



IFRS® Foundation

Business Combinations under Common Control

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 1
June 2021

Purpose of this session

Agenda ref 1

Background

- Discussion Paper *Business Combinations under Common Control* was published in November 2020
- Comment period closes on 1 September 2021

Purpose of this session

- To share initial feedback received by the Board during outreach
- To hear initial feedback from ASAF members' jurisdictions on:
 - when the acquisition method and a book-value method should be used
 - how those methods should be used
- Questions for ASAF members are on slides 9, 13 and 18

Agenda

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Which method to apply

How to apply the acquisition method

How to apply a book-value method

A grayscale world map is centered in the background. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. A network of thin, dotted lines is also visible, suggesting a global grid or data flow.

Which method to apply

The Board's focus



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

Subject to the cost-benefit trade-off

Non-controlling shareholders

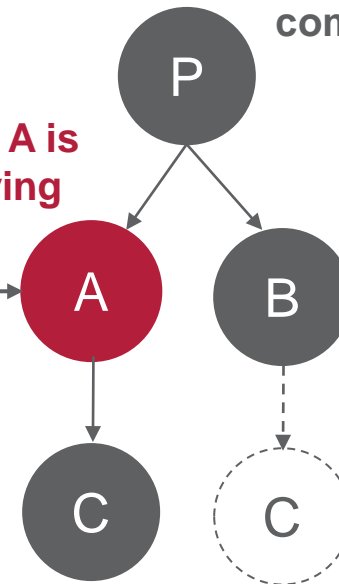
Potential shareholders

Lenders and other creditors

Primary users can have different information needs

Company A is the receiving company

Company P has common control



Company C is a business

The Board's preliminary views—at a glance

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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?

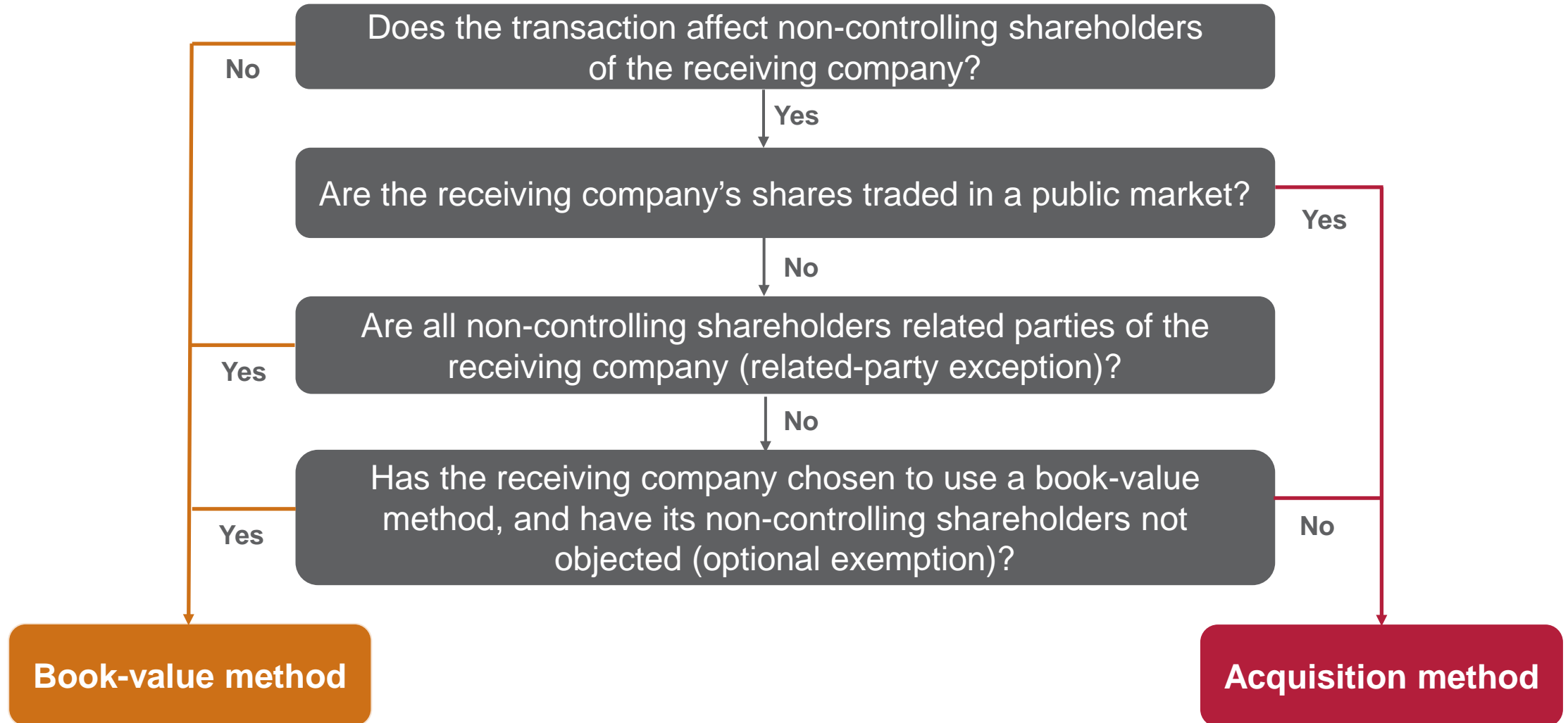
There is an exception to and an exemption from the acquisition method



When to apply a book-value method?

A book-value method should apply in all other cases

How to determine which method to use?



The acquisition method or a book-value method?



Some stakeholders agree that neither method should apply in all cases, and largely agree with the Board's preliminary views on when each method should apply.



Some stakeholders agree with the overall suggested approach, but have questions or comments on particular aspects of the Board's preliminary views.



Some stakeholders say that a book-value method should apply in all cases and some other stakeholders say that the acquisition method should apply pre-IPO.

Questions for ASAF members—which method to apply

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- 1) What types of business combinations under common control are most common in your jurisdiction? For example, do you tend to see such combinations undertaken by publicly traded or privately held companies? What are common reasons for undertaking such combinations, for example preparing for an IPO or other reasons?
- 2) Do you agree that the acquisition method should apply to combinations that affect non-controlling shareholders, subject to the cost benefit trade-off, and that a book-value method should apply in all other cases?
- 3) For privately-held companies, do you agree with:
 - a) the related-party exception to the acquisition method; and
 - b) the optional exemption from the acquisition method?



How to apply the acquisition method

The Board's preliminary views—at a glance

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The acquisition method is already specified in IFRS 3 *Business Combinations*



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 how the transaction price was determined

How to apply the acquisition method?



Some stakeholders agree with the Board's preliminary views.



Some stakeholders suggest that an 'underpayment' should be recognised as a gain in the statement of profit or loss in some cases.



Some stakeholders suggest that an 'underpayment' should be recognised as a gain in the statement of profit or loss in all cases.

Questions for ASAF members—the acquisition method

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- 4) The Board is not suggesting a requirement for the receiving company to identify, measure and recognise a distribution from equity in a business combination under common control. Do you agree?
- 5) The Board is suggesting that any ‘underpayment’ in a business combination under common control should be recognised as a contribution to equity, not as a gain on a ‘bargain purchase’. Do you agree?
- 6) Do you agree that the receiving company should apply all the disclosure requirements in IFRS 3 *Business Combinations* and also disclose additional information about how the transaction price was determined?

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. A network of thin, dotted white lines is also visible, suggesting a global grid or data flow.

How to apply a book-value method

How to apply a book-value method—at a glance

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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 |
| Transaction costs | Generally recognised as an expense |
| Difference | Recognise as an increase or decrease in equity |
| Pre-combination information | Include the transferred company prospectively, without restatement |
| Disclosure | A subset of IFRS 3 disclosure requirements and the difference in equity |

How to measure assets and liabilities received?



Some stakeholders agree that assets and liabilities received should be measured at the transferred company's book values.



Some stakeholders suggest that the transferred company's book values should be used unless the controlling party's book values provide more useful information.



Some stakeholders suggest that assets and liabilities received should always be measured at the controlling party's book values.

How to provide pre-combination information?



Some stakeholders agree with a prospective approach.



Some stakeholders agree with a prospective approach but suggest that combined pre-combination information should be provided in the notes.



Some stakeholders support a retrospective approach, at least in some cases.

Questions for ASAF members—a book-value method

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- 7) Do you agree that the receiving company should measure assets and liabilities received at the book values reported by the transferred company?
- 8) Do you agree that the receiving company should include the transferred company in its financial statements from the combination date, without restating pre-combination information?
- 9) The Board is not suggesting a requirement to disclose pre-combination information for the combining companies as though they had already been combined. Do you agree? If not, what particular information would be useful?
- 10) Do you have other comments on a book-value method? In particular, in your view, what other aspects of a book-value method should the Board consider in the next stage of the project?



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 webcast: [*The IASB seeks investor views on how to account for M&As between companies under common control*](#)

We are seeking investor views. Please invite investors in your jurisdiction to contact investors@ifrs.org to complete a 5-10 minute survey and/or to participate in 1:1 interviews.

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