IFRS® Foundation

Business Combinations under Common Control

Initial questions and comments

June 2021

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/

The views expressed are those of the presenters, not necessarily those of the International Accounting Standard Board or the IFRS Foundation.

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
- The acquisition method or a book-value method?
- How to apply the acquisition method?
- How to apply a book-value method?
- Next steps

Introduction

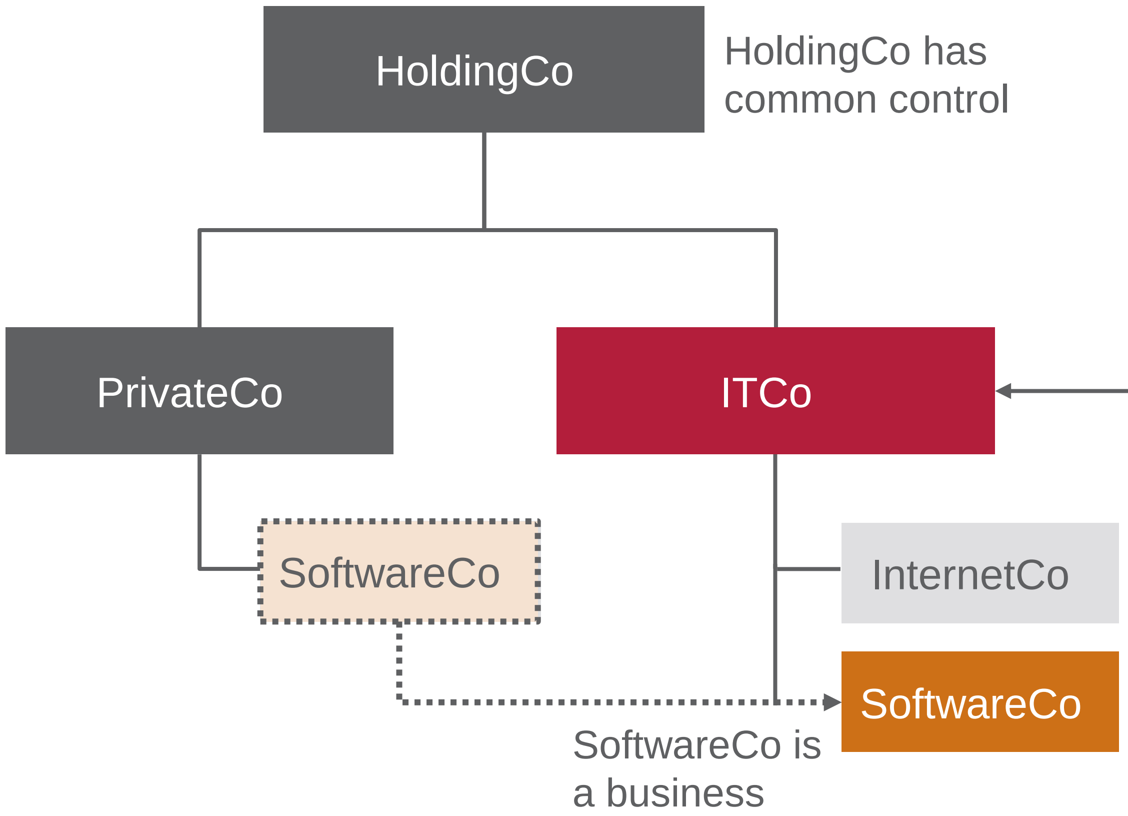
Why is the Board doing the project?

A gap in IFRS Standards results in diversity in practice and lack of transparency

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

The Board’s focus

Useful information for the primary users of the receiving company’s financial statements, subject to the cost-benefit trade-off



ITCo is the receiving company. Its primary users can have different information needs:

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

Q&A

The acquisition method or a book-value method?

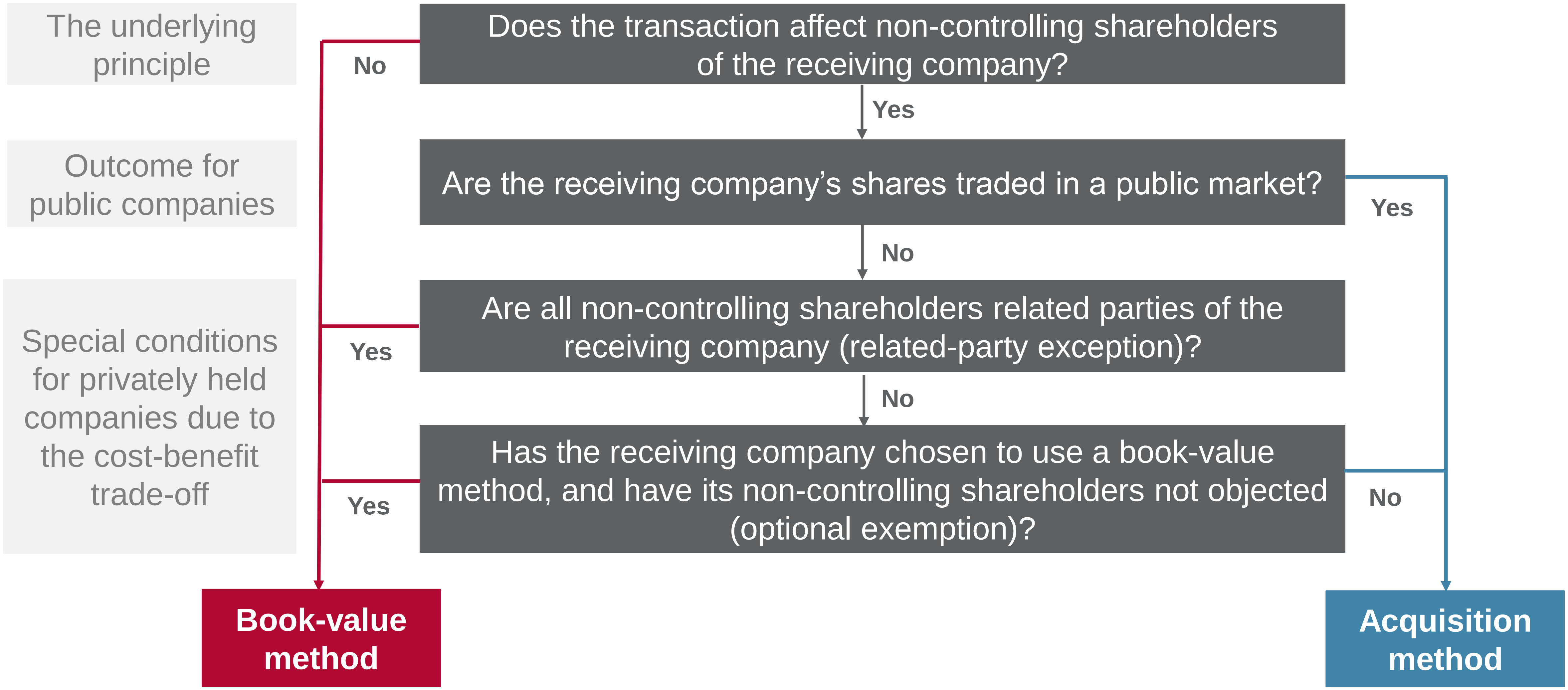
IFRS

What are the Board’s views?

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’?	In principle, 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 for privately held companies
When to apply a book-value method?	A book-value method should apply in all other cases

The Board’s decision tree



Initial feedback received

The acquisition method or a book-value method?

Some stakeholders agree that neither method should apply in all cases, and largely agree with the Board's preliminary views on when each method should apply.

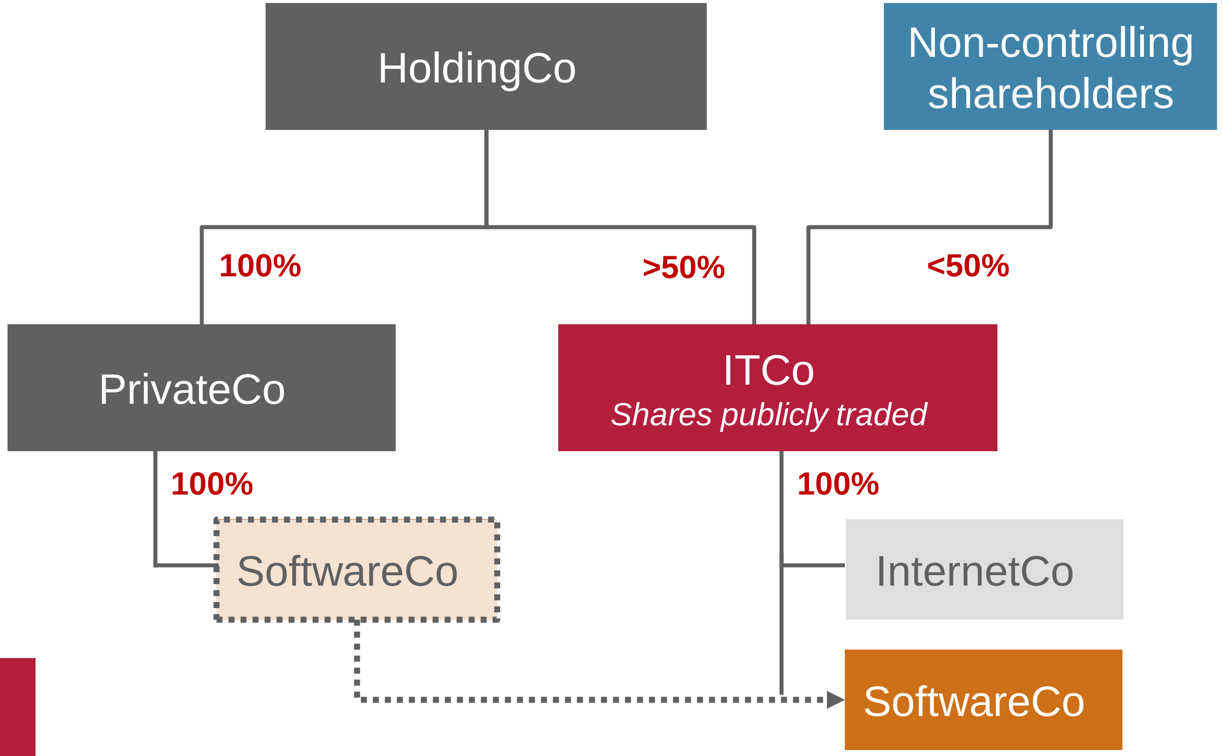
Some stakeholders agree with the overall suggested approach, but have questions or comments on particular aspects of the Board's preliminary views.

Some stakeholders say that a book-value method should apply in all cases and some other stakeholders say that the acquisition method should apply pre-IPO.

Illustrating the Board’s views
Non-controlling shareholders

Listed company with a majority shareholder

- HoldingCo wishes to seek funding against its successful SoftwareCo, and decides to move SoftwareCo into the ITCo group.
- ITCo shares are publicly traded. It is controlled by HoldingCo but has non-controlling shareholders.
- ITCo buys SoftwareCo from PrivateCo for cash.



The Board’s view is that the receiving company, ITCo, should use the acquisition method.

Why use the acquisition method?

Reporting by the receiving company, ITCo

	Acquisition method	Book-value method
Cash consideration paid	**CU 500**	**CU 500**
Software	CU 380	CU 20
Brand name	CU 50	-
Other net assets	CU 40	CU 40
Goodwill	CU 30	-
Total net assets recognised	**CU 500**	**CU 60**
Difference (recognised in equity)	**n/a**	**CU 440**

Provides information about fair values of SoftwareCo identifiable assets and liabilities, including:

- brand name (previously unrecognised);
- software (previously measured at book value).

Does not provide information about fair values of SoftwareCo identifiable assets and liabilities; instead, reports a reduction in equity.

Q&A

How to apply the acquisition method?

What are the Board's views?

The acquisition method is specified in IFRS 3 *Business Combinations*

General principle	Apply the acquisition method as set out in IFRS 3, including all disclosure requirements
Special feature	In rare cases of a 'bargain purchase', recognise a contribution to equity instead of recognising a gain
Additional disclosure	Disclose information about how the transaction price was determined

Initial feedback received

How to apply the acquisition method?

Some stakeholders agree with the Board’s preliminary views.

Some stakeholders suggest that an ‘underpayment’ should be recognised as a gain in the statement of profit or loss in some cases.

Some stakeholders suggest that an ‘underpayment’ should be recognised as a gain in the statement of profit or loss in all cases.

Q&A

How to apply a book-value method?

What are the Board’s views?

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
Transaction costs	Generally recognised as an expense
Difference	Recognise as an increase or decrease in equity
Pre-combination information	Include the transferred company prospectively, without restatement
Disclosure	A subset of IFRS 3 disclosure requirements and the difference in equity

Initial feedback received

How to measure assets and liabilities received?

Some stakeholders agree that assets and liabilities received should be measured at the transferred company's book values.

Some stakeholders suggest that the transferred company's book values should be used unless the controlling party's book values provide more useful information.

Some stakeholders suggest that assets and liabilities received should always be measured at the controlling party's book values.

Initial feedback received

How to provide pre-combination information?

Some stakeholders agree with a prospective approach.

Some stakeholders agree with a prospective approach but suggest that combined pre-combination information should be provided in the notes.

Some stakeholders support a retrospective approach, at least in some cases.

Q&A

Next steps

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 outreach activities
- Submit a comment letter

Useful resources

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*
- Investor webcast *The IASB seeks investor views on how to account for M&As between companies under common control*

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