

BUSINESS COMBINATIONS UNDER COMMON CONTROL

MEXICAN ACCOUNTING STANDARD

MEXICAN FINANCIAL REPORTING STANDARDS BOARD
CINIF - MÉXICO

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1. About CINIF

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3. BCUCC – Mexican Financial Reporting Standard

1. About CINIF



Consejo Mexicano de Normas de Información Financiera (CINIF) is the Mexican Financial Reporting Standard Setter

- ***Founded:*** 2002
- ***Legal structure:*** non-profit entity
- ***Activities:*** started in 2003



Regulators

Central Bank

Professional associations

Business associations

Association of universities

1. Secretariat of Finance
2. Secretariat of Public Administration
3. National Banking and Securities Commission
4. National Insurance and Bonding Commission
5. Mexican Stock Exchange
6. Bank of Mexico
7. Mexican Institute of Public Accountants
8. Mexican Financial Executives Institute
9. Mexican Bankers Association
10. Mexican Insurance Entity Association
11. Mexican Stock Market Institution Association
12. Mexican Business Coordinating Council
13. National Association of Faculties and Accounting and Administration Schools



- *CINIF develops Mexican Financial Reporting Standards (MFRS)*
- *MFRS are highly-convergent with full IFRS*
- *MFRS are applicable as follows:*

KIND OF ENTITIES	STANDARDS
<ul style="list-style-type: none"> ■ Listed entities (exception for entities of the financial and insurance sectors) 	Full IFRS of IASB
<ul style="list-style-type: none"> ■ Financial sector entities ■ Insurance sector entities 	MFRS of CINIF
<ul style="list-style-type: none"> ■ SMEs 	MFRS of CINIF

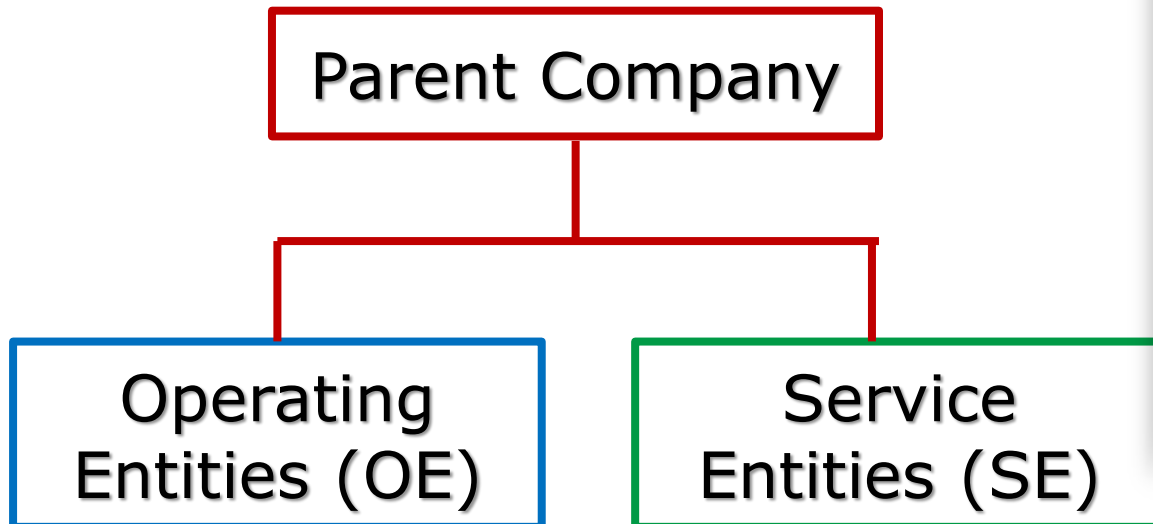
2. *BCUCC – Background*

Mexican Federal Labor Law establishes that:

Workers have a statutory
right to:

10% of a company's profits
(PTU)

Typical situation in Mexico:



Corporate group situation:

- *For administrative purposes:* employees were usually hired by a SE
- *Problem:* the SE generally did not generate profits
- *Solution:* the SE frequently paid bonuses to employees to compensate for lost PTU

A new Mexican Labor Law was issued establishing that:

Employees must be hired
by the OE to which they
provide services

In 2021:

Many Corporate Groups were restructured:

- Many BCUCC were carried out:
 - Some SE were acquired or merged
 - Some OE were acquired or merged

2021:

CINIF amended its Business Combination Standard:

- To include specific rules for BCUCC
- Amendments were adopted in 2021

2023:

CINIF carried out a Post-implementation Review

- The responses were very favorable

3. *BCUCC – Mexican Financial Reporting Standard*

- As under IFRS 3, BCUCC were excluded from the scope of the MFRS for business combinations.
- As a consequence, absent specific guidance in MFRS, pursuant to the MFRS for the use of mandatory supplemental guidance, alternative accounting guidance was generally found in US GAAP, audit firms' internal guidance and current reporting practices.
- This generally led to the use of the book value method for most BCUCC.

- BCUCC must be recognized using the *book-value method* as follows:
Value of the consideration paid
vs.
Net book value of the assets and liabilities of the acquiree at the acquisition date
- Any difference must be recognised in *shareholders' equity* ...
either as a capital contribution or a distribution of capital or earnings,
as decided by the shareholders.

The acquiror must recognize the BCUCC using the *acquisition method* only in the following cases:

- a) when there are non-controlling shareholders in the acquiror whose interests are affected by the business combination; and/or
- b) when the acquiror's share are traded in a public market.

When pursuant to the above the acquisition method is used, the entity must recognize the BCUCC based on the valuation standards applicable to business combinations of entities not under common control.

Question 1 – Experience with BCUCC

Have you had experience with the application of the new requirements that went into effect in 2021?

Question 1 Responses:

- As a result of recent changes in legislation, we have seen many BCUCC in the past two years.
- Most combinations were carried out with no consideration.

Question 2 – Methods used

a) Did you experience difficulties in determining which of the two methods was applicable? ... If you experienced difficulties, please explain what they were and mention your suggestions for eliminating such difficulties.

Question 2a) Responses:

- We did not experience any difficulties as a result of the clarity in the new requirements leaving little room for confusion.

Question 2 – Methods used

b) Which of the two methods was applied and what were the determining factors in the decisión for its use?

Question 2b) Responses:

- We observed the use of both methods, pursuant to the new requirements.
- We did not identify any specific determining factors.

Question 2 – Methods used

c) Do you believe the method used was different from that which would have been used without the new requirements that went into effect in 2021?

Question 2c) Responses:

- We do not believe the method used was different from that which would have been used without the new requirements.

Question 3 – Benefits of the new requirements

a) Do you believe the benefits of reduced diversity in practice, improved transparency and providing better information were achieved with the application of the new requirements?

Question 3a) Responses:

- In general, we believe the anticipated benefits were achieved.
- The new requirements have eliminated uncertainties about which method to use.

Question 3 – Benefits of the new requirements

b) Did the benefits of the new requirements exceed the costs of their application?

Question 3b) Responses:

- We believe the benefits exceeded the costs of application of the new requirements.

Question 4 – Disclosures

Did you experience difficulties with the new disclosure requirements? ... If you experienced difficulties, please explain what they were and mention your suggestions for eliminating such difficulties.

Question 4 Responses:

- We did not identify any specific challenges regarding the new disclosure requirements.
- Some believe the disclosure requirements are excessive.
- We experienced some difficulties regarding the identification of individually insignificant combinations that could be grouped.

Question 5 – Other suggestions

Do you have any other suggestions for improving the recognition, valuation and disclosure requirements for BCUCC?... If so, please explain.

Question 5 Responses:

- Some believe the acquiror's trading of shares in a public market should not prohibit the book-value method.
- Some believe any difference between the book value of the consideration paid and the net book value of the net assets acquired should be recognized in retained earnings.

Thank you very much!

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