



Financial Reporting Advisory Board

Business combinations under common control – workstream update

Issue:	This paper provides the Board with HM Treasury's work plan for reviewing several aspects of accounting for business combinations under common control in the public sector and highlights some of the issues expected to be considered by the technical working group.
Impact on guidance:	None at this stage. The FReM and other relevant guidance may need to be updated in due course.
IAS/IFRS adaptation or interpretation for the public sector context?	This will be revisited in a later paper to the Board.
Impact on WGA?	None expected as MoG changes are all within the government boundary.
IPSAS compliant?	To be determined, based on any adaptations/interpretations.
Alignment with National Accounts	N/A for this workstream.
Impact on budgetary regime and Estimates?	To be determined, based on any adaptations/interpretations.
Recommendation:	The Board agree the approach and work plan.
Timing:	We plan to start engaging with technical working group meetings in June 2025 and report back to FRAB in November 2025.

DETAIL

Background

1. Machinery of Government (MoG) changes have become more frequent in recent years, and 2023-24 saw one of the most significant and complex MoG changes in recent times, being the split of the former Department for Business, Energy and Industrial Strategy (BEIS) and Department for International Trade (DIT) into: The Department for Science and Technology (DSIT), The Department for Energy Security and Net Zero (DESNZ), and The Department for Business and Trade (DBT). Further information on the history of MoG changes can be found here: [Machinery of government changes | Institute for Government](#).
2. Current FReM accounting requirements following a MoG change can be found in Annex A.

3. At FRAB 154 in November 2024, FRAB agreed with HMT proposals to update the business combinations under common control (BCUCC) application guidance and remove the requirement to restate prior year fair pay disclosures when a BCUCC occurs, and merger accounting applied.
4. This paper sets out our proposed work plan for considering in further detail, potential additional changes to accounting requirements following a BCUCC. We have outlined the key issues we plan to cover in the technical working group meetings under 'Issues for consideration'.

Work Plan

5. Our proposed high level work plan can be found in Annex B. We intend to conclude on the below questions and report back to FRAB by November 2025.
6. We plan to start technical working group discussions in June 2025.
7. Should there be any changes to the FReM or BCUCC application guidance proposed, we would aim to make these changes in time for any potential publication or exposure draft in December 2025.

HM Treasury would like the Board's agreement to the proposed work plan for considering potential additional changes to BCUCC accounting requirements.

Issues for Consideration

8. Several issues have previously been discussed at FRAB 154 in November, as areas where HM Treasury may look to assess whether accounting requirements remain appropriate. These issues are reflected in the questions below, which we plan to include in technical working group discussions.
 - a. Is the requirement for bodies to disclose a SoFP as at the beginning of the previous reporting period (sometimes referred to as a 3rd SoFP) still appropriate? including consideration of any other impacts on the budgeting and Parliamentary Estimates process.
 - b. Is the use of merger accounting (and restatement of prior year comparatives as if the newly combined entity had always been operating) still appropriate or would accounting for the combination under absorption accounting provide better information to users? This would also include the effects on Parliamentary accountability of government spending and HM Treasury's ability to obtain the necessary data for fiscal statistics.
 - c. Should gains or losses recorded following a business combination be recorded in reserves, rather than going through profit or loss? If so, are there any other consequences of making this change?
9. Should changes be made to the financial reporting framework, the date for implementing those changes will also be discussed at the technical working group to ensure they are implemented with sufficient lead time.
10. In addition to the financial reporting requirements for MoG changes, HM Treasury are also investigating whether there is non-financial reporting guidance on MoG changes (e.g. governance and accountability issues during a MoG change) available which can be incorporated or linked into the financial reporting guidance.

HM Treasury would welcome views from the Board on the above three questions and whether there are any additional areas the Board feels should be included in technical working group discussions.

Recommendation: That the Board agrees to the work plan. We also welcome views on the proposed questions to be included as part of technical working group discussions.

Annex A: Current FReM accounting requirements for MoG changes

1. Chapter 9 of the 2024-25 FReM contains the key requirements for MoG change accounting.
2. Paragraph 9.1.1 of the FReM states that public sector bodies are deemed to be under common control and are therefore **excluded from the scope of IFRS 3** Business Combinations. Business combinations between public sector bodies are accounted either as transfers by merger or transfers by absorption.
3. Paragraph 9.1.6 of the FReM states '*transfers of function between departments within central government, but not between a UK central government department and the Welsh Government, Northern Ireland Assembly or Scottish Government, whose income and expenditure is controlled directly by parliamentary Supply processes (departmental group accounts) apply transfer by merger accounting*'.
4. Paragraphs 9.1.7 – 9.1.10 of the FReM include the requirements for transfer by **merger accounting**, including the results and cashflows being combined from the beginning of the financial year in which the combination occurs with restatement of comparative information, including disclosure of the SoFP as at the beginning of the previous reporting period (also known as a 3rd SoFP).
5. The implication of the requirements above for **merger accounting** is that entities must restate prior year comparative information as if the newly combined entity had always been operating.
6. Merger accounting is used for these types of business combinations due to the principle that control and accountability for central government public services is unchanged before and after the MoG change. As stated in an exposure draft covering business combinations from 2012: '*The FReM application of merger accounting reflects that, in substance, overall government control of the function is unchanged. This is exhibited by restating the financial performance in the accounts of entities involved so as to present it as if the service or function had always taken place in the receiving entity.*'
7. Where merger accounting is applied the prior year comparatives in the financial statements are restated and a 3rd SoFP disclosed in line with IAS 1.40A:
8. FReM 9.1.11 requires all other transfers between public sector bodies to be accounted for as **transfers by absorption** (e.g. a transfer of function from local government to central government).
9. **Absorption accounting** is used for these types of transfers as accountability differs compared to transfers between UK central government departments. Absorption accounting therefore reflects this differing accountability up to the date of the transfer.
10. Additional reasons were provided at FRAB 113 and in the 2012 business combinations exposure draft for limiting the use of merger accounting in the FReM:
 - There are statutory restrictions which prevent or limit the use of merger accounting for certain bodies.
 - There are practicability constraints of restating financial information. Restatement can be resource intensive, and where transfers impact multiple organisations or occur frequently, the perceived benefits of comparability are significantly reduced.

Annex B: High Level Work Plan

Date	Activities
April 2025 – June 2025	HMT prepare for working group meetings.
June 2025 – October 2025	Technical working group meetings - See 'Issues for consideration' section of paper for more details of questions to be discussed as part of technical working group meetings.
November 2025	FRAB paper: Business combinations under common control - Summary of working group findings. Paper to include any changes proposed by HMT to the FReM or MOG guidance following this. FRAB to approve any changes.
December 2025	<p>If changes to the BCUCC guidance and accounting are significant, release an exposure draft/consultation to allow a wider base of stakeholders to provide their views.</p> <p>If changes to the BCUCC guidance and accounting are not significant, publish the FReM and include changes to BCUCC guidance where it has been concluded implementation in the given financial year is appropriate.</p> <p>Publish updated business combinations guidance.</p> <p>[The publication timetable assumes FRAB support for any proposed changes is achieved at the November 2025 FRAB meeting].</p>