IFRS® Foundation

Business Combinations under Common Control

Overview of the Discussion Paper

January 2021

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Welcome

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Before we start

Housekeeping

The Discussion Paper, its accompanying documents and the slides used in this presentation are available for download on the Business Combinations under Common Control project webpage at https://www.ifrs.org/projects/work-plan/business-combinations-under-common-control/

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To ask a question during the webinar, type it into the designated text box on your screen and click ‘submit’. You can submit questions at any time during the presentation. We’ll try to answer them at the end of the presentation.

Agenda

- Introduction
- Which method to apply
- How to apply the acquisition method
- How to apply a book-value method
- Conclusions
- Q&A

Introduction

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

The acquisition method or a book-value method

Such combinations are common

Priority project in Agenda Consultations

Particular concern of securities regulators

IASB objectives

Better information about business combinations under common control

Relevant information

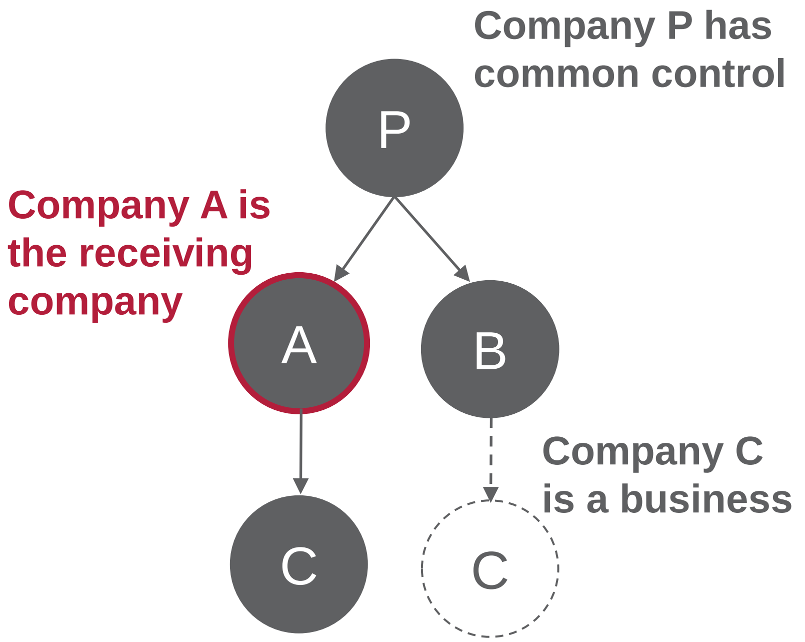
Improved comparability

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

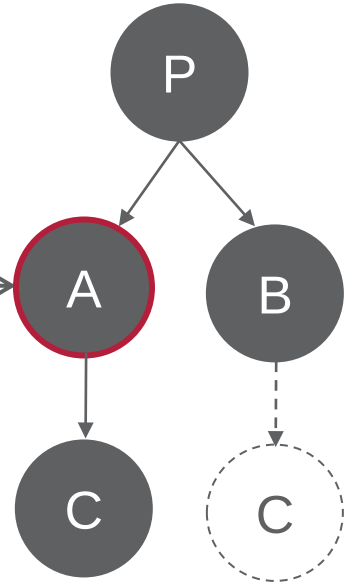


Our focus

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

Subject to the cost–benefit trade-off

- Non-controlling shareholders
- Potential shareholders
- Lenders and other creditors



Primary users can have different information needs

Which method to apply

What has the Board heard in developing its views?

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 IASB's preliminary views—at a glance

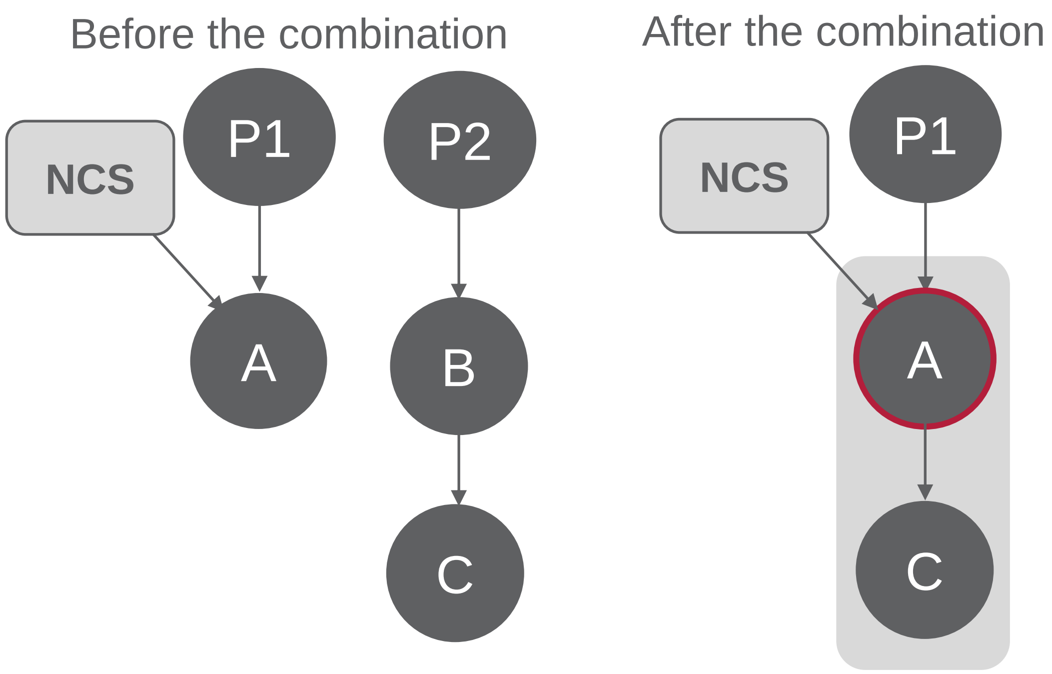
One size does not fit all

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

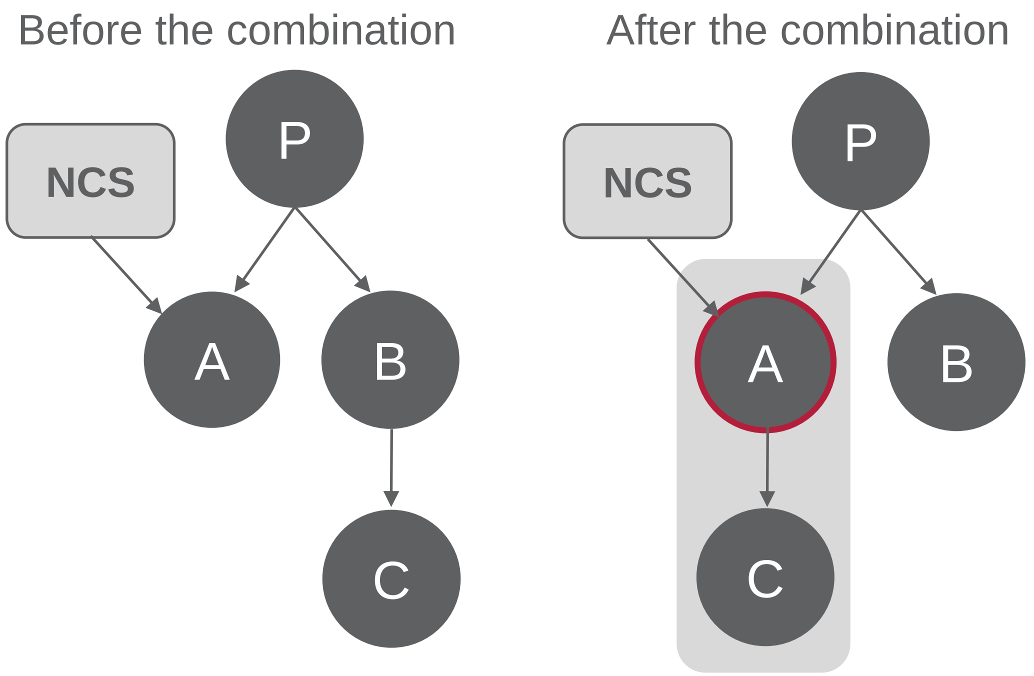
Combinations that affect non-controlling shareholders

Public and private companies

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

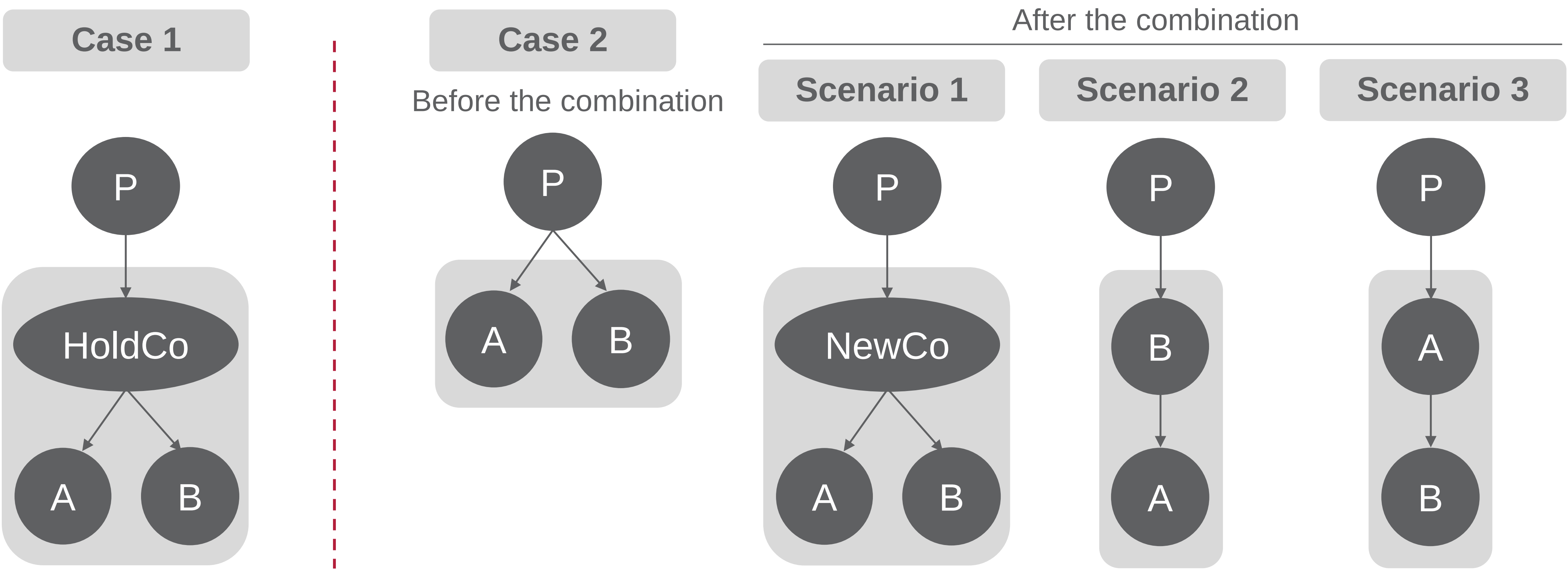
What if non-controlling interest is ‘small’ or ‘not substantive’?

Public company	Private company	
Costs are presumed to be justified by the benefits	Costs may or may not be justified	
Require the acquisition method	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**

IFRS

Combinations between wholly-owned companies

Private companies, including before an initial public offering



A book-value method would provide useful information

Similar information is provided regardless of how the combination is structured

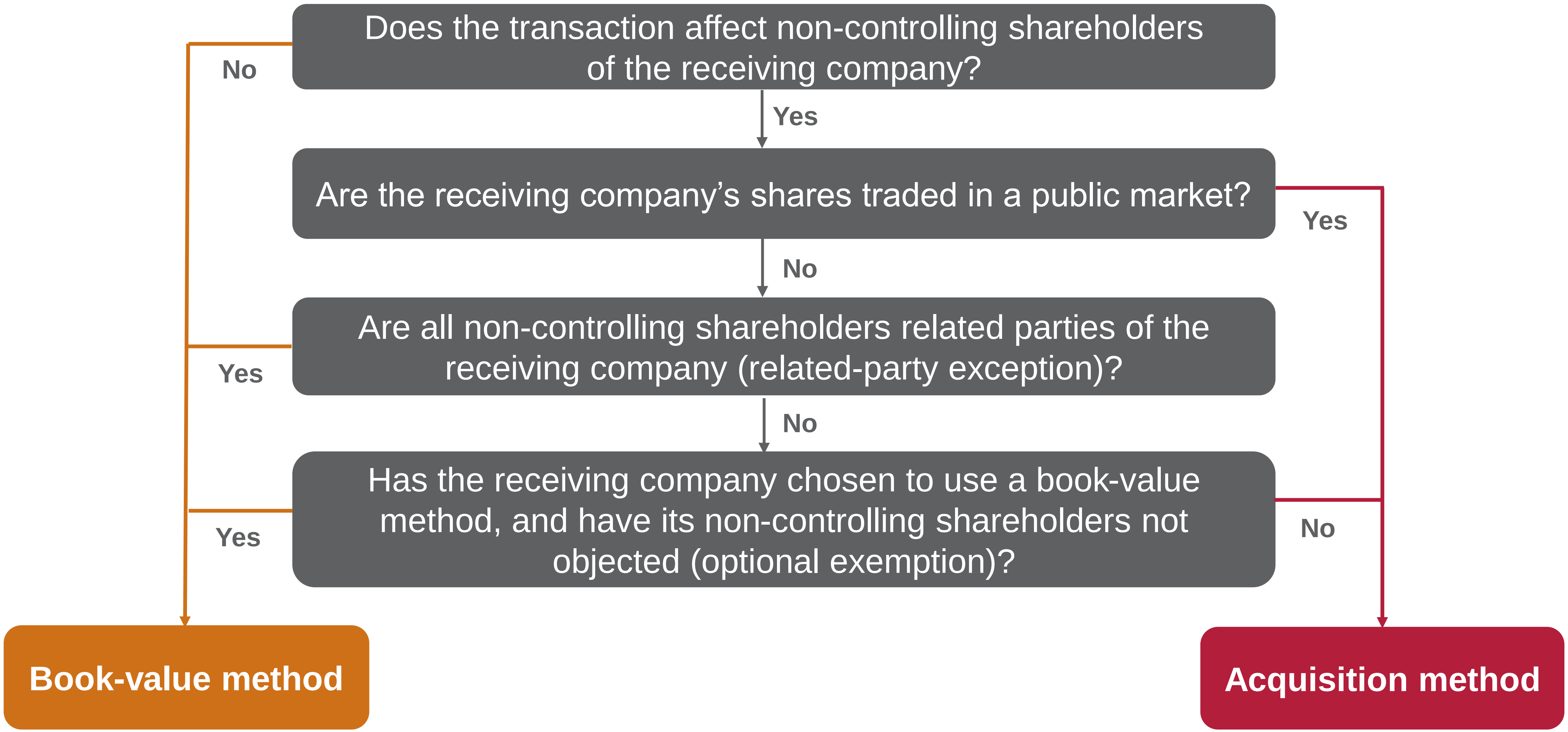
What about lenders and other creditors?

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

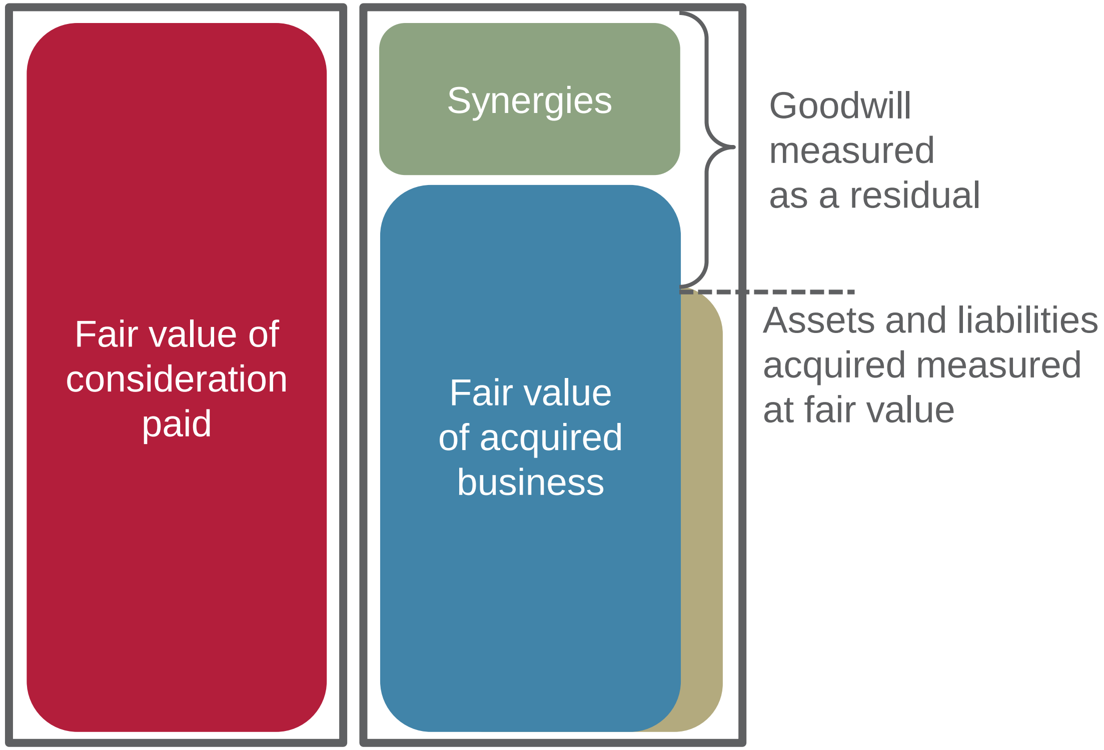
How to determine which method to use?



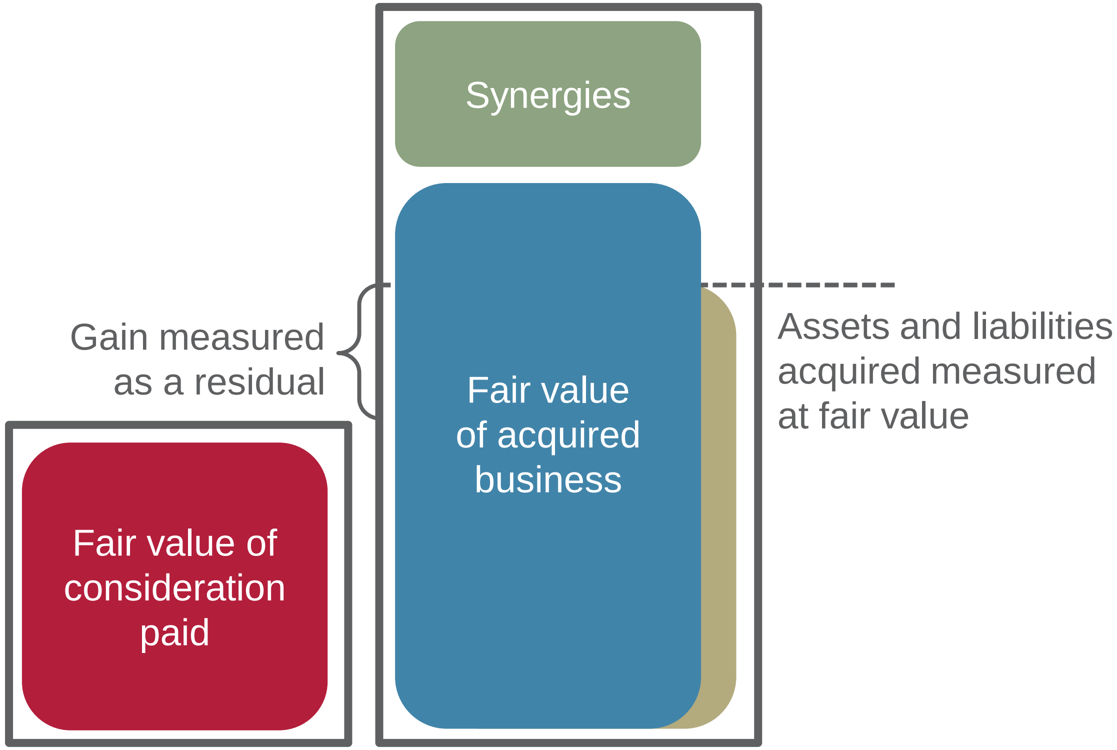
How to apply the acquisition method

Overview of the acquisition method

Business combination covered by IFRS 3



Equal values exchanged



Bargain purchase between unrelated parties

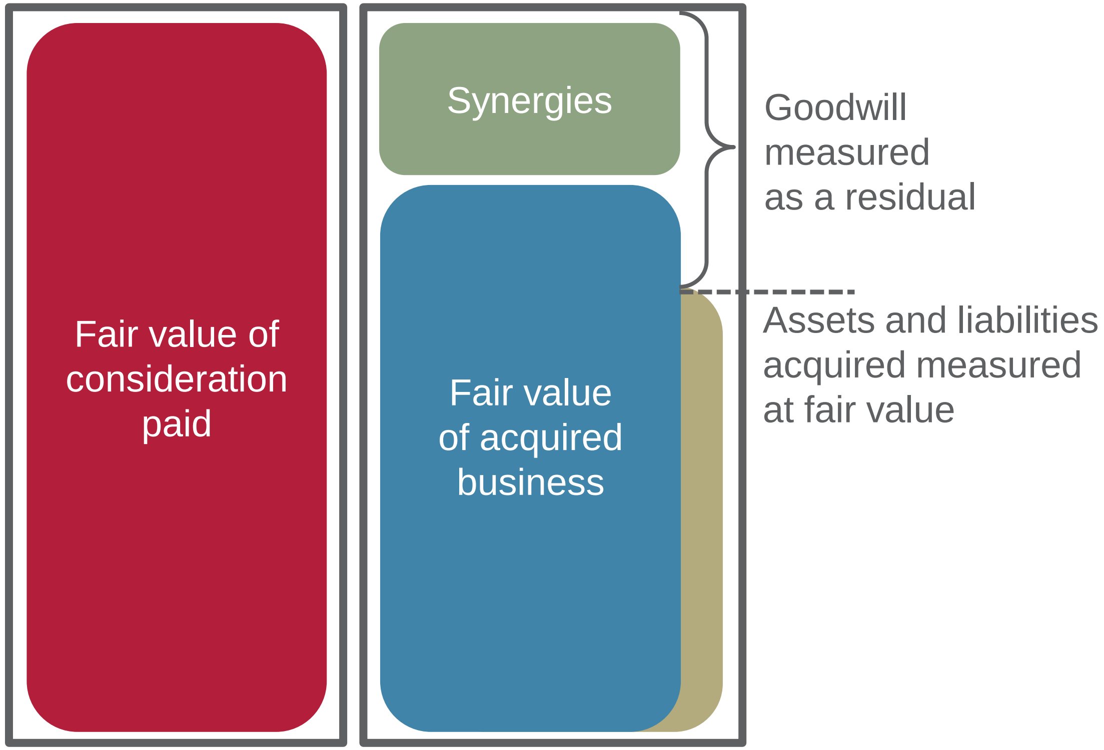
The IASB’s preliminary views—at a glance

The acquisition method is already specified in IFRS 3

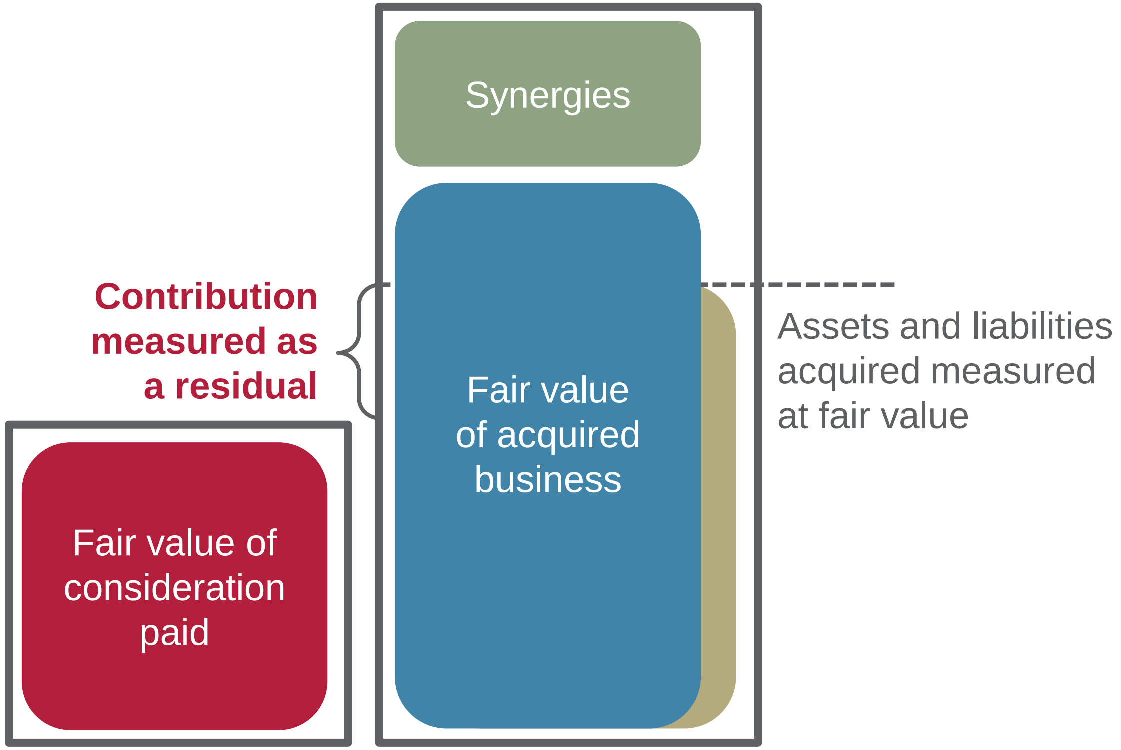
General principle	Apply the acquisition method as set out in IFRS 3
Special feature	Recognise a contribution in a ‘bargain purchase’
Disclosure	Disclose information about the transaction price

Illustrating the Board’s preliminary views

Applying the acquisition method to business combination under common control



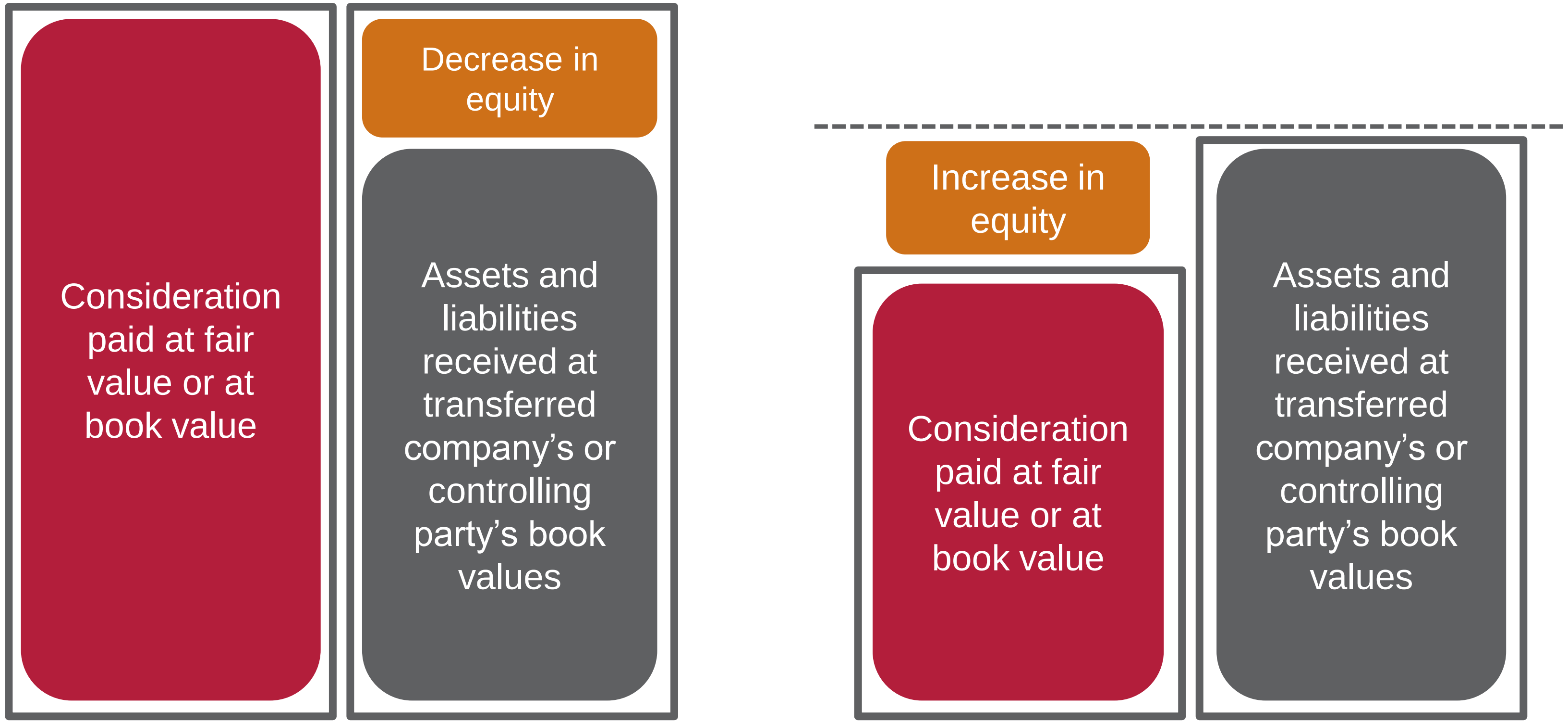
Equal values exchanged



Bargain purchase under common control

How to apply a book-value method

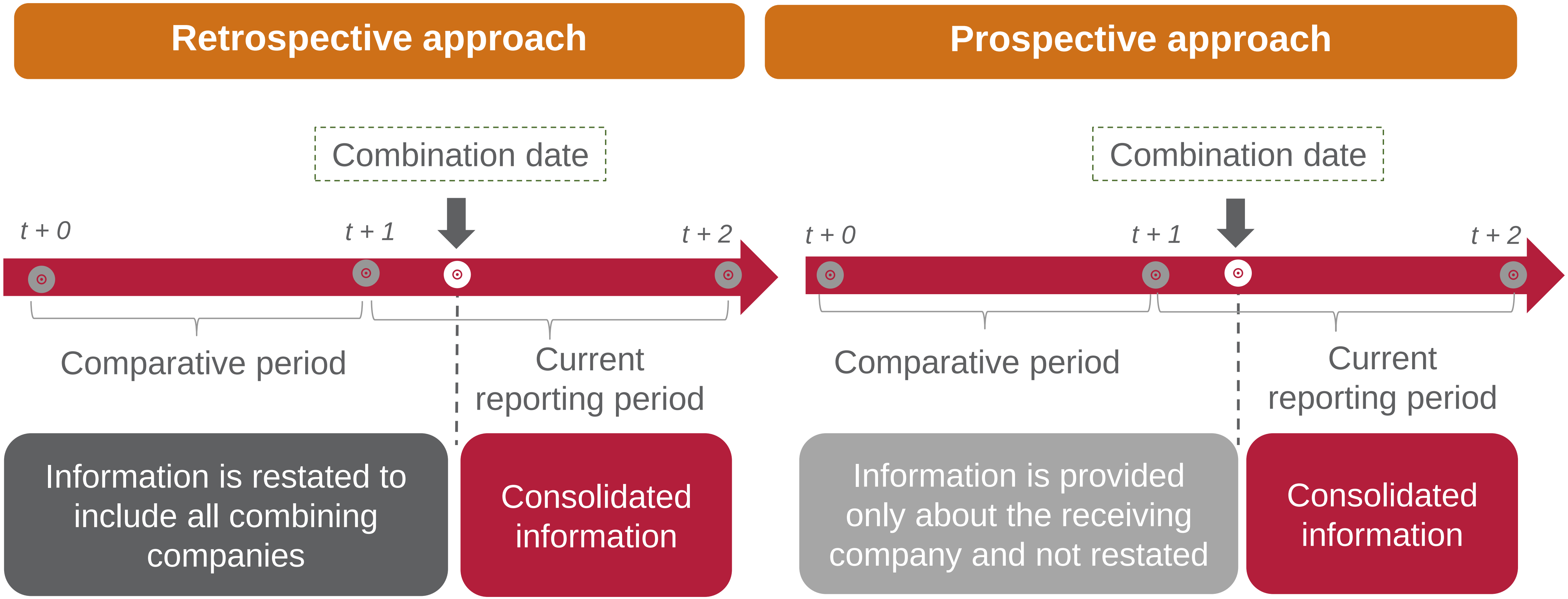
Illustrating a book-value method



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

Including diversity in how pre-combination information is provided

Approaches to pre-combination information



The IASB'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

Conclusions

Effect of the IASB's preliminary views

Today

Acquisition method	Acquisition method or a variety of book-value methods
Business combinations covered by IFRS 3	Business combinations under common control

The IASB's preliminary views

Acquisition method	A specified form of book-value method
Business combinations covered by IFRS 3 and similar business combinations under common control	Other business combinations under common control

Next steps

November 2020

Publication of the Discussion Paper

December 2020–August 2021
(Comments due 1 September 2021)

Comment period and outreach

Q4 2021

Discussion Paper Feedback

How you can help

- Participate in the outreach
- Submit a comment letter

Q&A

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