting policies and reporting period with that of the receiving entity. This principle is consistent with the requirement for uniformity of accounting policies and reporting date in the preparation of the consolidated financial statements under IFRS 10. IFRS 10 requires adjustments to a group entity's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies. Further, IFRS 10 also requires that the financial statements of the group entities used in the preparation of the consolidated financial statements to have the same reporting date.

BC101 It is important to note that the requirement for alignment of accounting policies between a receiving entity and the transferred / transferring entity relates to subsequent measurement of assets and liabilities transferred in a common control transaction in the receiving entity's financial statements (i.e. measurement at a reporting date after the date of common control transaction).

The requirements for measurement of assets and liabilities transferred in a common control transaction on the date of common control transactions are as prescribed under paragraphs 18-19 (i.e. predecessor method or acquisition method) of the Accounting Standard. Accordingly, no adjustments for alignment of accounting policies in a common control transactions are required for measurement of transferred assets and liabilities on the date of common control transaction.