IFRS® Foundation

Business Combinations under Common Control

Capital Markets Advisory Committee

Agenda Paper [AP4]

March 2021

Agenda

Introduction

When to apply the acquisition method and when to apply the book-value method

How to design a book-value method

Introduction

Purpose of this session

Background

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

Purpose of this session

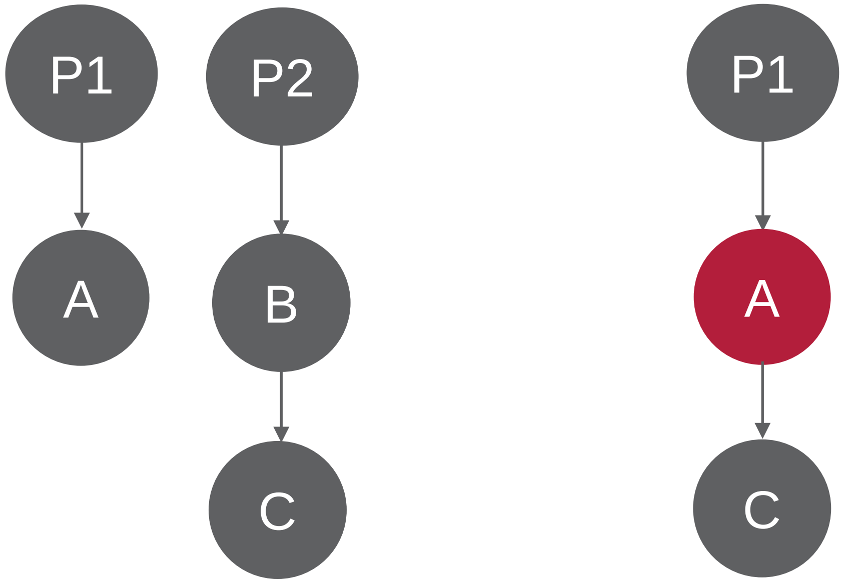
- To provide an overview of the Discussion Paper
- To seek CMAC members' views on:
  - Which accounting methods would provide useful information in common scenarios; and
  - How to design a book value method.

A basic illustration

Business combinations (mergers and acquisitions)

Before the combination

After the combination

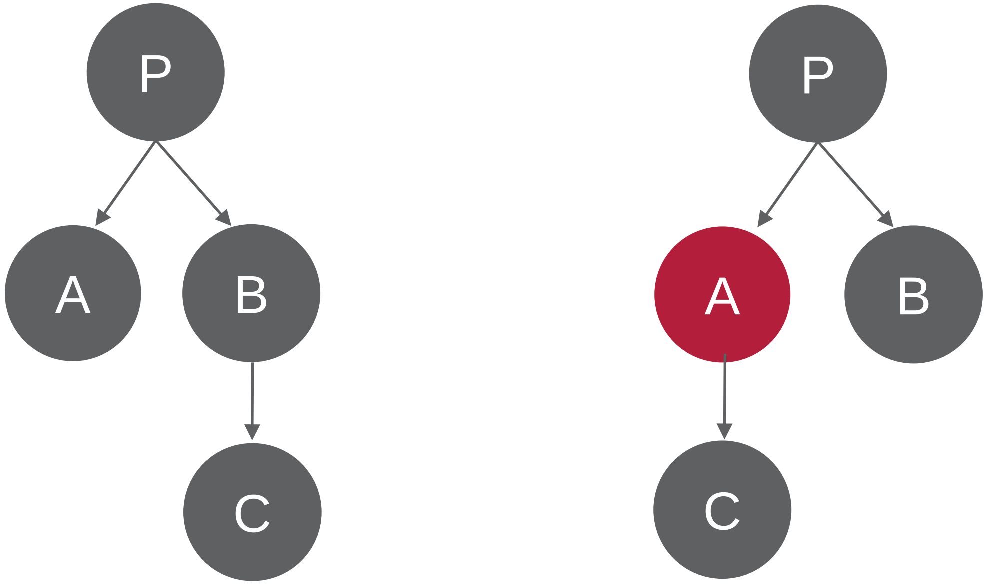


Company A is required to use the acquisition method to report the acquisition of Company C.

Business combinations (mergers and acquisitions) under common control

Before the combination

After the combination



IFRS Standards do not address how Company A should report the acquisition of Company C.

What is the issue today?

Mergers and acquisitions (business combinations) Addressed by IFRS 3 *Business Combinations*	The acquisition method is applied
Mergers and acquisitions under common control (business combinations under common control) NOT addressed by IFRS Standards	The acquisition method and a variety of book-value methods are applied

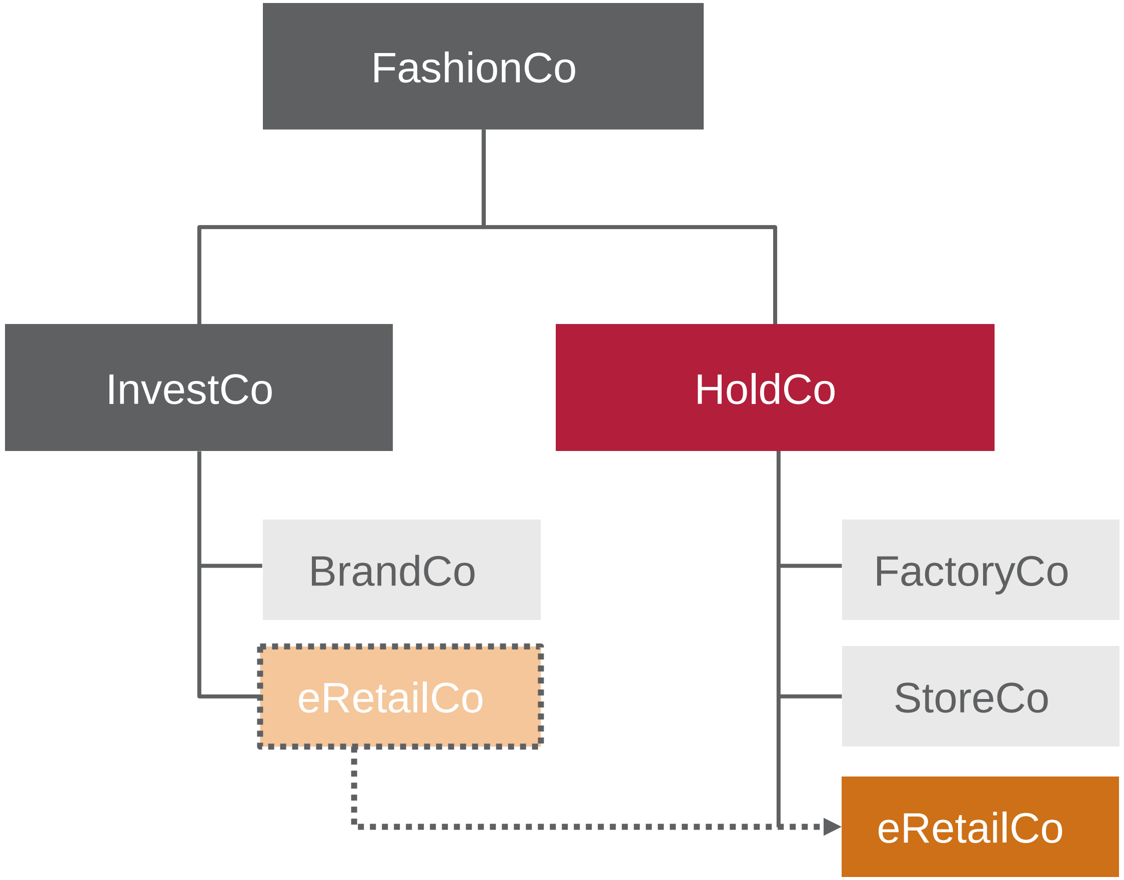
How do those methods work today?

	Acquisition method as per IFRS 3	Book-value method is not defined
Assets and liabilities received	Measured at fair value	Measured at book value
Intangibles and contingent liabilities	All identifiable assets and liabilities received are recognised	Only previously recognised assets and liabilities are recognised
Goodwill	Recognised	Not recognised
Pre-combination information	Excludes the transferred company	Diversity in practice
Disclosure	Comprehensive disclosure	Little disclosure

Which company are we considering?

- HoldCo buys eRetailCo from InvestCo.
- HoldCo and eRetailCo are controlled by the same party, FashionCo, both before and after the combination.

The project considers only reporting in the consolidated financial statements of HoldCo, the receiving company.



BCUCC around the world

Business combinations under common control are common around the world

In certain jurisdictions, some type of BCUCC are more common than in others.

- Listed company with a majority shareholder
- Preparing for an IPO
- Internal restructuring

When to apply the acquisition method and a book-value method

The Board's preliminary views—at a glance

One size does not fit all

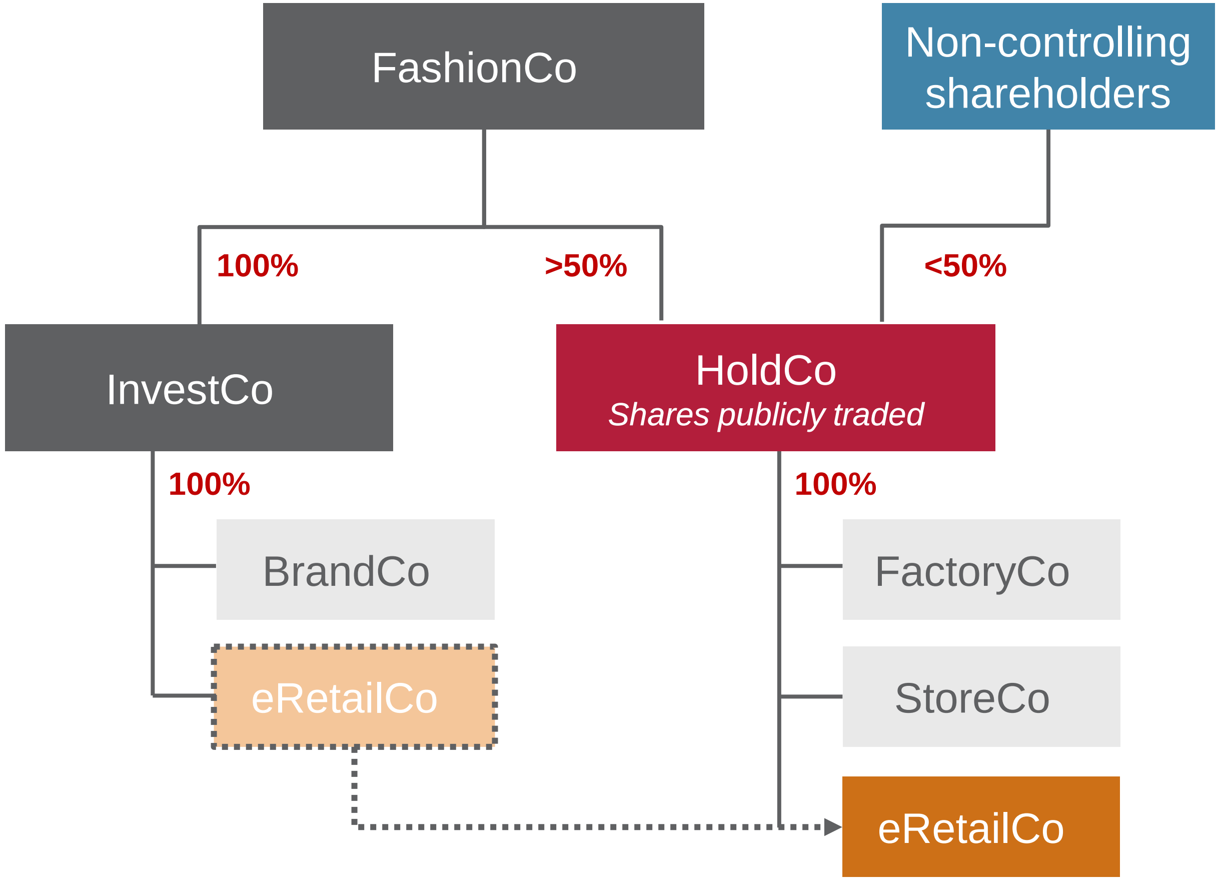
A single method in all cases?	Neither the acquisition method nor a book-value method should apply in all cases
How to 'draw the line'?	The acquisition method should apply when non-controlling shareholders are affected, with limited exceptions
When to apply a book-value method?	A book-value method should apply in all other cases

Listed company with a majority shareholder

FashionCo wishes to raise capital from its successful eRetailCo, without losing control.

HoldCo’s shares are publicly traded. It is controlled by FashionCo but has non-controlling shareholders.

HoldCo buys eRetailCo from InvestCo.



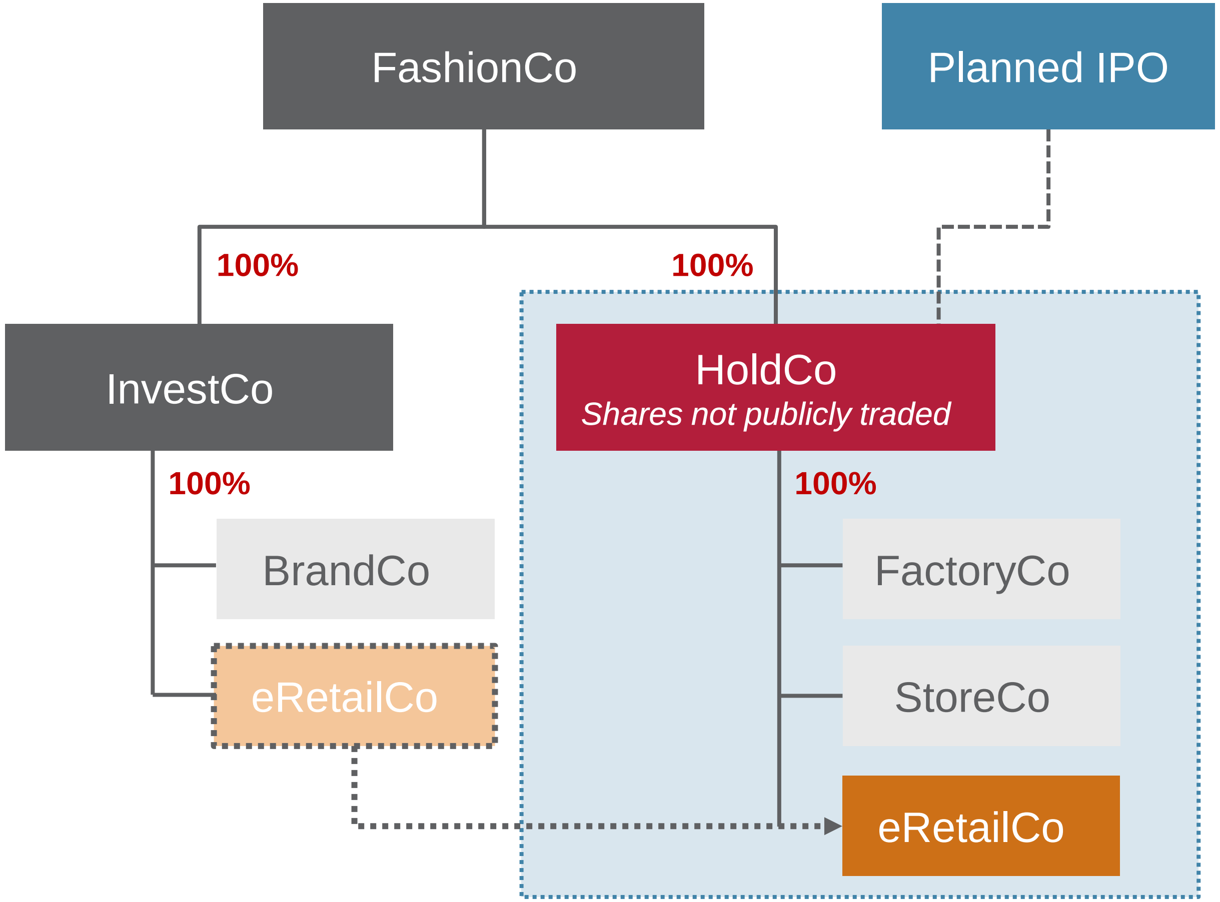
The Board’s preliminary view is that HoldCo should use the acquisition method.

Preparing for an IPO

FashionCo is preparing for an IPO of its retail business, and decides to move eRetailCo into the HoldCo group.

Prior to the anticipated IPO, HoldCo has no non-controlling shareholders.

HoldCo buys eRetailCo from InvestCo.



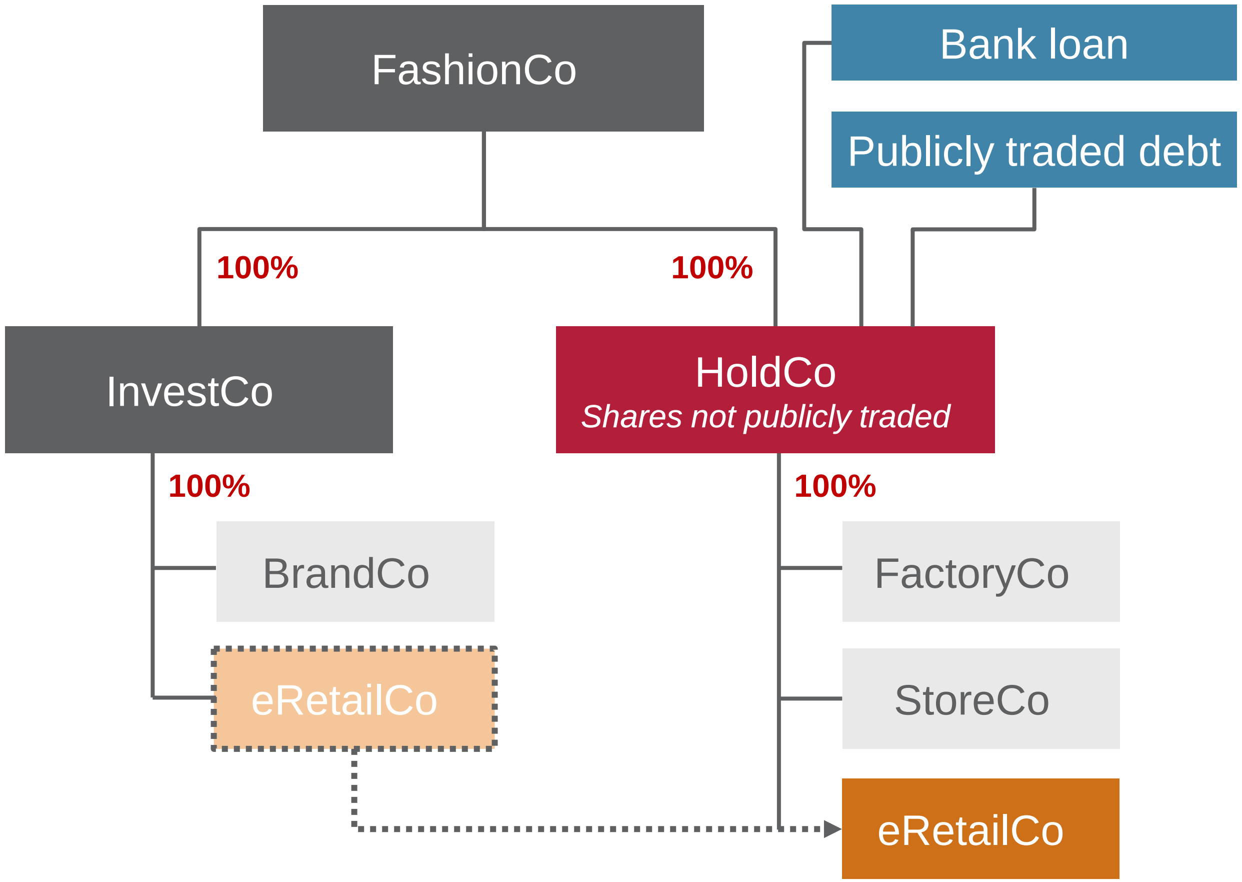
The Board's preliminary view is that HoldCo should use a book-value method.

Internal restructuring

FashionCo decides to adopt a new organisational structure, with all retail companies held by HoldCo.

HoldCo has no non-controlling shareholders but has outstanding debt.

HoldCo buys eRetailCo from InvestCo.



The Board's preliminary view is that HoldCo should use a book-value method.

We welcome your views—Question 1

1. The Board's preliminary views on the scenarios from the previous slides are summarised below. Would the method indicated for each scenario provide useful information to investors and creditors?

Scenario	The Board's preliminary view
Listed company with a majority shareholder	Acquisition method
Preparing for an IPO	Book-value method
Internal restructuring	Book-value method

How to design a book-value method

How to design a book-value method—pre-combination information—prospective approach

The Board's preliminary view is that the transferred company should be included in the consolidated financial statements of the receiving company from the combination date

Combination date

	30 June 20X1 profit (CU)	31 December 20X1 profit (CU)	30 June 20X2 profit (CU)	31 December 20X2 profit (CU)
FactoryCo	10	12	11	7
StoreCo	5	4	3	2
eRetailCo	Transferred company is not included in the receiving company's consolidated financial statements before the combination date.			**30**
HoldCo consolidated	**15**	**16**	**14**	**39**

How to design a book-value method—pre-combination information—retrospective approach

Today, transferred companies are sometimes included in the consolidated financial statements of receiving companies from the beginning of the earliest period presented.

Combination date

	30 June 20X1 profit (CU)	31 December 20X1 profit (CU)	30 June 20X2 profit (CU)	31 December 20X2 profit (CU)
FactoryCo	10	12	11	7
StoreCo	5	4	3	2
eRetailCo	16	20	24	30
HoldCo consolidated	31	36	38	39

Receiving company's consolidated financial statements for previous periods are restated to include the transferred company.

How to design a book-value method—disclosure

The Board’s preliminary view is that some, but not all, disclosure requirements in IFRS 3 *Business Combinations* should apply.

IFRS 3 disclosure requirement	Required under book-value method?
Name and description of the transferred company	✓
Percentage of equity interests acquired	✓
Primary reasons for the combination	✓
Book values of assets and liabilities received	✓
Fair value of assets and liabilities transferred	✗
Fair value of the consideration received	✗
Pre-combination information about the transferred company	✗ *

* Pre-combination information about the transferred company would not be required, but the receiving company could choose to disclose it.

We welcome your views—Questions 2 and 3

2. Do you agree that including the transferred company in the consolidated financial statements of the receiving company only from the combination date, without restatement, would provide useful information, even if the receiving company is a NewCo?
   If you think that pre-combination information about the transferred company should be provided, where should it be provided: in the primary financial statements or in the notes?

3. Do you agree that disclosures set out on slide 17 would provide useful information when a book-value method is used? If not, which disclosures, in your view, are not necessary, and why? Are there additional disclosures that should be provided, and why?

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