

IFRS® Foundation

Business Combinations under Common Control

Overview of the Discussion Paper

NZ XRB, April 2021

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Welcome



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Agenda

Introduction

Which method to apply

How to apply the acquisition method

How to apply a book-value method

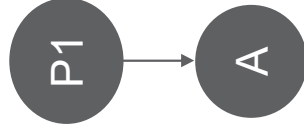
Conclusions

Introduction

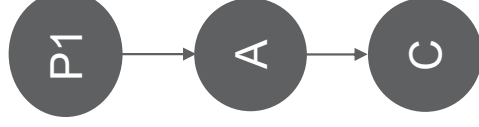
What are business combinations under common control?

Business combination

Before the combination



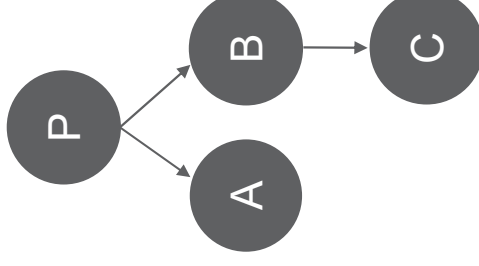
After the combination



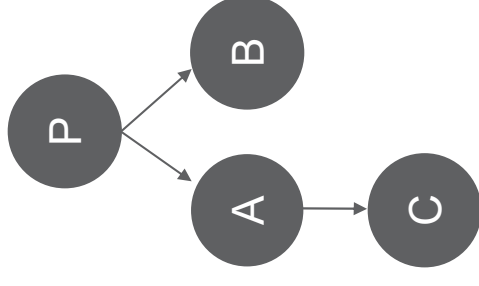
- Company A and Company C are controlled by different parties.
- Company A acquires Company C.

Business combination under common control

Before the combination



After the combination



- Company A and Company C are controlled by the same party.
- Company A acquires Company C.

Why are we doing this project?

IFRS 3 *Business Combinations* requires the acquisition method but does not address business combinations under common control



Similar transactions reported differently



Such combinations are common



Priority project in Agenda Consultations



Particular concern of securities regulators

The acquisition method or a book-value method

Board objectives

Better information about business combinations under common control

Relevant information

Improved comparability

Improved transparency

Scope of the project

Fill the gap in IFRS Standards

 Which transactions?

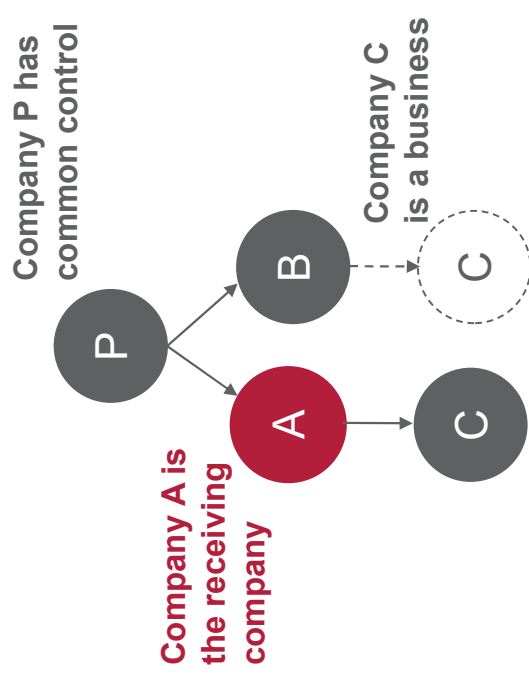
Transfers of businesses under common control

 Which company?

Receiving company

 Which financial statements?

Typically consolidated financial statements

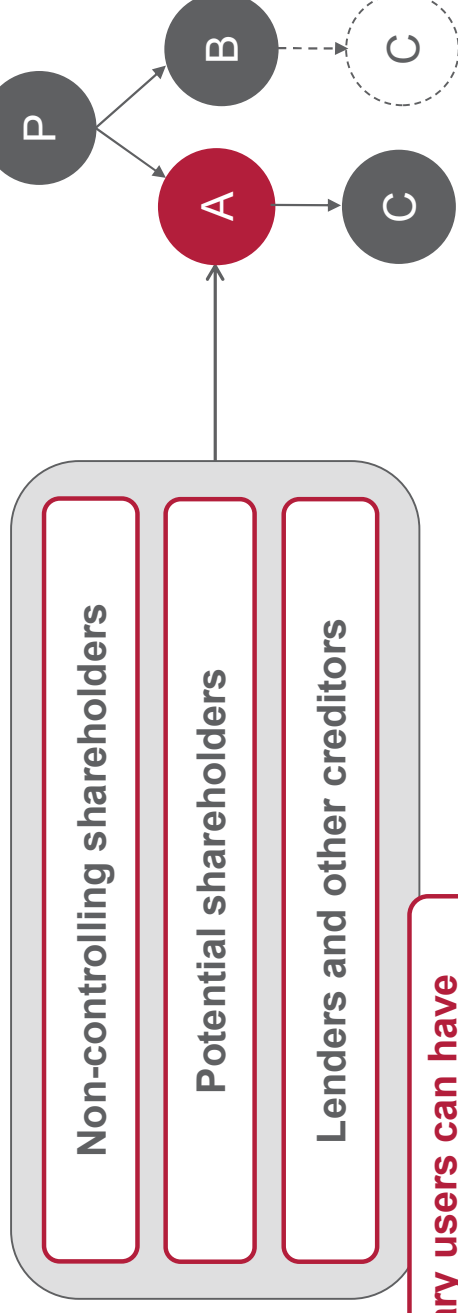


Our focus



Useful information for the primary users
of the receiving company's financial statements

Subject to the cost–benefit trade-off



Primary users can have
different information needs

Our approach



Useful information for the primary users
of the receiving company's financial statements

Subject to the cost–benefit trade-off

Similar information about similar transactions

Common information needs

Complexity

Opportunities for accounting arbitrage



Which method to apply

The Board's preliminary views—at a glance

One size does not fit all



A single method in all cases?

Neither the acquisition method nor a book-value method should apply in all cases



How to 'draw the line'?

The acquisition method should apply when non-controlling shareholders are affected



What about the cost-benefit trade-off?

There is an exception to and an exemption from the acquisition method



When to apply a book-value method?

A book-value method should apply in all other cases

What has the Board heard in developing its views?



Always use
a book-value method



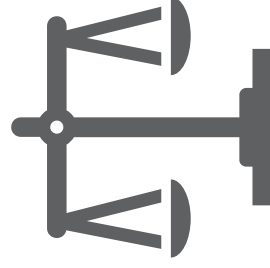
Use the acquisition
method, subject to the
cost-benefit trade-off



Use the acquisition
method in some cases
and a book-value
method in other cases



Use a book-value
method when non-
controlling shareholders
are not affected



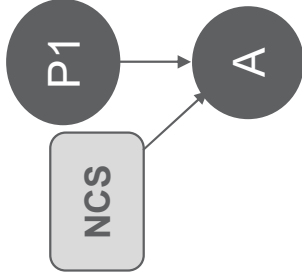
Use the acquisition
method when non-
controlling shareholders
are affected

Combinations that affect non-controlling shareholders

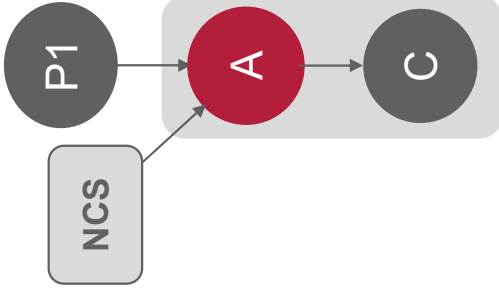
Public and private companies

Business combination

Before the combination

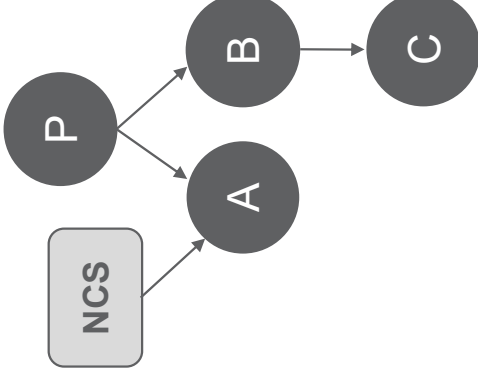


After the combination

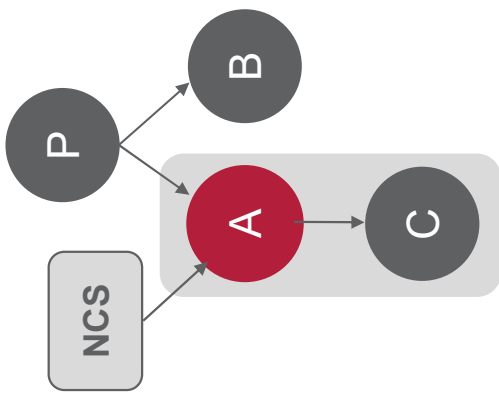


Business combination under common control

Before the combination



After the combination



The acquisition method would provide useful information

Similar to business combinations covered by IFRS 3

The exemption and the exception

What if non-controlling interest is 'small' or 'not substantive'?

Receiving company's shares are publicly traded

Require the acquisition method

Receiving company's shares are privately held

Permit a book-value method if non-controlling shareholders do not object

Require a book-value method if non-controlling shareholders are the company's related parties

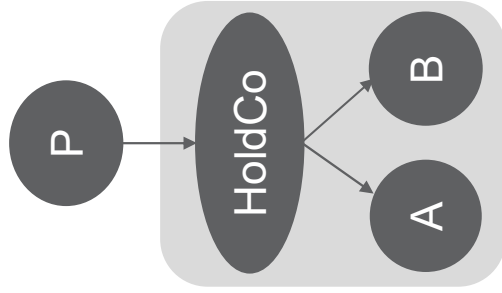
The optional exemption from the acquisition method

The related-party exception to the acquisition method

Combinations between wholly-owned companies

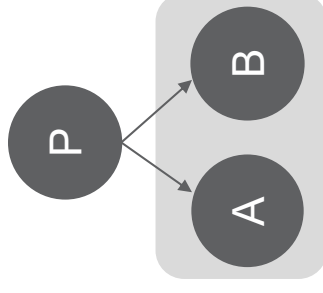
Private companies, including in preparation for an IPO

Case 1



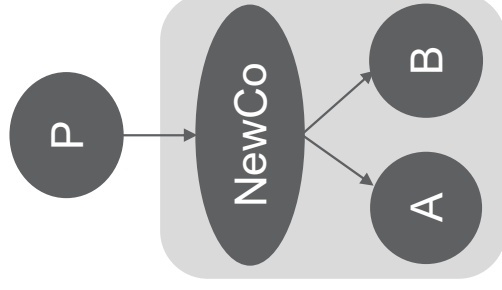
Case 2

Before the combination

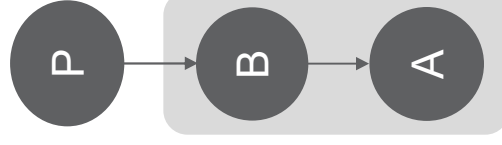


After the combination

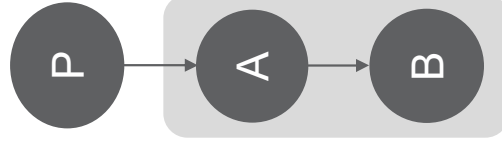
Scenario 1



Scenario 2



Scenario 3



A book-value method would provide useful information

Similar information is provided regardless of how the combination is structured

What about lenders and other creditors?

Economic interest

Payments of principal and interest

Credit analysis

Company's ability to service and raise debt

Information needs

Cash flows and debt commitments

Information lenders and other creditors need is largely unaffected by whether the acquisition method or a book-value method is used

Information about fair values of particular assets is useful but the outcome of credit analysis does not depend greatly on that information

How to determine which method to use?





How to apply the acquisition method

The Board's preliminary views—at a glance

The acquisition method is already specified in IFRS 3



General principle

Apply the acquisition method as set out in IFRS 3



Special feature

Recognise a contribution in a 'bargain purchase'

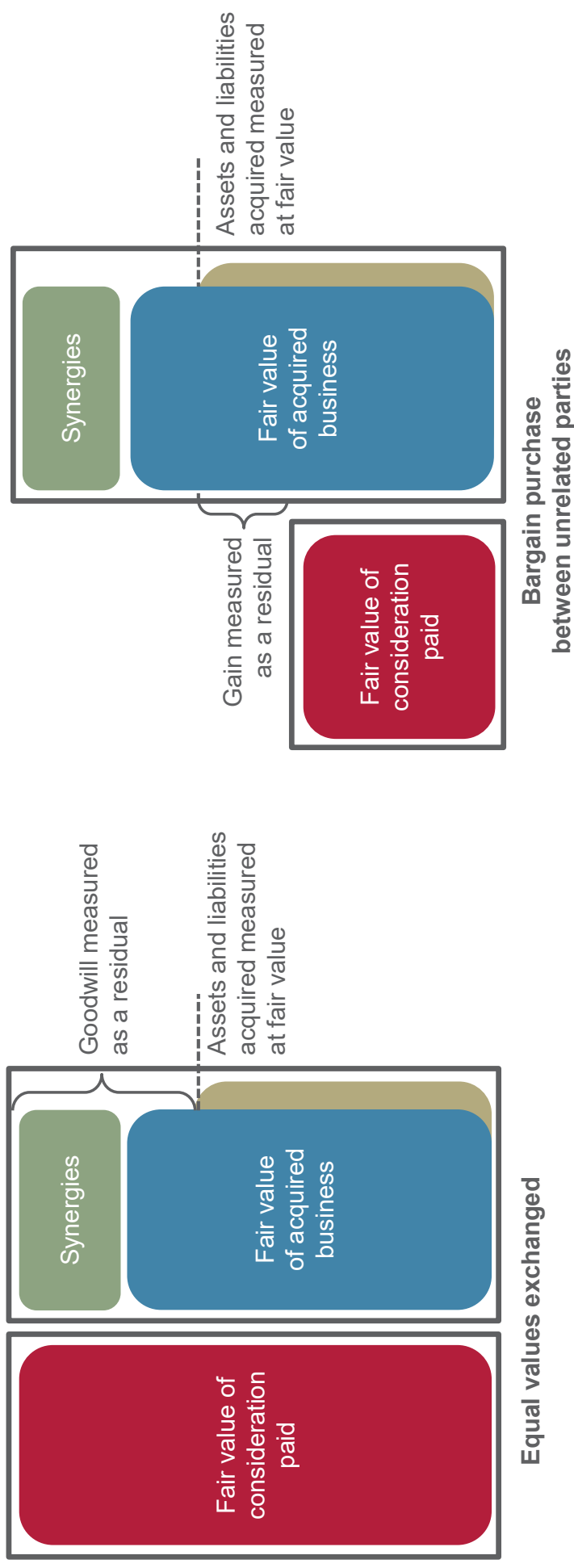


Disclosure

Disclose information about the transaction price

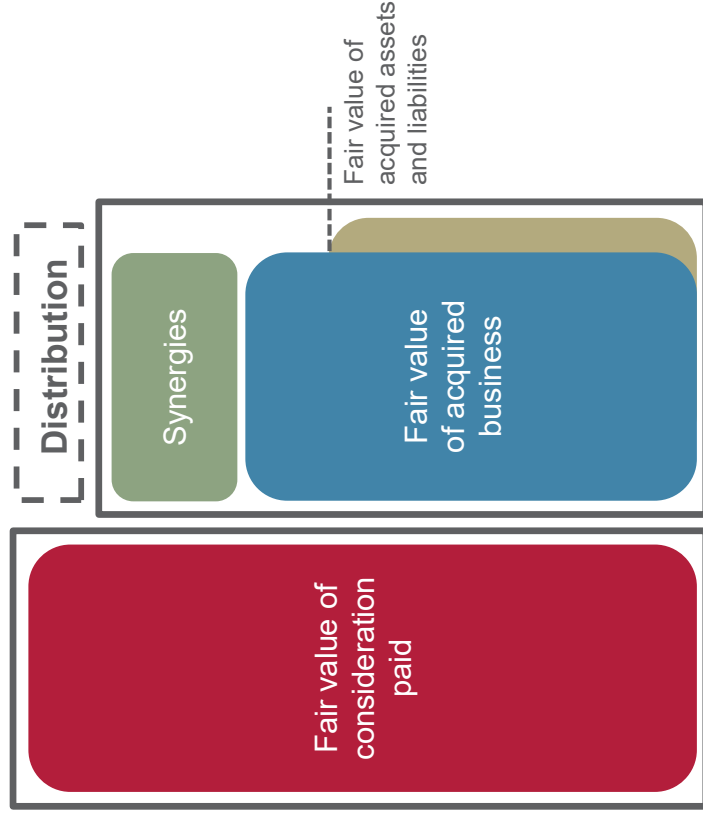
Overview of the acquisition method

Business combination covered by IFRS 3

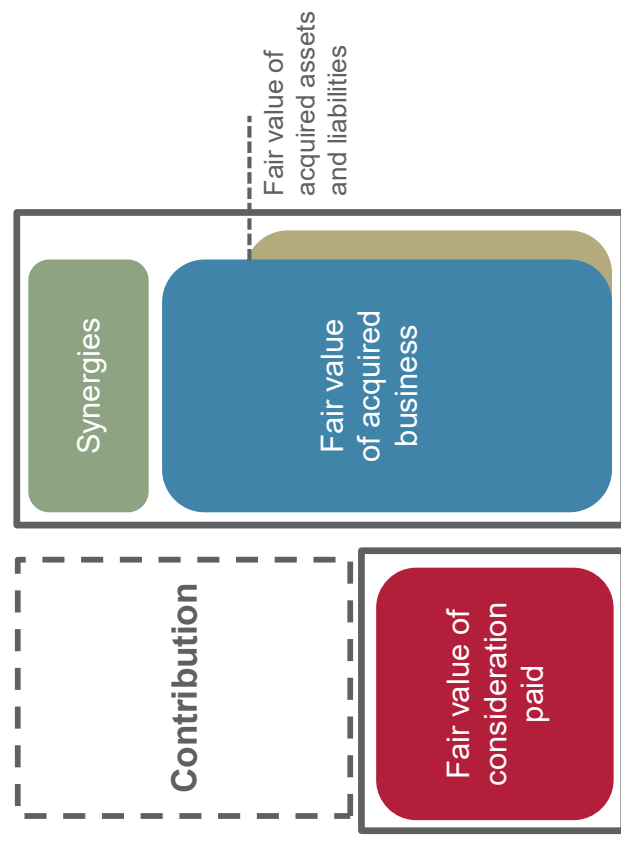


What is the issue?

Business combination under common control



Consideration is higher than in an arm's length transaction



Consideration is lower than in an arm's length transaction

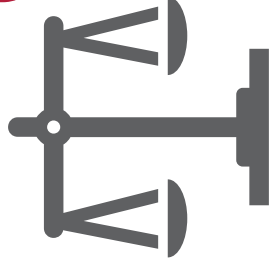
What has the Board heard in developing its views?



Distributions and contributions are unlikely in transactions that affect non-controlling shareholders



Over and underpayment can also occur in a combination between unrelated parties



Investors and analysts need information to help them make their own assessments of the transaction price



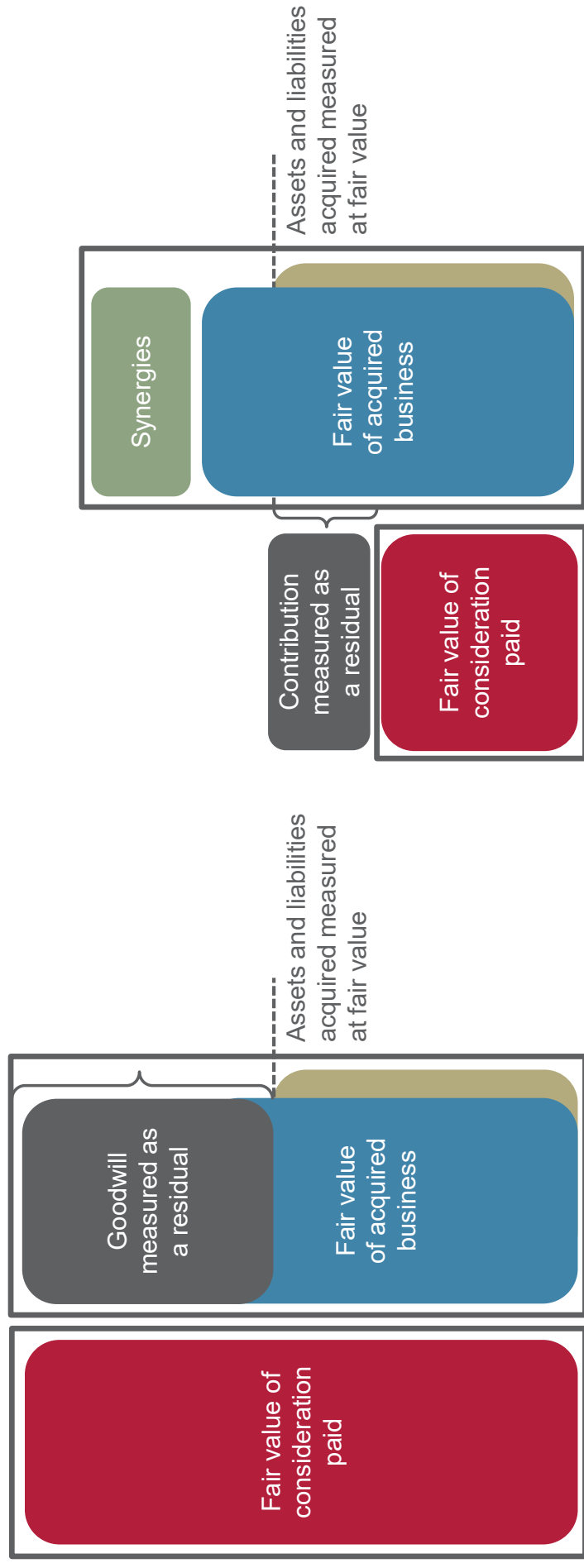
Distributions would be difficult to measure



The acquisition method should be applied without modifications

Illustrating the Board's preliminary views

Applying the acquisition method to business combinations under common control





How to apply a book-value method

The Board's preliminary views—at a glance

A single book-value method to be specified in IFRS Standards



Assets and liabilities received

Measure at transferred company's book values



Consideration paid

Generally measure at book value



Difference

Recognise as an increase or decrease in equity



Pre-combination information

Provide about the receiving company only,
without restatement

What has the Board heard in developing its views?

Diversity in practice in applying a book-value method



Always use
a book-value method

Book values reported by the
controlling party

Pre-combination information
for all combining companies



Use the acquisition
method, subject to the
cost-benefit trade-off

Diverse views on
which book values to use

Pre-combination information
for the receiving company

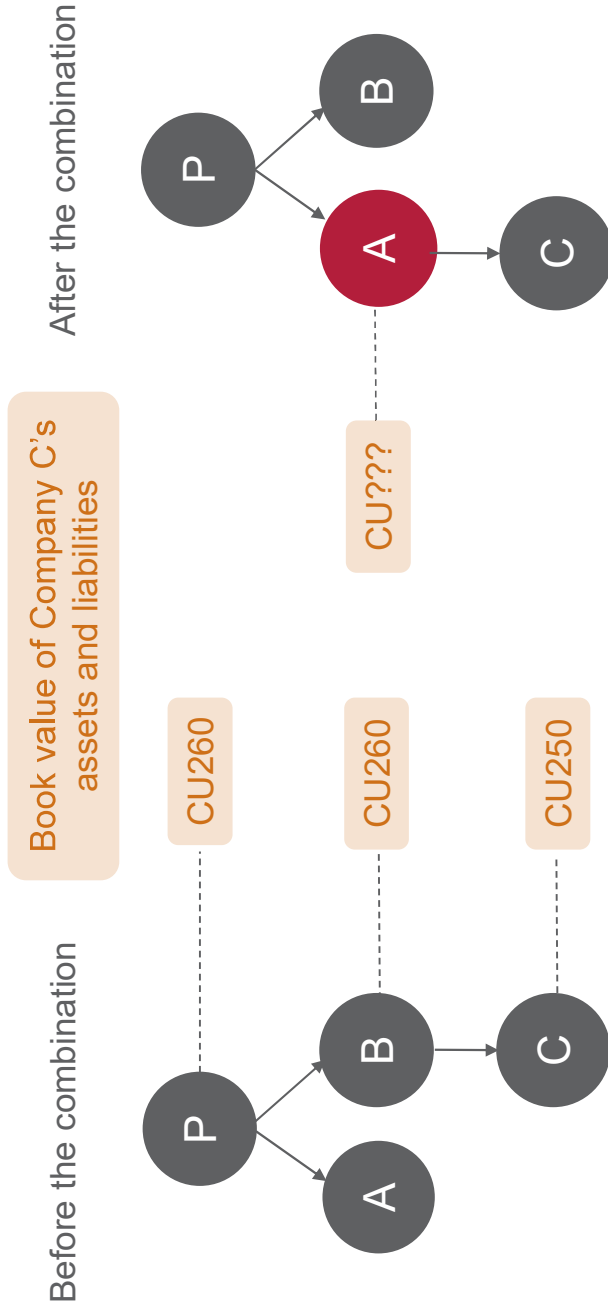


The acquisition
method in some cases
and a book-value method
in other cases

Diverse views on
which book values to use

Diverse views on pre-
combination information

How to measure assets and liabilities received?



The Board's view is that the transferred company's book values should be used

Identical to those reported by the controlling party for organically grown groups

How to measure consideration paid?

Measure at fair value or book value?

Or at par (nominal) value in case of own shares

Cash

Both measurements produce the same outcome

Own shares

Measurement only affects presentation within equity

Liabilities incurred or assumed

Both measurements may produce the same outcome

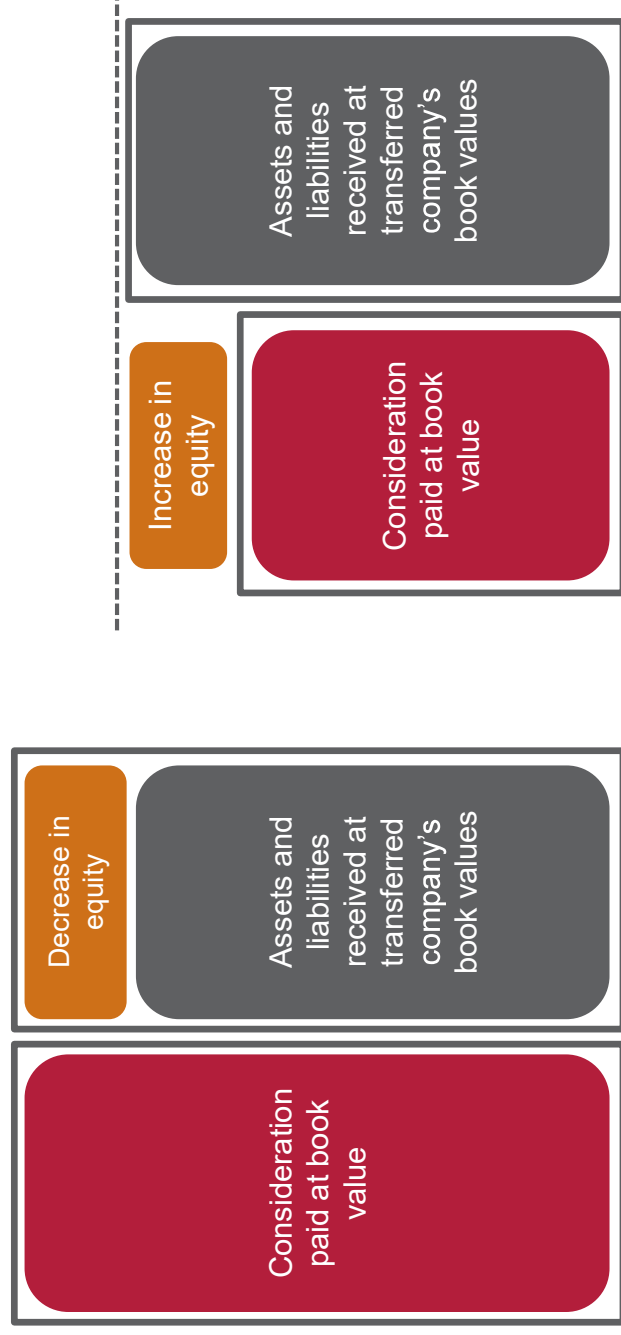
Assets given up

Measurement affects gain (or loss) on disposal

The Board's view is that consideration paid should be measured at book value

The Board should not prescribe how to measure own shares

How to report the difference?

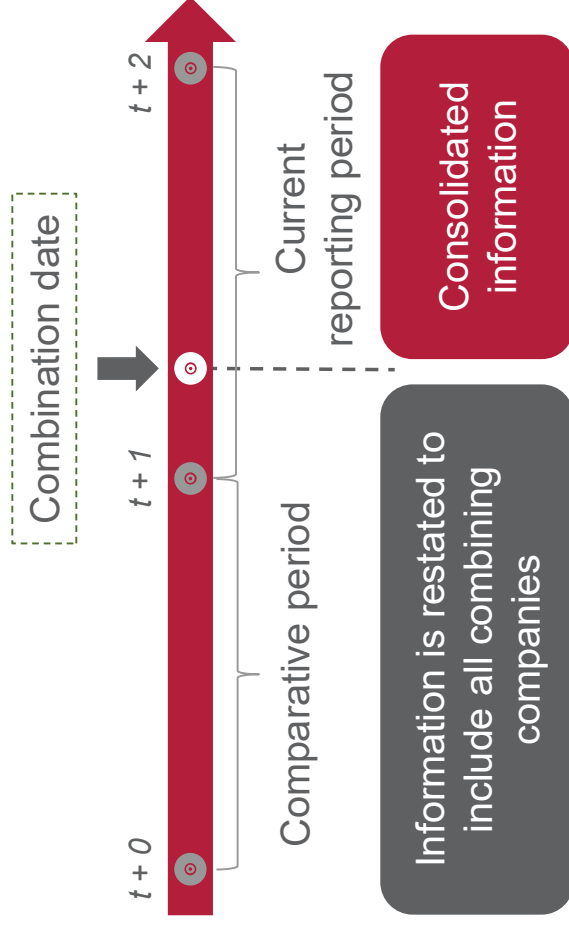


The Board's view is that the difference should be recognised in equity

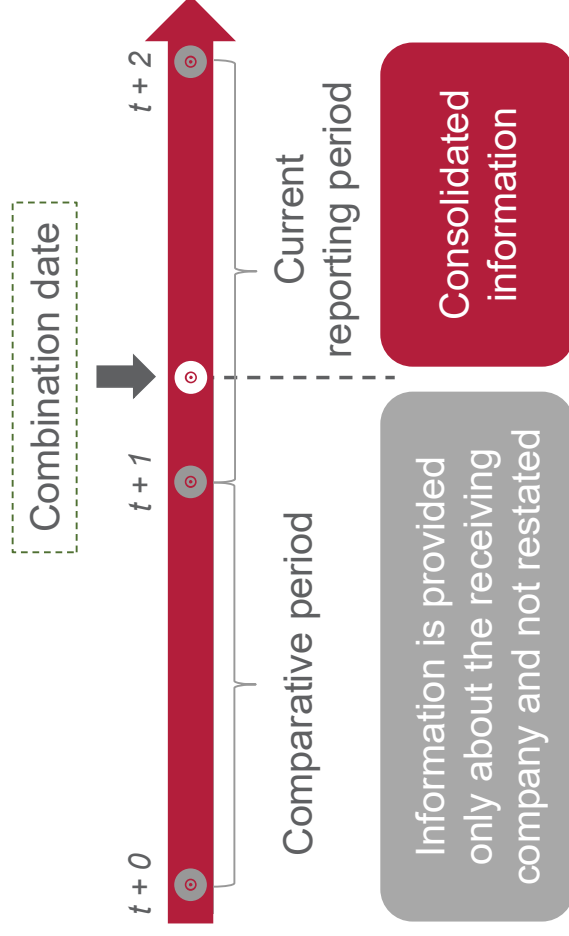
The Board should not prescribe how to present this difference

How to provide pre-combination information?

Retrospective approach



Prospective approach



The Board's view is that pre-combination information should not be restated

Pre-combination information about all combining companies is useful but hypothetical

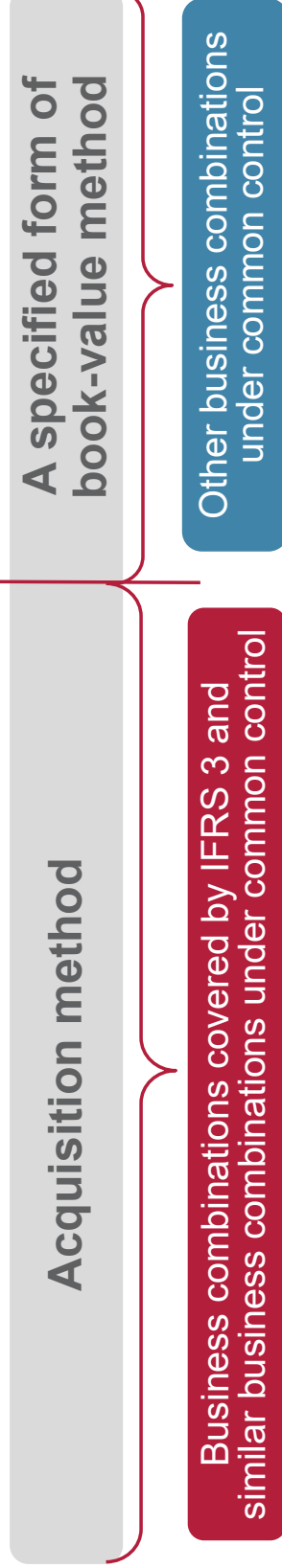
Conclusions

Effect of the Board's preliminary views

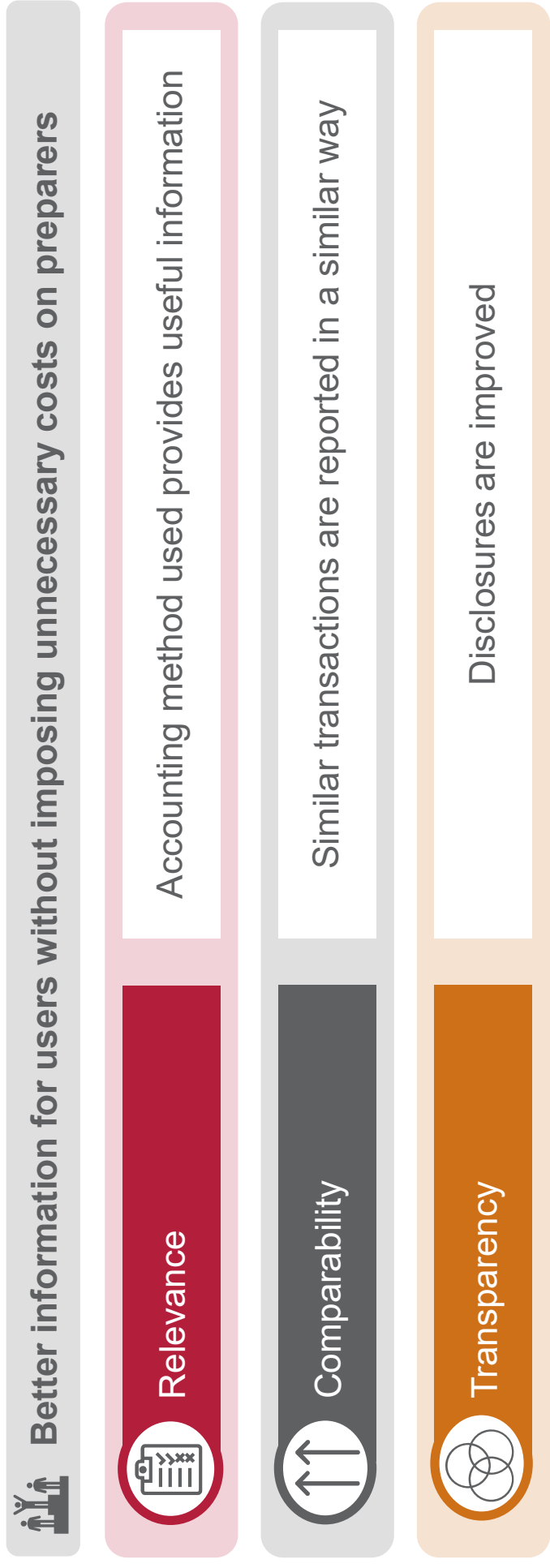
Today



The Board's preliminary views



What improvements are we aiming for?



Next steps and how you can help



How you can help

- Participate in outreach activities
- Submit a comment letter

Useful resources



For more information, please refer to the following materials on the IFRS website:

- Debrief [Business Combinations under Common Control](#)
- Fact Sheet [Business Combinations under Common Control—At a glance](#)
- Snapshot [Discussion Paper Business Combinations under Common Control](#)
- Project update [Combinations of businesses under common control—one size does not fit all](#)
- Webinar [Explaining Discussion Paper Business Combinations under Common Control](#)
- Discussion Paper [Business Combinations under Common Control](#)
- Investor webinar: [The IASB seeks investor views on how to account for M&As between companies under common control](#)

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