

Business Combinations under Common Control

Live webinar
Scope of the project

January 2018

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

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- The slides used in this presentation are available for download on the Business Combinations under Common Control (BCUCC) project [webpage](#).
- To ask a question 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.

- Today's webinar will focus on the scope of the BCUCC project.
- During the webinar, we will discuss:
 - the tentative decisions the Board has made on the scope of the project;

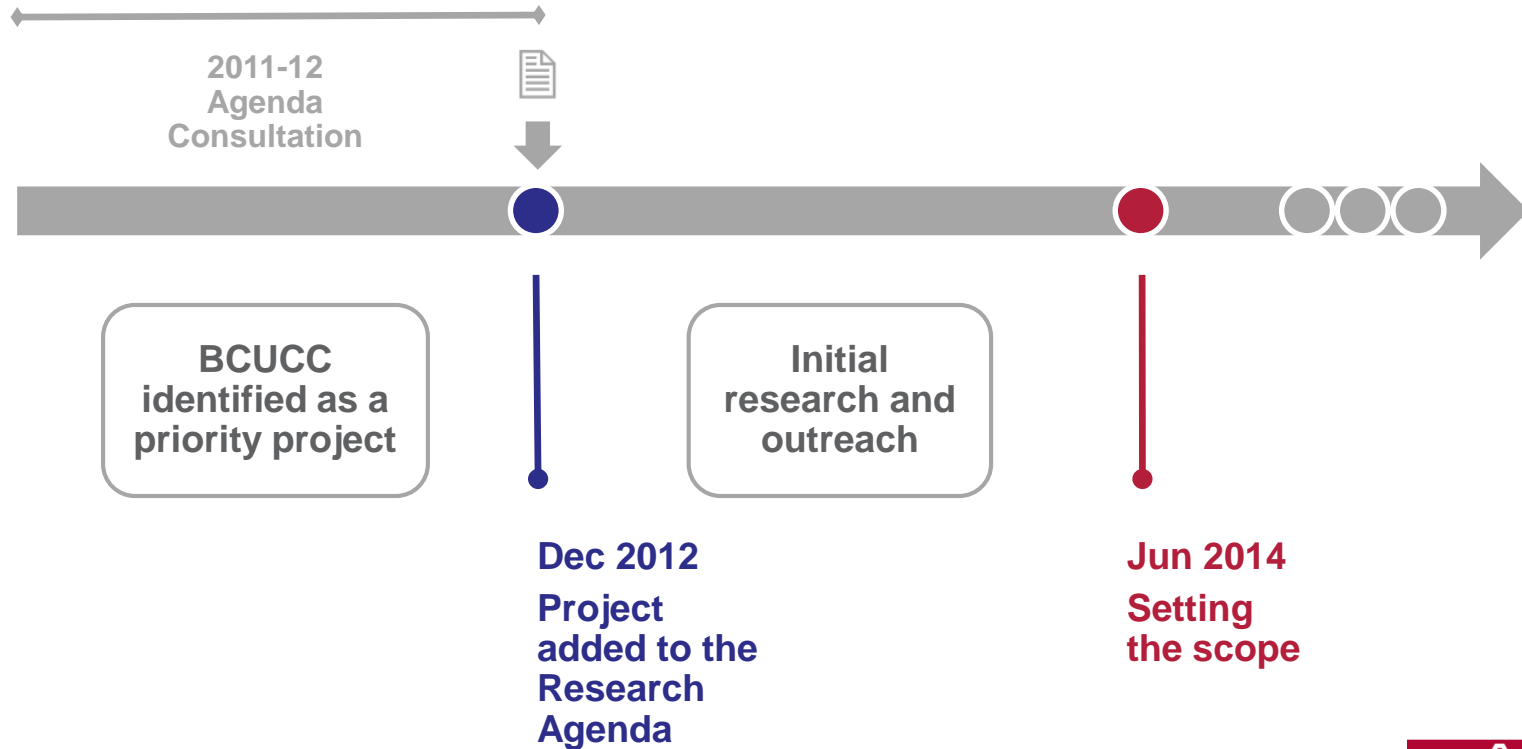
slides 4–17

- illustrative examples of transactions within the scope of the project.

slides 18–22

Board's tentative decisions

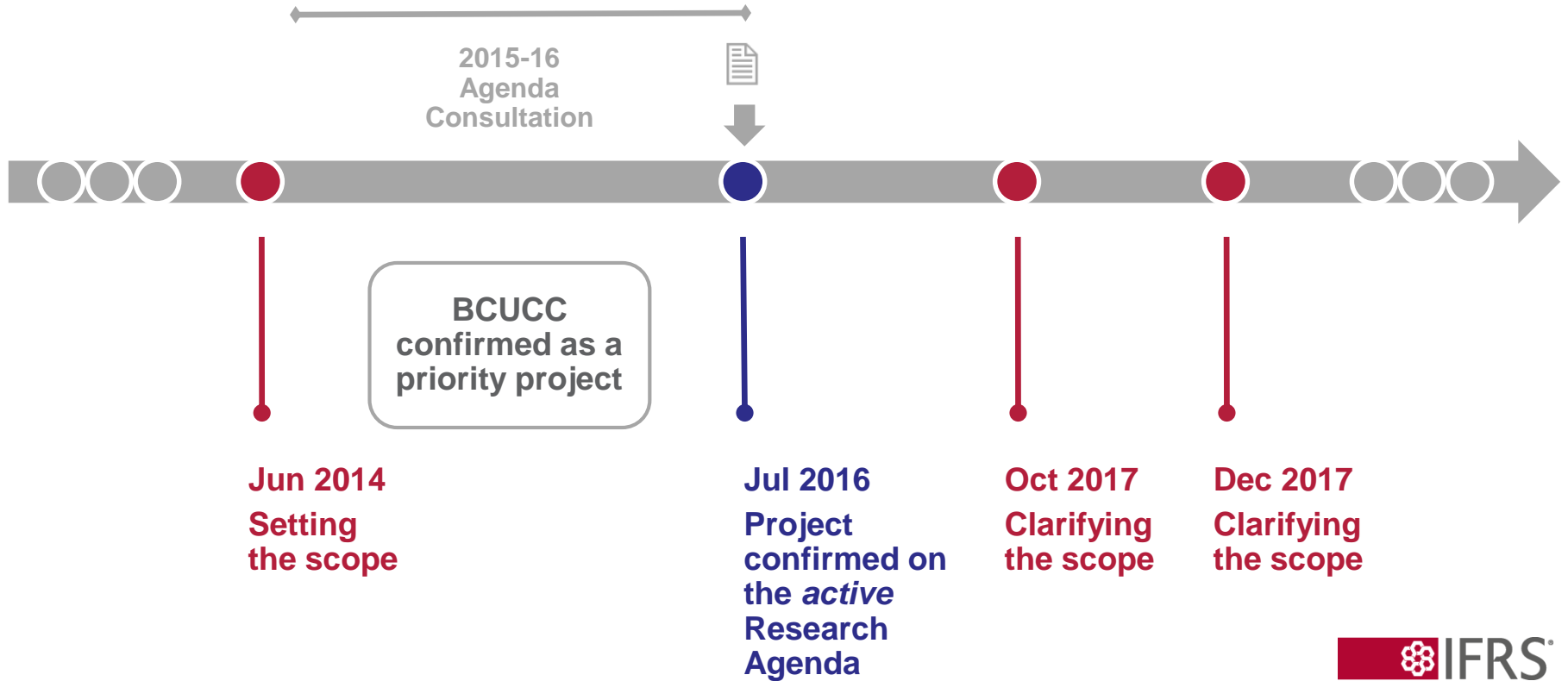
Setting the scene



Setting the scope

- The project should consider:
 - **business combinations under common control** that are currently excluded from the scope of IFRS 3 *Business Combinations*;
 - **group restructurings**; and
 - **the need to clarify the description** of business combinations under common control, including the meaning of ‘common control’.
- The project should give priority to considering transactions that affect third parties, for example those undertaken in preparation for an initial public offering (IPO).

Recent developments



Taking a closer look at the scope

BCUCC



Described in IFRS 3...

transaction is a
'business combination'



all the combining parties are
'under common control'



the common control
is 'not transitory'

**Group
restructurings**



**Not defined nor
described in IFRS
Standards**

... but there are **application questions**

What is a 'group restructuring'?

'restructuring'

... organising components of the whole in a different way



in a group

... organising entities or business within the group in a different way



transferring entities or businesses between existing or newly created entities under common control

such transfers could be either ...

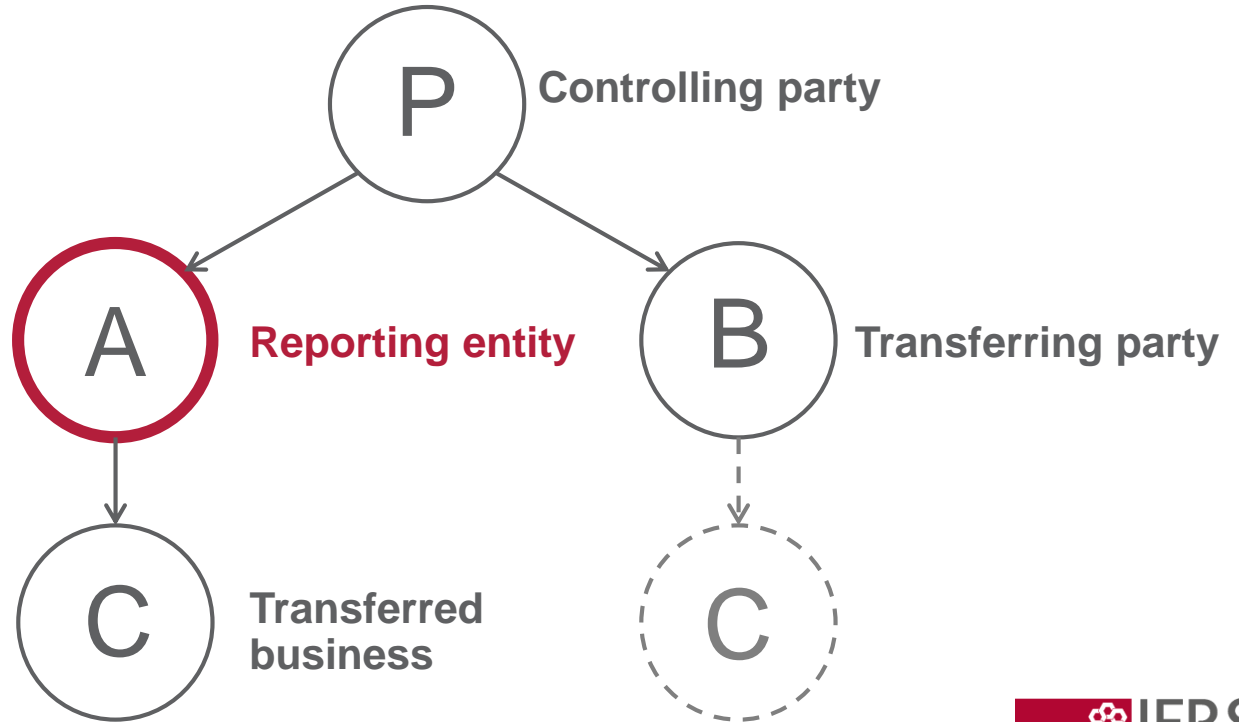
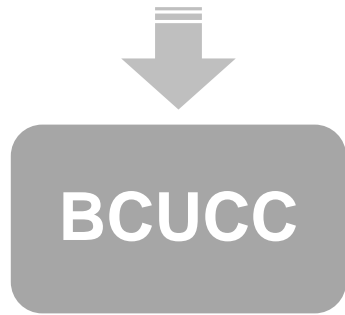
BCUCC

or

**not
BCUCC**

Group restructuring—Example 1

- Entity A, Entity B and Entity C are controlled by Entity P.
- Entity A and Entity C are businesses.
- Entity A acquires Entity C from Entity B.



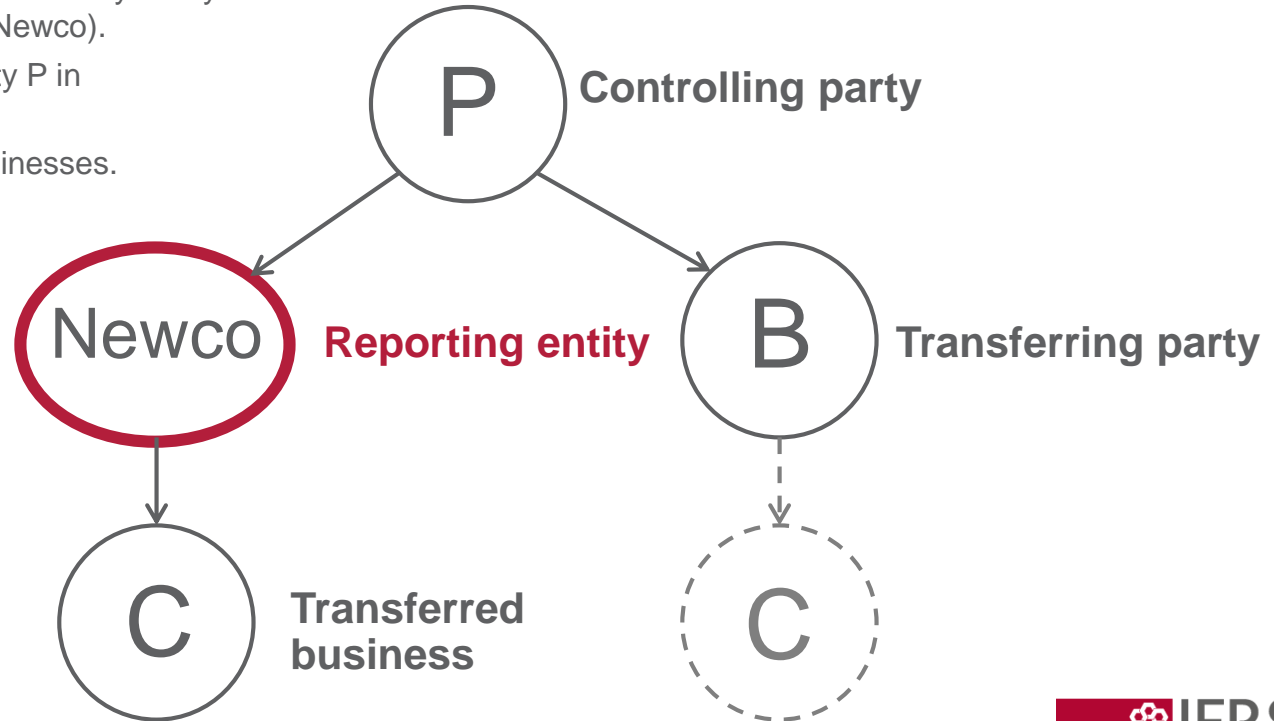
Group restructuring—Example 2

- Entity B and Entity C are controlled by Entity P. Entity P forms a new entity (Newco).
- Newco issues shares to Entity P in exchange for Entity C.
- Entity B and Entity C are businesses. Newco is not a business.

Neither Newco nor Entity C can be identified as the acquirer
... not a business combination



not BCUCC

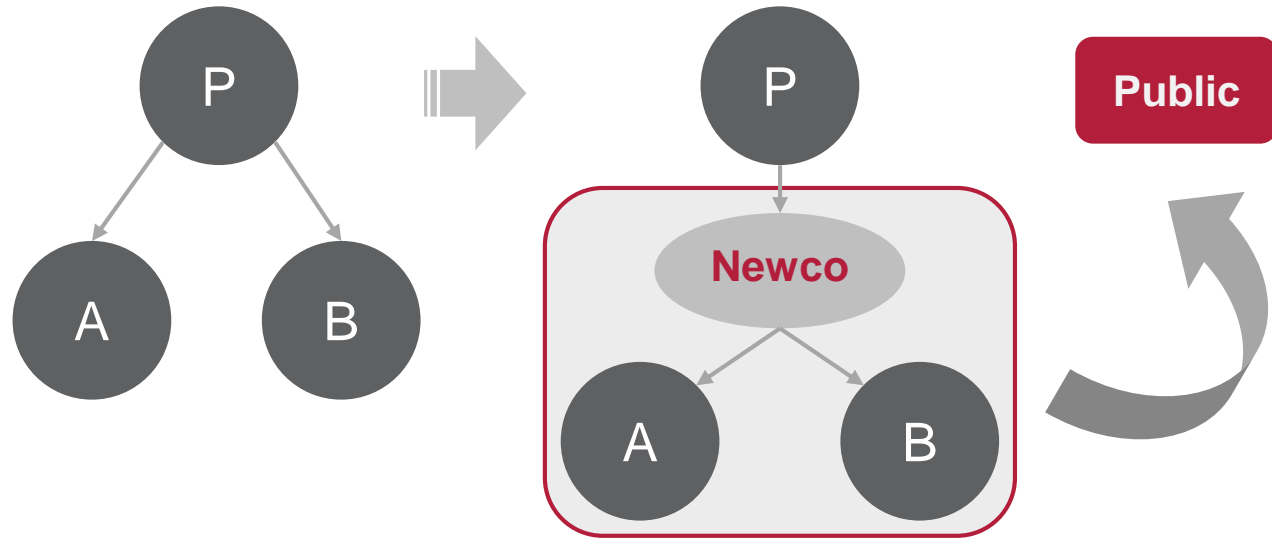


Group restructuring—clarifying the scope

- The scope of the project includes transactions under common control in which a reporting entity obtains control of one or more businesses, **regardless of whether IFRS 3 would identify the reporting entity as the acquirer, if IFRS 3 were applied to the transaction** (eg when a Newco issues shares to acquire one business under common control).

Transitory control

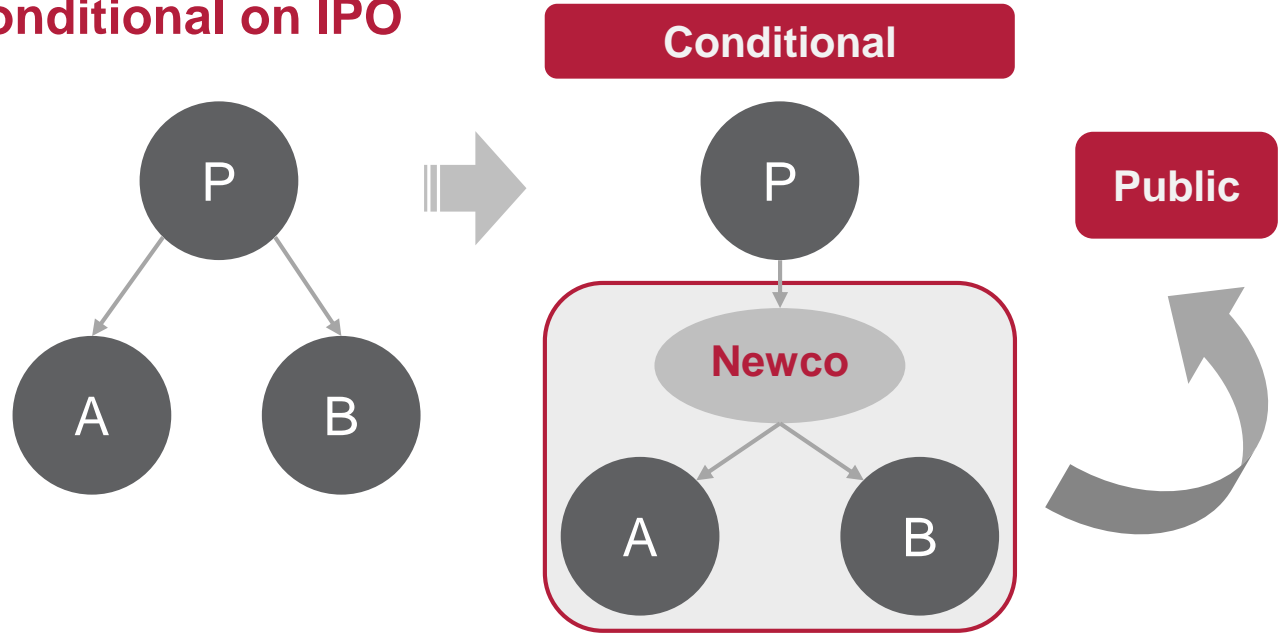
- Entity A and Entity B are controlled by Entity P.
- Entity P wants to sell Entity A and Entity B through an IPO.
- **In preparation of the IPO**, Entity P forms a Newco and transfers Entity A and Entity B to that Newco.



Is this transaction under common control?

Transaction conditional on IPO

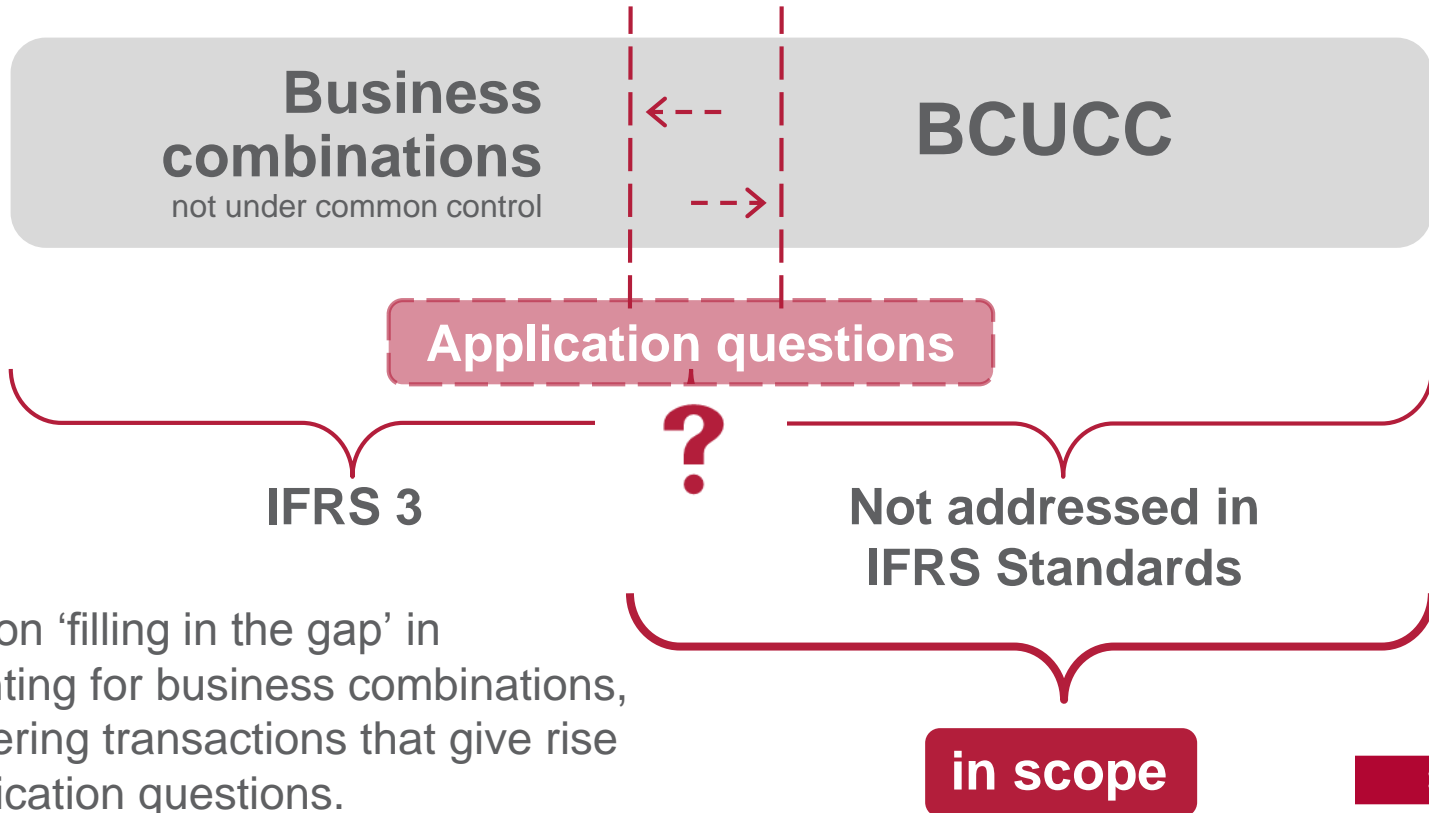
- Entity A and Entity B are controlled by Entity P.
- Entity P wants to sell Entity A and Entity B through an IPO.
- Entity P forms a Newco. **Newco acquires Entity A and Entity B only on condition of the occurrence of Newco's IPO.**



Is this transaction under common control?

The Board's approach

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Focus on 'filling in the gap' in accounting for business combinations, considering transactions that give rise to application questions.

in scope

Application questions—clarifying the scope

- The scope of the project also includes transactions involving transfers of one or more businesses where all of the combining parties are ultimately controlled by the same controlling party or parties, and the transactions are:
 - preceded by an external acquisition and/or followed by an external sale of one or more of the combining parties; or
 - conditional on a future sale such as in an IPO.

Transactions under common control in which a reporting entity obtains control of one or more businesses, regardless of whether:

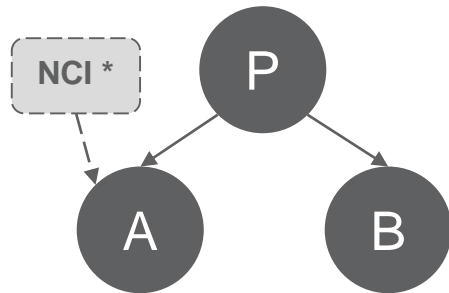
- the reporting entity can be identified as the ‘acquirer’, if IFRS 3 were applied to the transaction;
- the transaction is conditional on a future sale of the combining parties, such as in an IPO;
- the transaction is either preceded by an external acquisition of one or more combining parties, or followed by an external sale of the combining parties, or both.

Illustrative examples of transactions within the scope of the project

Example 1—Basic

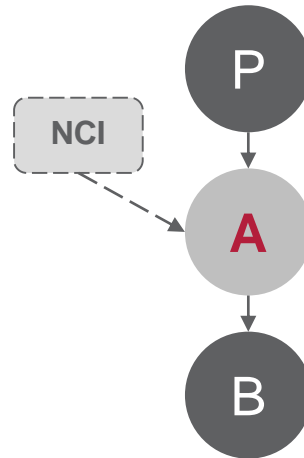
Before

Entity A and Entity B are controlled by Entity P.
Entity A and Entity B are businesses.



Transaction

Entity A acquires Entity B.



Observations

Accounting by **Entity A** is ...

in scope ...

regardless of whether the combining parties:

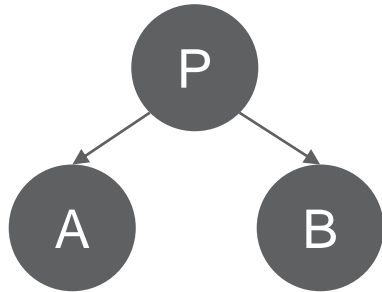
- are fully owned by Entity P or there is NCI in the combining parties; or
- are listed or privately held.

* Non-controlling interest

Example 2—Newco

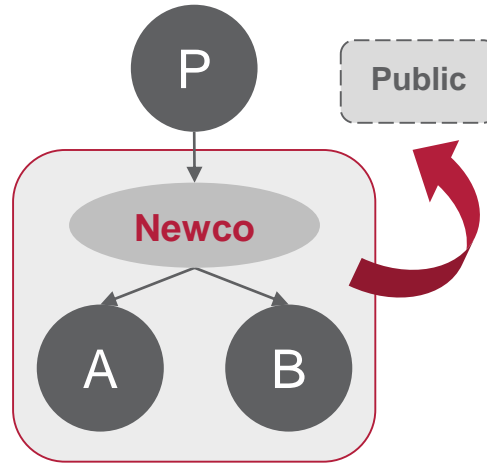
Before

Entity A and Entity B are controlled by Entity P.
Both Entity A and Entity B are businesses.



Transaction

Entity P forms a Newco and transfers Entity A and Entity B to that Newco.



Observations

Accounting by **Newco** is ...

in scope ...

regardless of whether the transaction:

- is effected in preparation for an IPO; or
- is conditional on the success of Newco's IPO.

Example 3—Transitory control

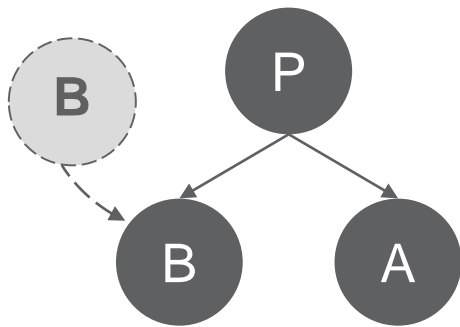
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Before

Entity A is controlled by Entity P.

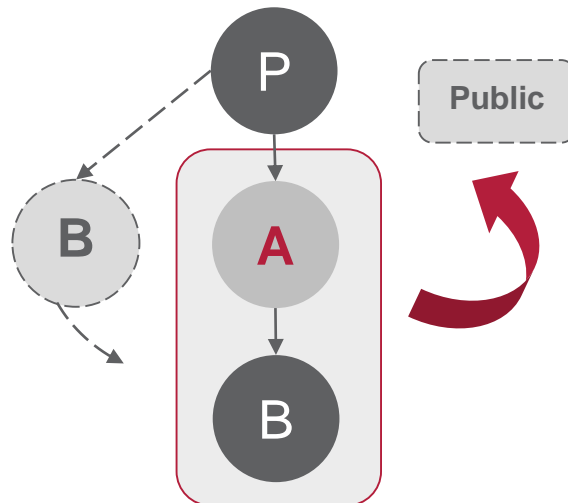
Entity P acquires Entity B from external parties.

Both Entity A and Entity B are businesses.



Transaction

Entity A acquires Entity B from Entity P.



Observations

Accounting by **Entity A** is ...

in scope ...

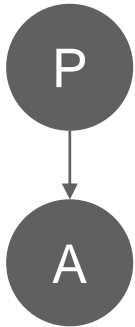
regardless of whether the transaction:

- is preceded by an external acquisition of one or more combining parties; and/or
- followed by an external sale of the combining parties.

Example 4—One business

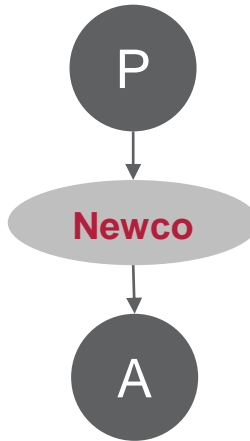
Before

Entity A is controlled by Entity P.
Entity A is a business.



Transaction

Entity P forms a Newco and transfers Entity A to that Newco.



Observations

Accounting by **Newco** is ...

in scope ...

regardless of whether Newco would be identified as the 'acquirer' if IFRS 3 were applied to the transaction.

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