Business Combinations Under Common Control (BCUCC): the Italian Experience

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***Abstract*- Business combinations under common control (BCUCC): the Italian Experience. The aim of this paper was to analyze the phenomenon of business combinations under common control (BCUCC) with emphasis on the Italian experience, focusing on information deduced from a sample of Italian financial statements and comparing them with each other and with the same number of European listed companies. We started from a theoretical analysis of the phenomenon, contextualizing it within the IAS/IFRS framework, and discussing the different visions and possible solutions that have been suggested by other important national and international organizations (US GAAP, Assirevi, China GAAP), and then proceeded to analyze the financial statements of the most important Italian companies in detail. We subsequently considered the two different methodologies for accounting, delineating the analogies and differences between them, in an attempt to investigate the reasons why one of them could be preferable to the other and the different effects of each on consolidated financial statements. Finally we analyzed the different informational needs of users of the financial statement compared with cases of "normal" business combinations. The samples chosen for our research comprised a certain number of companies randomly chosen from Italian stock exchange quotations as well as from the other major Italian stock index FTSE MIB.**

***Index terms* - Business combination, Business combination under common control, Common control, IFRS 3, Pooling of interests, Predecessor basis of accounting.**

I. INTRODUCTION

The 1606/2002 (CE) regulation sanctions the adoption of the international accounting standards promulgated by the IASB (International Accounting Standard Board) for the financial statements of all European companies starting from 1st January 2005. The goal that the IASB wanted to achieve by promulgating these principles is the harmonization of the rules to be used in the preparation of financial statements in order to ensure their uniformity and comparability, both in terms of time (the maintaining of general criteria and assessment methodologies from one financial year to the other) and in terms of space (comprehensibility and comparison with other companies' financial statements) after the processes of internationalization of the economy and globalization of the markets.

Consolidated financial statements include all the companies over which the parent company can exercise control, which has been defined as the power to determine the entity's managerial and financial policies in order to obtain benefits from its assets and that can be held by having the majority of votes that can be exercised in the ordinary shareholders' meeting (Santangelo - 2010) or through some kind of agreement. There are different ways to achieve control: one of these consists in realizing a business combination, but it is not the only one. Business combinations usually cause changes in the group's structure, strategies and management. When control is obtained by means of transactions that take place under common control and do not involve a change of the subject that has control over the entity, then we are talking about business combinations under common control (BCUCC). Despite the similarity between the two definitions, they represent two very different cases and in each we start from different assumptions and reach equally different conclusions.

Business combinations are governed by the latest version of IFRS 3, IFRS 3 REVISED (promulgated in 2008 and implemented in 2009), which currently recognizes the acquisition method as the sole accounting treatment (Petre and Bunea-Bontas - 2009): accounting is done by using current values so the acquirer recognizes assets and liabilities at their fair value and potential goodwill. After exclusion of cases by the IFRS 3 REVISED application, we are left with BCUCC.[1]

II. BUSINESS COMBINATIONS UNDER COMMON CONTROL AND IFRS 3 APPLICATION

It is not simple to define a homogeneous and categorical description of BCUCCs, as they do not represent a homogeneous case and are not easily generalizable. Their name is reminiscent of business combinations, but it also introduces the concept of common control: these are combinations after which the economic subject has not changed. The entities involved are therefore controlled by the same subject before and after the transaction. Common control must also have a further requirement, namely that it must not be temporary, so as to avoid the circumvention of the provisions of the IFRS 3 for business combinations through the creation of ad hoc arrangements (Caratozzolo - 2009). The phenomenon we analyzed therefore regards the acquisition of control that takes

[1] IFRS 3 *revised – Business Combination,* par 2 – *Ambito di applicazione*

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place inside the entity and does not involve a change of the subject that controls it. The distinctive feature of BCUCC is the existence of an economic entity that is over and above the parties involved in the transaction and involves the non-transfer of control as the aggregated companies or assets are already controlled by the same subject before the combination. The nature of BCUCC could be defined as the transfer of assets "from one pocket to another pocket" (PAN - 2002).

After having outlined the general features of the phenomenon, we then asked ourselves why BCUCCs are not included in the IFRS 3 application. Since:

- They are transactions between related parties, so they are subject to IAS 24 *Related party disclosures* provisions: while business combinations are realized for the satisfaction of the economic interests of both entities involved, BCUCCs can be implemented to satisfy certain interests that sometimes go beyond the involved parties and benefit the company to which they belong.
- The transaction takes place in the absence of informational asymmetry, so the possibility of identifying counterparty risks in the combination appears improbable.
- They are not transactions that are subject to market assessments: the value of the negotiation is deeply subject to the discretion of management and a real negotiation, typical in business combination cases, is often absent.
- The object of the transaction is different from that which is usually exchanged in a business combination: there are many questions pertaining to the recognition of goodwill and intangibles (EFRAG).[2]

An accounting policy that regulates and governs the treatment of BCUCC in financial statements is currently absent, both in the IAS/IFRS context and in the Italian Civil Code. The absence of a specific discipline has generated in practice the proliferation of different accounting treatments that have had a negative impact on the comparability of financial statements.

III. BCUCC IN ITALIAN LAW – CIVIL AND FISCAL ASPECTS

Different ways of realizing BCUCC are present in Italian law:

- Merger by union or proper merger without transfer of control: this is a form of business combination that involves both the legal and the economic unification of the subjects that take part in it.

  Merger by union involves the loss of two or more companies and the rise of a new company; proper merger involves the loss of one company that is absorbed by another.
- Transfer of companies without transfer of control: a company transfers shares of a subsidiary to another company in the group, which issues new shares in return.
- Total or partial spin-off without transfer of control: a company in the group splits into two companies.
- Transfer of businesses or business units by operative companies without transfer of control: a company sells its business unit to another company within the same group.
- Sale of companies without transfer of control: a company sells its interest in a subsidiary to another company within the group.

In all these cases the controlling party does not change after the transaction.

In the Italian context, the concept of BCUCC is embodied in the form of "simplified merger": the jurisdiction to decide a merger can be attributed by the Articles of Association to the Board of Directors in two cases, namely when the incorporated company possesses all the shares of the acquiring company or when the acquiring company possesses at least 90% of the shares of the incorporated company (Colombo and Portale - 2004). In order to reduce rates and speeds of mergers of small companies by bigger entities, the Third EU Directive 78/855/CEE of 9 October 1978[3] extended the circumstances in which the shareholders' approval of the merging of the surviving company was optional, provided that the merger was made public at least one month prior to the shareholders' meeting, that all the shareholders of the acquiring company could examine the project, the annual accounts and the Reports of Operations of the last three financial years of all the merging companies and that shareholders that were in possession of a minimum percentage of the capital of the acquiring company were allowed to re-introduce the jurisdiction of the shareholders' meeting to decide on the merger (Marziale - 1986). In 2003, the legislature chose not to implement this option in order to ensure the protection of minority shareholders through the authority of the shareholders' meeting in deciding the amendments to the Articles of Association.

With regard to the fiscal aspects of BCUCC transactions in Italian law, in accordance with the provisions of the Tax Code[4] (art. 172, 173 e 176)

[2] EFRAG, *Accounting for business combination under common control, Discussion Paper*

[3] Artt. 24, 25 e 27

[4] The Italian Tax Code (TUIR) was introduced in the Italian law with the Presidential Decree n. 917 of 22 December 1986.

mergers, spin-offs and transfer of companies are characterized by a system of temporary fiscal neutrality as they generally concern the restructuring of the organizational structure and remain uninvolved in the operational running of the company, so no new taxable income is created. Sales of companies and transfers of businesses or business units, and in some cases transfers and sales of shares,[5] will instead realize taxable income. The legislation in question tried to maintain this division even for IAS compliant subjects, so the decree n. 4 of 1 April 2009 recognized that all transactions that are legally classified as sale of company, irrespective of the fact that they are business combinations or BCUCC, create new taxable income. Essentially therefore the provisions about the neutrality and taxability of extraordinary transactions, which are generally assessed according to the Italian Civil Code, would be valid for IAS compliant subjects too: the decree in question states this principle, which however was already previously implicit as the Tax Code, which stipulates the principle of substance over form for the IAS compliant subjects, did not extend it to extraordinary transactions inasmuch as they are governed by tax provisions in the Tax Code.

While the Civil Code therefore gives no indications about the accounting policy of the phenomenon under discussion, tax provisions, through the concept of fiscal neutrality, lead us to opt for using the predecessor basis of accounting.

IV. BCUCC ACCOUNTING

As already mentioned, an accounting policy for the accounting treatment of BCUCC is currently lacking.

In the search for a solution to the problem, first of all it is necessary to consider that in every transaction which is not explicitly included in the IAS/IFRS principles, the guidelines imposed by IAS 8, *Accounting policies, Changes in Accounting Estimate and Errors*,[6] defining a general principle with the aim of ensuring comparability of financial statements in terms of time and space, must be followed. In this regard, in the absence of a principle that specifically governs a certain situation or transaction, management should develop and apply at its discretion a method of accounting and assessment that provides information that is:

- Relevant to the economic decision-making needs of users.
- Reliable, in that the financial statements:
  (i). faithfully represent the financial position, financial performance and cash flows of the entity;
  (ii). reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  (iii). are neutral, i.e. free from bias;
  (iv). are prudent; and
  (v). are complete in all material respects (IAS – *Accounting policies, Changes in Accounting Estimate and Errors).*[7]

According to IAS 8, the preparers of the financial statement must take into consideration the following sources in descending priority:

- The requirements in IFRS's dealing with similar and related issues.
- The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework.
- The most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards (IAS 8 – *Accounting policies, changes in Accounting Estimate and Errors*).[8]

The IASB did not express an opinion about the accounting treatment of BCUCC's transactions. As already stated, IFRS 3 does not include in its application the BCUCC case: the issue is therefore subject to each individual case. We now proceed to briefly describe the solutions reached by other important national and international organizations.

The choice of using the economic substance of the transaction as a key element in locating the most suitable accounting policy is suggested by the guide lines provided by Assirevi (Italian association of Auditors) which, noting the lack of regulations concerning BCUCC, issued a Preliminary Guide, the OPI 1 *Accounting treatment of "business combination of entities under common control" in the financial statement and in the consolidated financial statement.* According to OPI 1, it is not possible to identify a uniform accounting treatment for BCUCCs, since from time to time it is fundamental to assess whether or not the requirement of economic substance is present: if it is, the transactions under analysis must be accounted using the IFRS 3; otherwise, as the transaction can be regarded as a mere reorganization, consistent with the principle of prudence, the predecessor basis of accounting must be chosen. As previously mentioned,

[5] Sale of investments that are not characterized by the possibility of implementing the provisions on participation exemption and transfer of shareholdings implemented with the provisions of Art. 175 of the Italian Tax Code when the actual values of the transaction are recognized in accounting.

[6] (F. Dezzani, P.P.Biancone, D. Busso - 2012)

[7] IAS 8 – *Accounting policies, Changes in Accounting Estimate and Errors,* par. 10

[8] IAS 8 – *Accounting policies, Changes in Accounting Estimate and Errors,* par. 11

the vision of Assirevi reaches the same conclusions already observed in the treatment of IAS 8.

With regard to the Italian law, a specific standard for the accounting of BCUCC does not exist.

Art.2504-bis comma 4 of the Italian Civil Code foresees that these transactions should be accounted using the predecessor basis of accounting, except for the limited revaluations undertaken to replace the deficits arising from extraordinary transactions, without the possibility of the acquiring company recognizing the fair value of the identifiable assets and goodwill of the incorporated company. With regard to "normal" business combinations, the classification as a proper merger or acquisition depends on the legal form of the transaction.

In accordance with US GAAP, "normal" business combinations are governed by the SFAS 141 REVISED *Business combination*. Like IFRS 3, according to the FASB, business combinations must be accounted using the acquisition method (Bohusova and Svoboda - 2009). A further requirement is however introduced in this case: the incorporated entity must meet the definition of business (if it is in a phase of development and has not begun its principle planned operations, then it is assumed that it is not a business). BCUCCs are generally recognized through the predecessor basis of accounting, namely at the book value of assets and liabilities transferred in the financial statement of the transferring entity.

With regard to UK regulations, according to FRS 6 *Acquisitions and Mergers*, the predecessor basis of accounting must be applied in all the reorganization and restructuring implemented within groups when the parent company maintains the same percentage of control before and after the transaction.

The only case in which there is a steadfast rule is the Chinese case: when the presence of common control occurs in a business combination, the predecessor basis of accounting, which does not permit the recognition of goodwill and states that any potential difference arising from the transaction must be recognized in equity, must be applied. If common control is absent, a methodology similar to the acquisition method can be used, whereby it is possible to recognize new goodwill on which to carry out the impairment test (Biondi and Zhang - 2007).

The application of the guidelines imposed by the IAS 8 and of all the provisions of the different organizations described above has generally led to two accounting methods for BCUCCs (EFRAG – *Discussion paper*):[9]

- Predecessor basis of accounting (alias pooling of interests): is an accounting policy that involves the continuity of values and does not allow revaluation nor detection of assets that are not recognized in the financial statement of the controlled company; it is generally used to represent historical trends of the financial statement, in order to satisfy the informational needs of the readers.
- Acquisition method: is the accounting policy foreseen by IFRS 3, whereby the acquiring company must recognize the assets and liabilities of the acquired company at fair value at the date of acquisition, which can also recognize assets that are not present in the financial statement of the acquired company; it is generally used when it is believed that future net cash flows are better represented through fair value.

Once the preparer of the financial statement has identified the policy he intends to follow, the IAS 8 prescribes the homogeneous treatment of similar operations. In the identification of the correct policy to be applied, it is fundamental that the economic substance, which then becomes the key element in the choice of treatment used, is put in evidence.

IAS/IFRS compliant companies justify the use of the acquisition method, and thus the adherence to IFRS 3, when the transaction has economic substance for the company that prepares the financial statement: however, when this requirement is absent the predecessor basis of accounting is preferred.

V. ACQUISITION METHOD OR PREDECESSOR BASIS OF ACCOUNTING?

As will emerge later, among Italian companies the utilization of the predecessor basis of accounting has been far more successful than the acquisition method, since in most cases the transactions were devoid of economic substance and consequently did not have any effect on the consolidated financial statements; we then asked ourselves: would the choice between one method or the other involve consequential changes in the consolidated financial statement or would the effects be the same in both cases?

The use of the **predecessor basis of accounting** entails the following:

- Assets and liabilities of the acquired company are recognized at the carrying amounts;
- Intangible assets and potential liabilities are recognized to the extent that they are already included in the financial statement of the acquired company in accordance with the applicable accounting standards;
- New goodwill is not recognized: the potential difference between the acquisition price and the net assets of the acquired

[9] Issues Paper, Tentative AASB Staff Comments on EFRAG Discussion Paper Accounting For Business Combination Under Common Control (2012)

company is recognized in the Other Comprehensive Income;

- Non-controlling interests are measured at the appropriate share of the identifiable net assets of the acquired company and, where necessary, adjusted in order to ensure uniformity in the accounting principles and criteria used;
- All acquisition related costs are immediately recognized in the Comprehensive Income;
- The comparative amounts must be determined as if the transaction had taken place in the first comparative period presented.

The recognition at **fair value** (**acquisition method**) involves:

- The identification of the purchaser;
- The allocation of the cost of acquisition based on the fair values of assets, liabilities and potential liabilities of the acquired company at the date of acquisition;
- Recognition of further intangible assets in the acquired company when their fair value is measurable and they are separately identifiable or they arise from contracts or other legal rights;
- The recognition of new goodwill, measured as the difference between the acquisition cost and the appropriate share of the net assets measured at the fair value;
- The comparative amounts are not determined;
- The transaction costs are directly attributable to the transaction and therefore allocated to goodwill.[10]

VI. DISCLOSURE RELEVANCE

The primary purpose of the IFRS is to serve the needs of the international capital markets and their informational demands. The information provided by the financial statements must help the primary users (actual and potential investors and other creditors) as well as all the other stakeholders of the company to assess the net cash flows and the prospects for the economic and financial performance and the asset trends in order to capitalize on advantageous decisions. We asked ourselves: is the information generally needed by the stakeholder and, in the case of a "normal" business combination, is it the same useful information used in the case of BCUCC? (Caratozzolo - 2011) In most BCUCC transactions, a change in the future net cash flows in the controlling company is not expected, as their effects run out within the perimeter formed by the companies of the group and no exchange is carried out with third parties, the parent company does not need new information and, since it is the parent company that decides to perform the transaction and fixes the key points, the users of the financial statement are not interested in verifying the responsibility of the transferee's management. The controlling shareholder is therefore interested in the continuity of existing values. The non-controlling shareholder is instead more interested in the performance that will take place after the merger and in the cash flows that the incorporating company will be able to generate, in the same way as the potential investor that wants to understand what the possible return will be if he invests in shares of the transferee, so accounting through IFRS 3 more appropriately serves these needs (EFRAG – *Discussion paper*).[11]

In conclusion, essentially depending on the needs of the readership, the use of one method reveals itself to be more appropriate than the other. What unites the different cases is that, as they are essentially transactions out of normal market transactions, carried out between related parties (within the perimeter of the group and therefore without the emergence of asymmetric information and risks for one side or the other) the informational need in a BCUCC situation loses ground if compared with other needs considered more relevant and worthy of protection. This was also observed empirically: the information that could be found in the financial statements analyzed was never easily detectable nor completely clear and satisfactory in relation to our objectives. In the light of these considerations, it could be deduced that this was not an omission on the part of the preparers of the financial statements, but simply that due weight had been given to cases considered less fundamental than others at the level of reporting relevance.

The reader of the financial statement in the case of BCUCC has different needs if compared to any extraordinary operation that includes parties outside the entity.

VII. THE EMPIRICAL ANALYSIS

Initially, a random sample[12] of all companies listed on the Italian stock exchange, amounting to about 45% of the totality of the stock exchange, was chosen (so out of a total of 284 companies 128 were analyzed). After that we focused in detail on the FTSE MIB index, including 40 shares with a market capitalization of 80% of the Italian stock exchange and therefore considered sufficiently representative of the general performance of Italian companies and suitable for the purposes of our analysis. The choice of acting on a

[10] Grant Thornton, *Technical Accounting Alert*

[11] EFRAG – *Accounting for business combination under common control, Discussion paper* – 28-36

[12] Random sampling is a type of sampling created by a universe in which each unit has an equal chance of another to be extracted. The advantages of this type of sampling are that it avoids the distorsions caused by non-random sampling (it is systematic) and it allows an estimation of the sampling errors.

randomly chosen group of companies was motivated by the desire to represent the Italian situation in all respects without introducing or favoring any kind of requirement, as it is a very variegated context.

The only cases deliberately excluded in both samples were banking companies, financial companies and insurance companies, as they could be considered a reality distinct from companies that have a proper production cycle and given the specific and stricter regulations characteristic of these types of companies that certainly influence their decisions and did not make them totally uniform to the other companies for the purposes of our analysis.

ITALIAN STOCK EXCHANGE

Among the Italian companies analyzed, less than 50% (about 45%) had carried out at least one BCUCC transaction during the period 2009-2012. Among these companies, as many as 48, that is almost 79% (38% of the sample), had carried out at least one BCUCC transaction in 2011. On comparing this data with the same number of European listed companies (the bases for the choice of the sample were the same as those already explained for Italian companies), it was immediately evident that in the sample taken into account, in recent years fewer BCUCC transactions had been carried out: they in fact could be found in less than 25% of the analyzed companies, and in 2011 in particular BCUCC transactions had been carried out in fewer than 15% of the groups. It was immediately evident that in recent years Italian groups had been involved in a climate of corporate reorganization, which had led to the modification of their structure with the purposes of optimization, efficiency and cost saving. In fact, in most cases, the result had been the simplification and flattening of the corporate structure. This was not surprising in a macroeconomic context of financial and economic crisis that for years now has been pushing even the best companies to maximize saving (Accetturo, Giunta, Rossi – 2011). Some other factors leading to the carrying out of a BCUCC were strategic: the transfer of business or business units was sometimes determined by the need or the will to concentrate a certain type of activity (for example the prevalently productive activities) in one or a few companies of the group to separate the businesses strategically and to exploit synergies. Among the cases analyzed, there were a fair number in which the purpose and the motivation of these transactions were explained: about 32% of the BCUCCs carried out in 2011 were motivated in the financial statement, and the organizational motivations prevailed over the strategic, although the two cases were not so clearly separable. In most cases however (more than 68%), the reasons that had led to carrying out a transaction under common control were not highlighted, and in some cases the fact that a BCUCC had been carried out could even be deduced by interpretation, namely drawing conclusions from a comparison between the corporate structure and the changes in the consolidation perimeter of a company from one year to another, as explicit information could not be detected. From this it followed that these transactions were often irrelevant to the corporate structure, the financial statement values and also the disclosure that had to be provided to the readers. It was in fact assumed that in most cases BCUCCs had not had any effect on the consolidated financial statement: as they were mere corporate reorganizations, they were therefore devoid of the requirement of economic substance, a criterion for the choice of the accounting treatment to use. Few companies among those that had carried out at least one BCUCC in 2011 (less than 30%) specified what the accounting treatment for the transaction had been, which was another factor indicating the low relevance of this information if compared to other information considered more worthy; in the sample under analysis, on the basis of the considerations made before, it was clear that the predecessor basis of accounting had been used more often than the acquisition method. In the rare cases when IFRS 3 had been used, BCUCC transactions were considerably more similar to real business combinations and market transactions. Just over 1% of companies of the considered sample that had carried out a BCUCC in 2011 declared that they used IFRS 3.

With regard to the procedure with which BCUCCs were carried out in Italian groups, in 2011 real extraordinary transactions were more successful than the other possible cases: the procedure most commonly used was by far the merger (61%), followed by the spin-off (generally partial and proportional) (16%) and by the sale of investments (12%). The five possible procedures listed previously were all, however, present in the considered sample: Italian groups therefore made use of the sale of investments, business units or entire companies to achieve their reorganizational and/or strategic objectives. The more involved subjects in BCUCC transactions were in any case wholly owned subsidiaries, presumably because they entailed less negotiation and lower costs in arranging the transaction.

FTSE MIB

Considering only the companies listed in FTSE MIB,[13] a sample of about 80% of the index was analyzed, so, out of a total of 29 groups, 23 were taken into consideration; even in this case banking companies, insurance companies and financial companies were excluded for the reasons previously explained. It was decided not to analyze the companies of the FTSE MIB in the same proportion as the sample analyzed previously because, as it included a significantly lower number of companies, it would not

[13] The FTSE MIB is the most important index of the Italian stock exchange. It is an assemblage that includes the shares of the 40 major and most highly capitalized Italian and foreign companies listed on the Italian stock exchange.

be easy to ensure a faithful representation of the Italian context. Among the groups of the sample considered, in 56% of cases at least one BCUCC transaction had been carried out in 2011, while if the period 2009-2012 was considered, BCUCCs were detectable in 65% of cases. If companies with large capitalization were circumscribed, the phenomenon was then detected in well over 50% of the financial statements. Considered that in most cases they were corporate restructuring operations with the aim of flattening and simplifying their structure, it was not too surprising to ascertain that BCUCCs were preferred by larger groups, which doubtless had more need to respond to these requirements. The information obtainable from the financial statements with reference to these transactions was, as in the case of the sample previously considered, extremely scarce. In most cases it was limited at most to the description of the procedure and the changes in the consolidation perimeter, as well as the reasons and needs that had led to their execution. The carrying out of a BCUCC was in fact motivated in the financial statements in 38% of cases. In the FTSE MIB context, too, the most commonly used procedure for carrying out a BCUCC transaction was that of extraordinary transactions. There had been mergers in 70% of cases and spin-offs in 15% of cases while the remaining cases were almost non-existent. Regarding the accounting treatment, only in 6% of cases was the method used clearly stated and it was always the predecessor basis of accounting. This did not mean that IFRS 3 was never used, but that the groups that did use IFRS 3 had not felt the need to include this information in their consolidated financial statements. Only in 6% of cases did the financial statements also express the effects that the transaction had had on the assets of the company, so it followed that, in most cases, there had been no effects or they had been irrelevant. In large groups too, BCUCC transactions turned out to be a means to achieve objectives that did not have their own economic substance, but that were substantiated in reorganizations and modifications that would not alter the overall trend of the entity and that therefore would observe their continuity.

All the data have been summarized in table 1 and compared with each other in table 2 to allow for a better comparison. Unless otherwise stated, the data concern BCUCC transactions that took place in 2011.

VIII. CONCLUSIONS

After having delineated the two methods and empirically analyzed the phenomenon, the effects that each would have on the consolidated financial statement and their respective differences will now be summarized. First of all, there would be a different impact on the book values of the acquiring company, which in the case of predecessor basis of accounting would recognize new assets and liabilities at certain amounts, and in the case of acquisition method at different amounts so the first difference is prevalently numerical and impacts on the book values. Another difference concerning book values is obtained by recognizing non-controlling interests that, depending on the methodology, are determined with reference to the book values or to the fair value. In the case of the acquisition method, the amount of assets can be further increased, as the recognition of new goodwill and new intangible assets - prohibited in the case of pooling of interests, when there is therefore no increase in assets - is permitted. The recognition of the acquisition costs is put off in the first case to the balance sheet, in the other to the comprehensive income. In the first case, finally, as the continuity of situations is favored, it will be possible to compare the financial and economic position of the entity as though the BCUCC had never been carried out and the two entities had always been united; in the other case, as the transaction is considered a phenomenon of rupture, it is not possible to compare the current situation and that of the previous years as if the current corporate structure had always been the same.

The differences that the two methods could entail from the perspective of certain frequently used financial and income indicators will now be examined (James - 2012). As already mentioned, the pooling of interest method does not allow the recognition of new goodwill or intangible assets and potential liabilities that were not already present in the consolidated financial statement of the entity, consequently the book values will turn out to be higher if the acquisition method is used. In regards to the earnings trend, it will be higher if the pooling of interests is used, since it allows the retrospective restatement of values as though the entities under common control had always been united, the comparative income statements will include the book values of both companies, with consequent benefits on the income trend. The same argument can be applied in determining the sales trend, which will be more accurately definable with the use of the pooling of interests, while the acquisition method would give a more distorted vision as most of the sales could be due to the acquisition. With the pooling of interests, the earnings per share, as the income statements are consolidated with reference to the whole reporting period and not only from the date of acquisition, would be higher than if the acquisition method was used. For the same reason, if IFRS 3 were used, then even some indicators such as ROA and ROE[14] would be lower. Ultimately, the predecessor basis of accounting would have a positive influence on

[14] They are two commonly used indicators: ROA (Return on Assets) is calculated by dividing the Net Income for the Total Assets; ROE (Return on Equity) is calculated by dividing the Net Income for the Equity.

the economic trend of the company and would allow a more adequate and less distorted assessment, as it permits an easier comparison between the situations in different years, which have been uniformed through the retrospective restatement of values.

There are then more general considerations to be made. The acquisition costs are lower with the pooling of interests than with the acquisition method, as the values of assets, liabilities and identifiable liabilities need not be restated and recognized.

By using IFRS 3, as the structure needs to be constantly adapted to the dynamics of the stock market, the management would have less time to concentrate on productive and commercial development, so there would be management imbalances and inefficiencies. The application of IFRS 3 could even involve opportunistic decisions that would have an effect on the quality of information; the stock market is not perfect so the fair value might not be "fair" (Biondi and Zhang - 2007) (if the involved entities are already related to each other, it is very difficult for the price to be fair).

After having compared the two methods, it can be deduced that favoring one method rather than the other could have a significant influence on the company's performance, lead to different types of behavior and benefit certain stakeholders rather than others: different accounting standards thus affect the behavior of actors and organizations and are not neutral in the face of political and economic factors.

In cases of BCUCC, the first objective is generally the improvement and increase of activities in progress in the entities combined: from this perspective, there is no interruption in the values and in the trend, but the process is seen as something that is already ongoing, and that consequently continues to be active in the same way after the combination, albeit with the advantages and synergies that it should have produced.

In light of all the considerations made, it was concluded that the use of one method rather than the other is not irrelevant, and the predecessor basis of accounting in most cases of BCUCC would appear more appropriate conceptually and operationally.

China's behavior should be noted in this regard: for all business' combinations where common control is present, the use of "pooling of interests" is mandatory, while IFRS 3 is never allowed (Baker, Biondi and Zhang - 2010). It is certainly a different context from the Italian situation, with a huge number of state-controlled companies and with an industrial reorganization in progress, but this choice is also certainly indicative for contexts that are different from the Chinese and is consistent with the considerations just made. Ultimately, in the observed and analyzed Italian context, the use of BCUCC appears to be more of a means to reach certain goals than an aim in itself.

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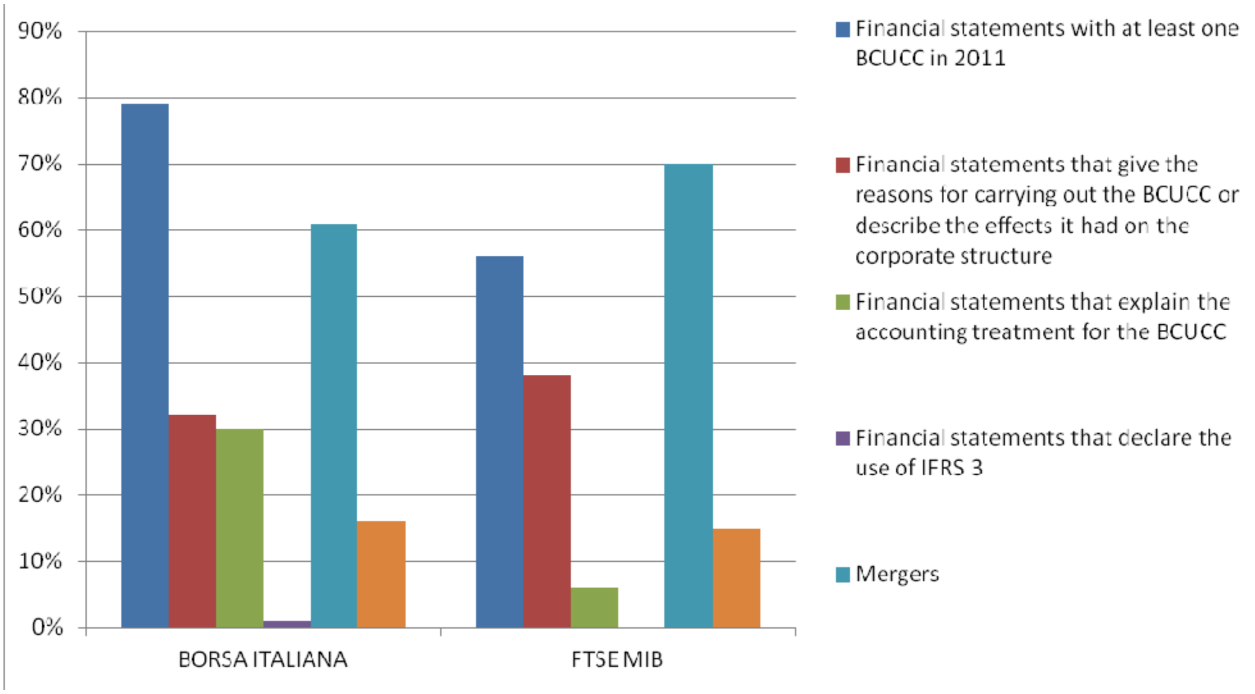
TABLE 1. COMPARISON BETWEEN BCUCC CARRIED OUT IN THE ITALIAN STOCK EXCHANGE AND IN THE FTSE MIB [15]

	Italian stock Exchange	FTSE MIB
BCUCC carried out in 2011	38%	56%
BCUCC carried out in the period 2009-2012	45%	65%
Financial statements providing reasons for carrying out the BCUCC or that describe the effects it had on the corporate structure	32%	38%
Financial statements that explain the accounting treatment for the BCUCC	30%	6%
Financial statements that declare the use of the IFRS 3	1%	-
Merger by union/Proper merger	61%	70%
Spin-off	16%	15%

[15] All the data presented in Table 1 and in Table 2 are detectable in paragraph VII "The empirical analysis" and are derived from a random sample of Italian consolidated financial statements for the period 2009-2012.

TABLE 2. DATA OF TABLE 1 IN GRAPHICAL FORM



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