

Business Combinations under Common Control

Overview of the Discussion Paper

International Forum of Accounting Standard Setters
meeting

Agenda Paper 10
March 2021

Agenda

Agenda ref 10

Introduction

Which method to apply

How to apply the acquisition method

How to apply a book-value method

Conclusions

Breakout sessions and discussion of views

Discussion questions for breakout groups

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Topic 1 – which method to apply

- 1) Do you agree that in principle 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?
- 2) For privately-held companies, do you agree with:
 - a) the related-party exception to the acquisition method
 - b) the optional exemption from the acquisition method?
- 3) Do you think that the related-party exception or the optional exemption should be extended to publicly-traded companies?

Please select topic(s) for discussion in your breakout group

Discussion questions for breakout groups

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Topic 2 – how to apply the acquisition method

- 1) Do you agree that the receiving company should not be required to identify and recognise any distribution from the receiving company's equity?
- 2) If the fair value of the assets and liabilities received exceeds the fair value of the consideration paid, do you agree that the receiving company should recognise that excess as a contribution to the receiving company's equity, not as gain on a bargain purchase?
- 3) Do you agree that the receiving company should apply all the disclosure requirements in IFRS 3 *Business Combinations* and also disclose additional information about the transaction price?

Please select topic(s) for discussion in your breakout group

Discussion questions for breakout groups

Agenda ref 10

Topic 3 – how to apply a book-value method

- 1) 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?
- 2) Do you agree that the receiving company should measure assets and liabilities received at the book values reported by the transferred company?
- 3) Do you have comments on any of the Board's other preliminary views on how to apply a book-value method?

Please select topic(s) for discussion in your breakout group

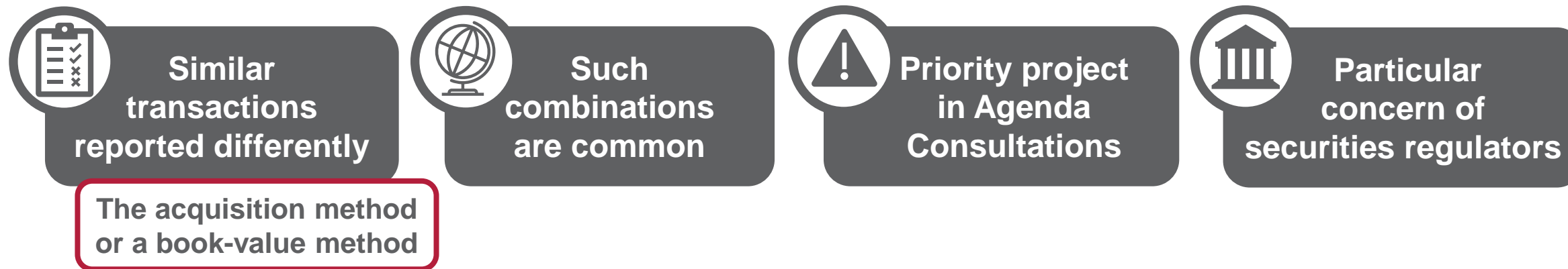


Introduction

Why are we doing this project?

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



IASB objectives

Better information about business combinations under common control

Relevant information

Improved comparability

Improved transparency

Scope of the project

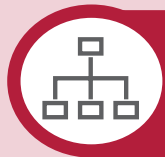
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Fill the gap in IFRS Standards



Which transactions?

Transfers of businesses under common control



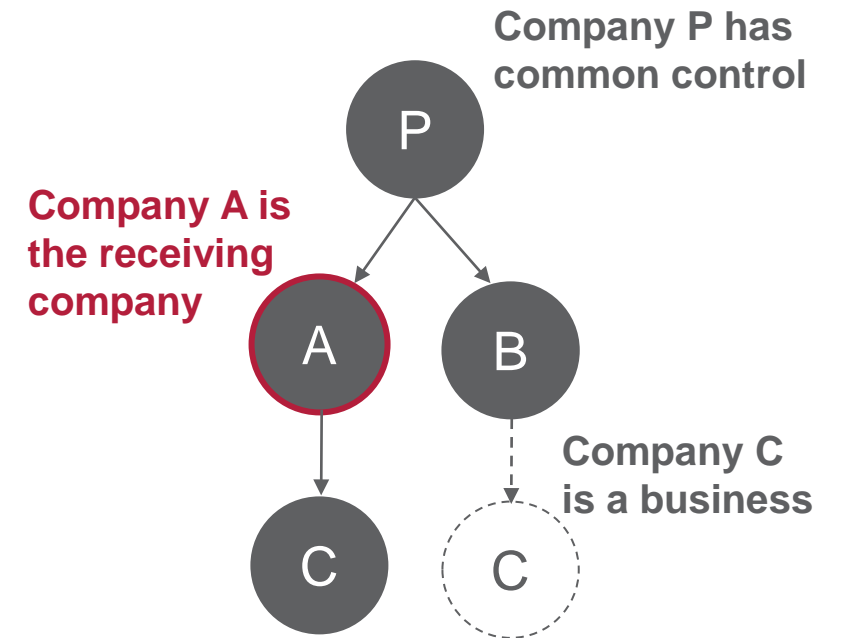
Which company?

Receiving company



Which financial statements?

Typically consolidated financial statements



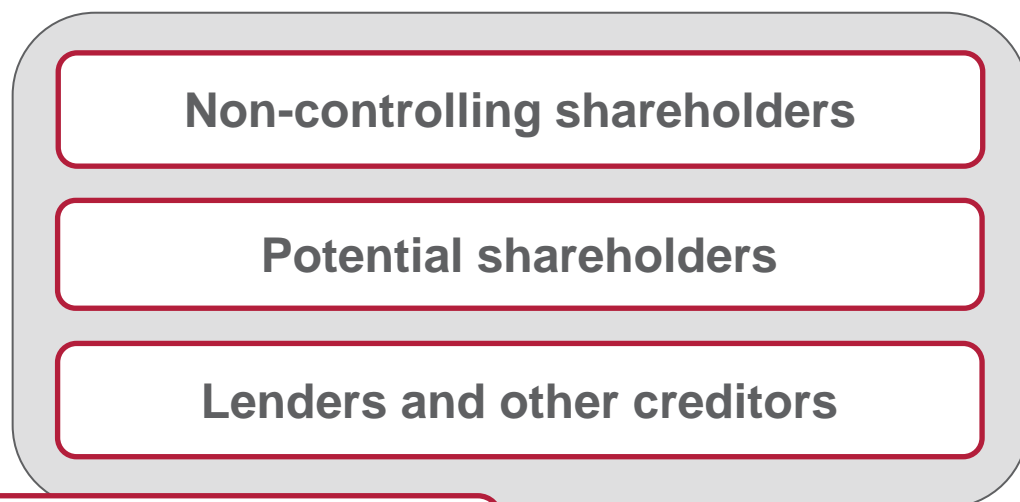
Our focus

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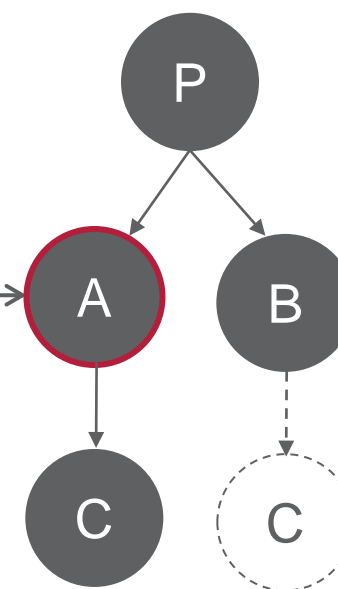


Useful information for the primary users
of the receiving company's financial statements

Subject to the cost–benefit trade-off



Primary users can have
different information needs



Our approach

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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

What has the Board heard in developing its views?

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Always use
a book-value method



Always 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

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?

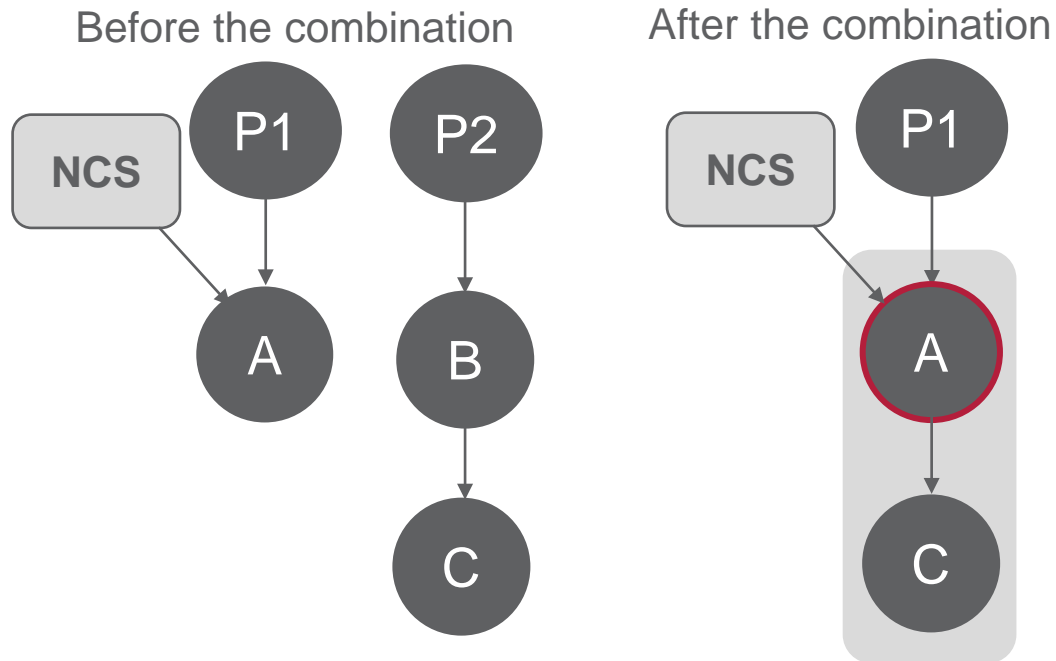
A book-value method should apply in all other cases

Combinations that affect non-controlling shareholders

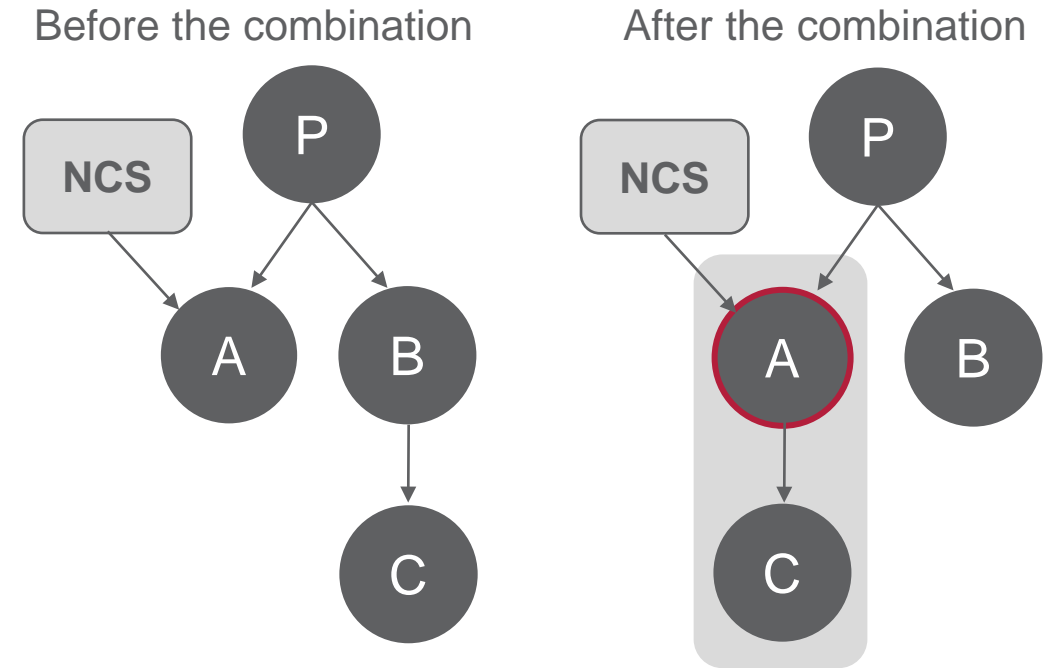
Public and private companies

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Business combination



Business combination under common control



The acquisition method would provide useful information

Similar to business combinations covered by IFRS 3

The exemption and the exception

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

Public company

Costs are presumed to be justified by the benefits

Require the acquisition method

Private company

Costs may or may not be justified

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

The optional exemption from the acquisition method

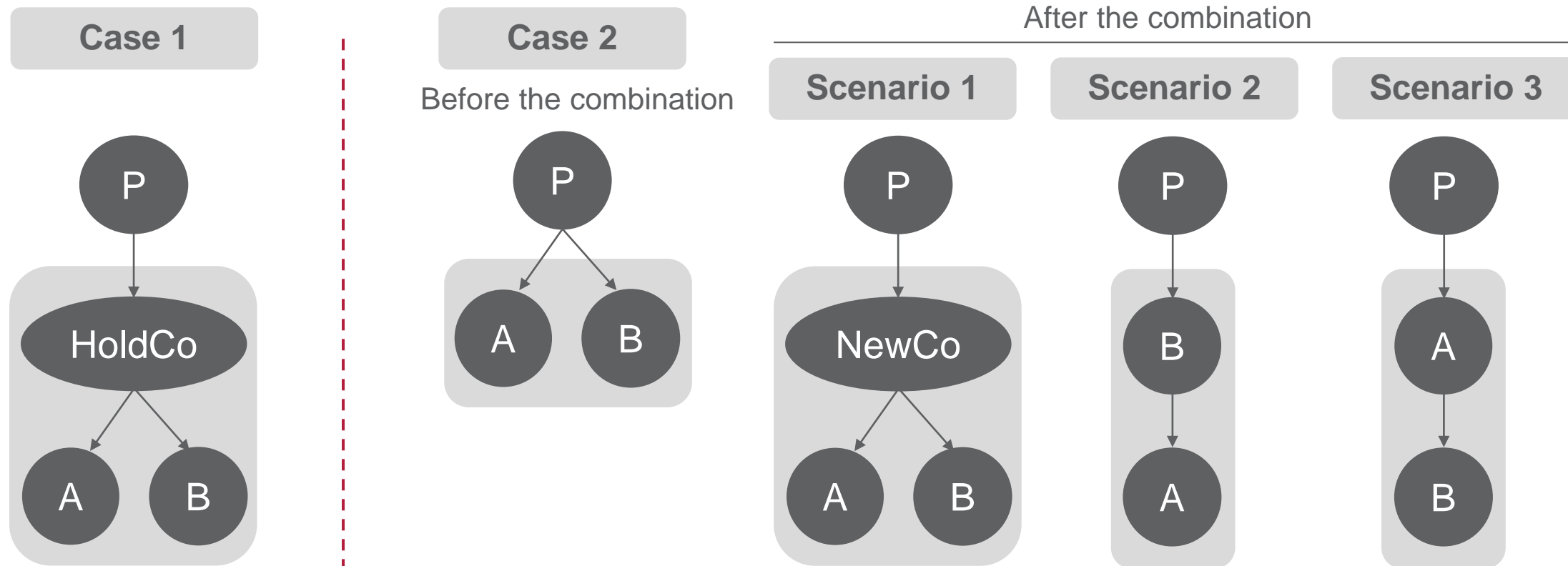
Require a book-value method if non-controlling shareholders are the company's related parties

The related-party exception to the acquisition method

Combinations between wholly-owned companies

Private companies, including before an initial public offering

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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?

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Economic interest

Payments of principal and interest

Credit analysis

Company's ability to service and raise debt

Information needs

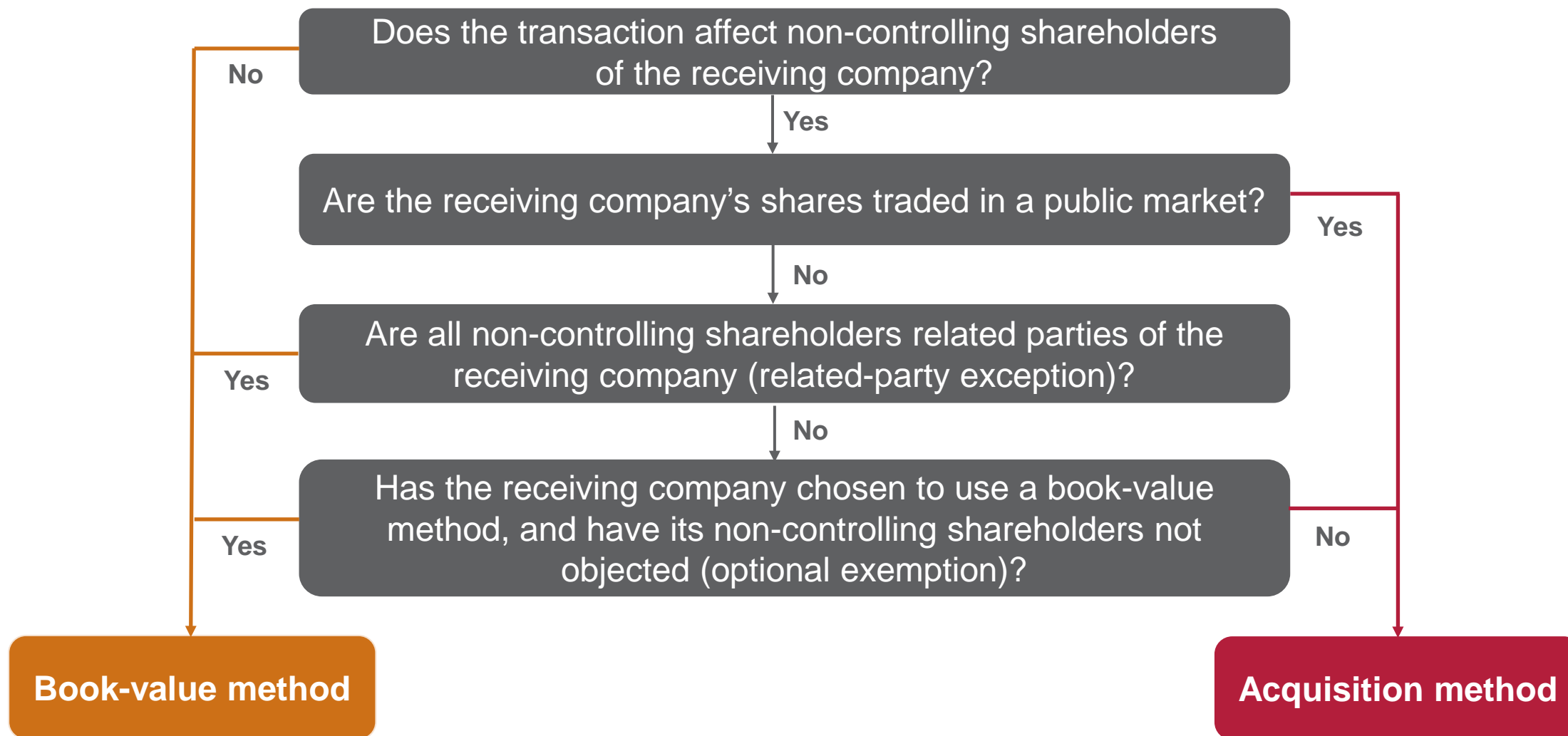
Cash flows and debt commitments

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?

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A grayscale world map serves as the background. Overlaid on the left side are two concentric circles with dotted lines radiating from their centers, creating a globe-like effect.

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



General principle

Apply the acquisition method as set out in IFRS 3



Special feature

Recognise a contribution in a 'bargain purchase'



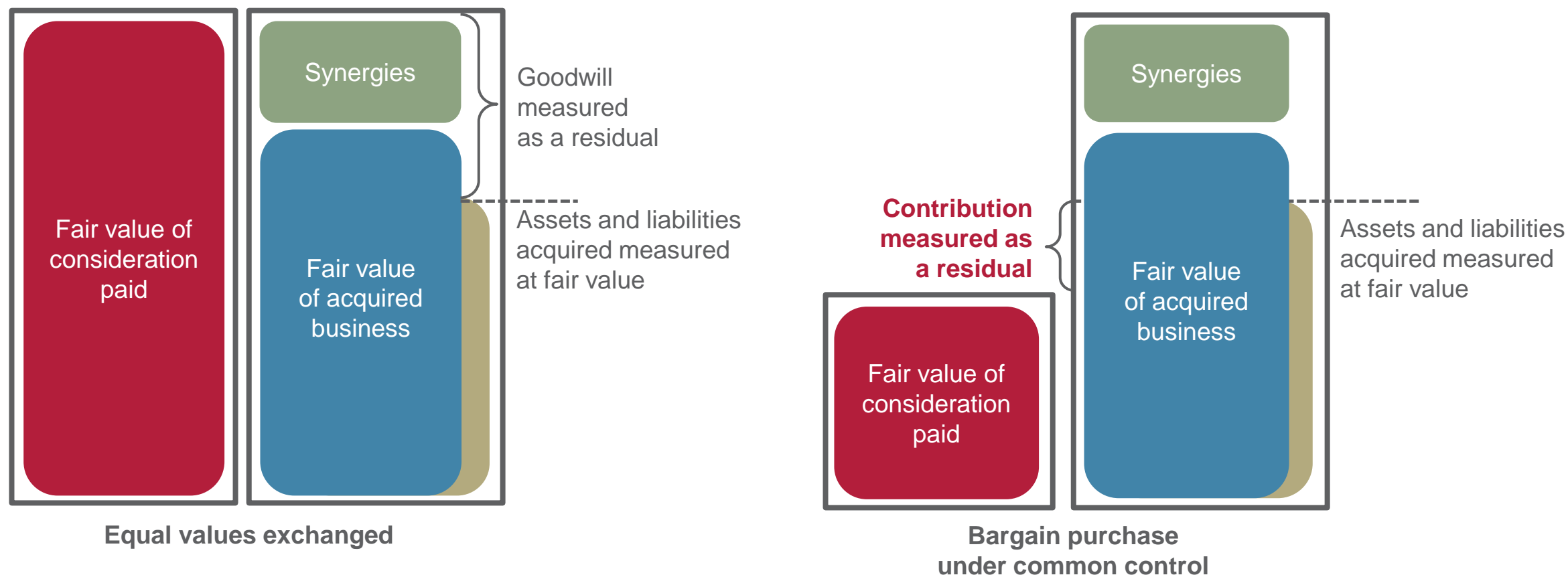
Disclosure

Disclose information about the transaction price

Illustrating the Board's preliminary views

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Applying the acquisition method to business combination under common control

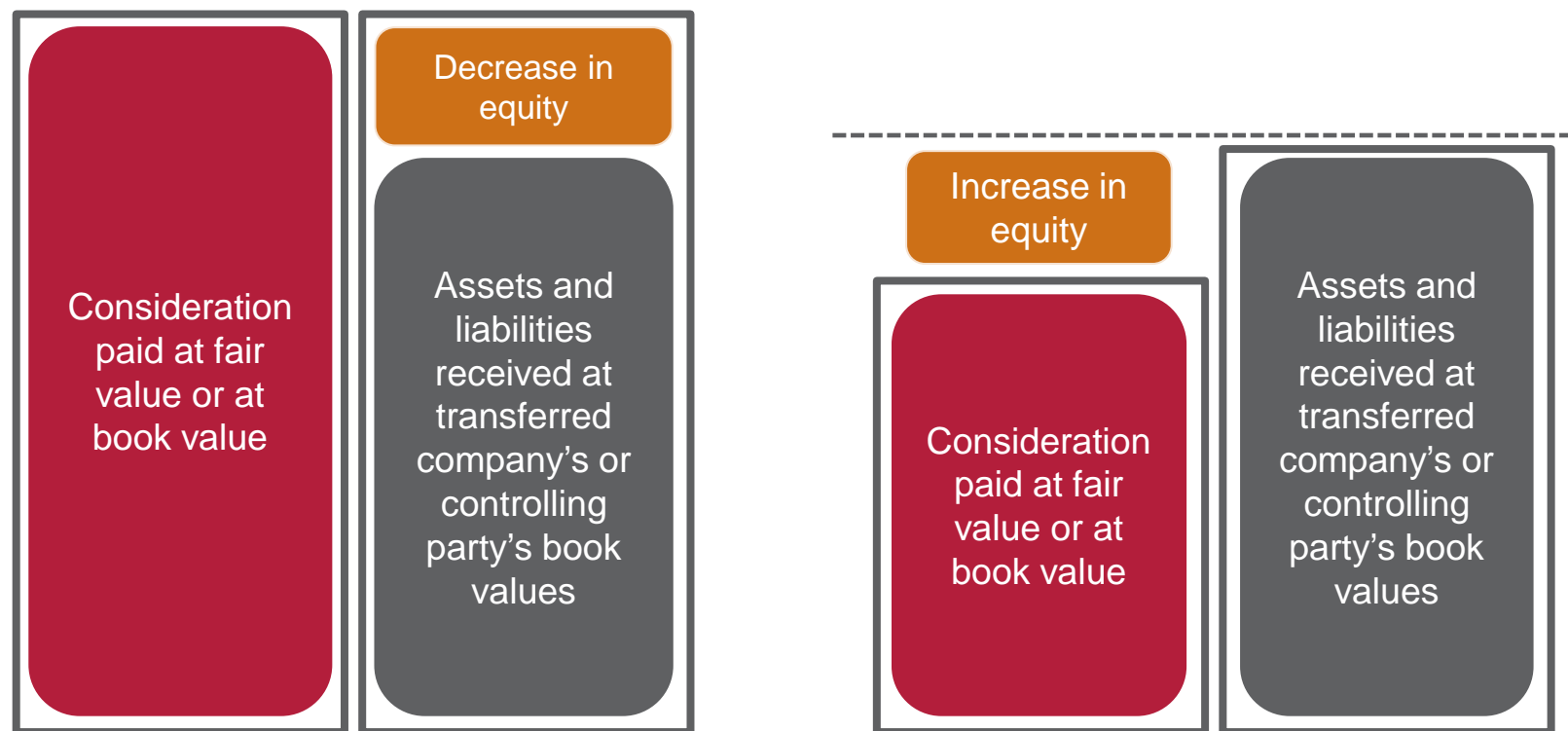


A grayscale world map is visible in the background, showing the continents. Overlaid on the left side of the map are several concentric, curved lines that sweep from the bottom left towards the center. These lines are composed of a solid gray outer arc and a dotted gray inner arc.

How to apply a book-value method

Illustrating a book-value method

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Diversity in practice in how a book-value method is applied

Including diversity in how pre-combination information is provided

The Board's preliminary views—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



Difference

Recognise as an increase or decrease in equity



Pre-combination information

Provide about the receiving company only,
without restatement



Conclusions

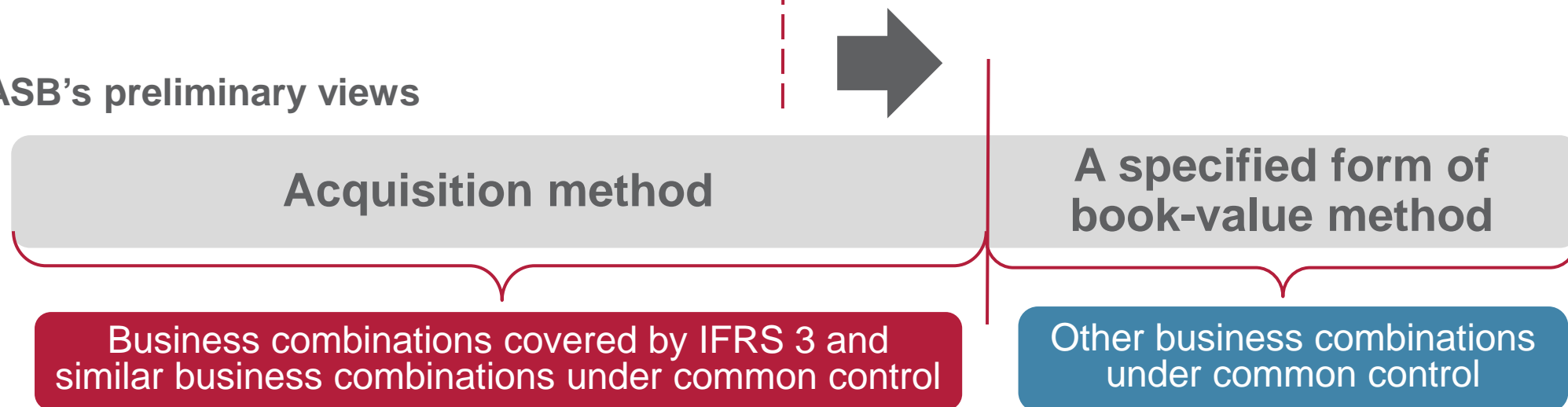
Effect of the IASB's preliminary views

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Today



The IASB's preliminary views



Next steps

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Breakout session

Summary of breakout group discussions

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Topic 1 – which method to apply

Topic 2 – how to apply the acquisition method

Topic 3 – how to apply a book-value method



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*](#)
- **COMING SOON:** live webinar for users of financial statements

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