IFRS® Foundation

Business Combinations under Common Control

Overview of the Discussion Paper

June 2021

Before we start

Housekeeping

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

The Discussion Paper is available for download on the IFRS website at www.ifrs.org/projects/work-plan/business-combinations-under-common-control/.

Agenda

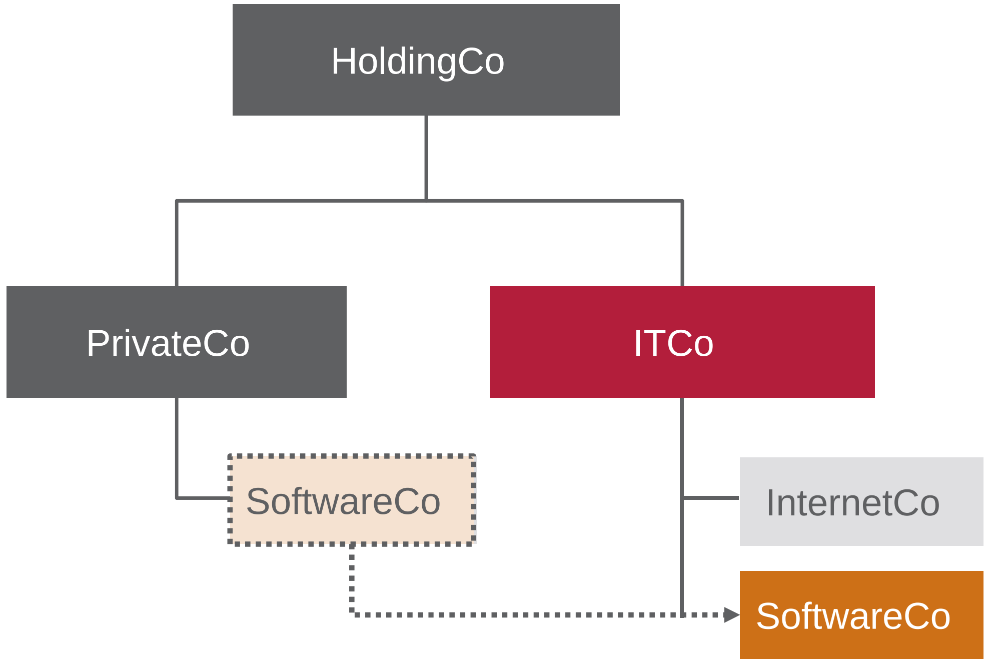
Introduction

Business combinations under common control
An illustration

ITCo buys SoftwareCo from PrivateCo.

ITCo and SoftwareCo are controlled by HoldingCo, both before and after the combination.

This is a business combination under common control.



We are considering the reporting by the receiving company, ITCo, and focus on information needs of users of its financial statements.

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

What information do those methods provide?

	Acquisition method as per IFRS 3	Book-value method is not defined
Assets and liabilities received	Measured at fair values	Measured at various book values
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

What improvements is the Board aiming for?

Better information for investors without imposing unnecessary costs on preparers

Relevance	Accounting method used provides useful information
Comparability	Similar transactions are reported in a similar way
Transparency	Disclosures are improved

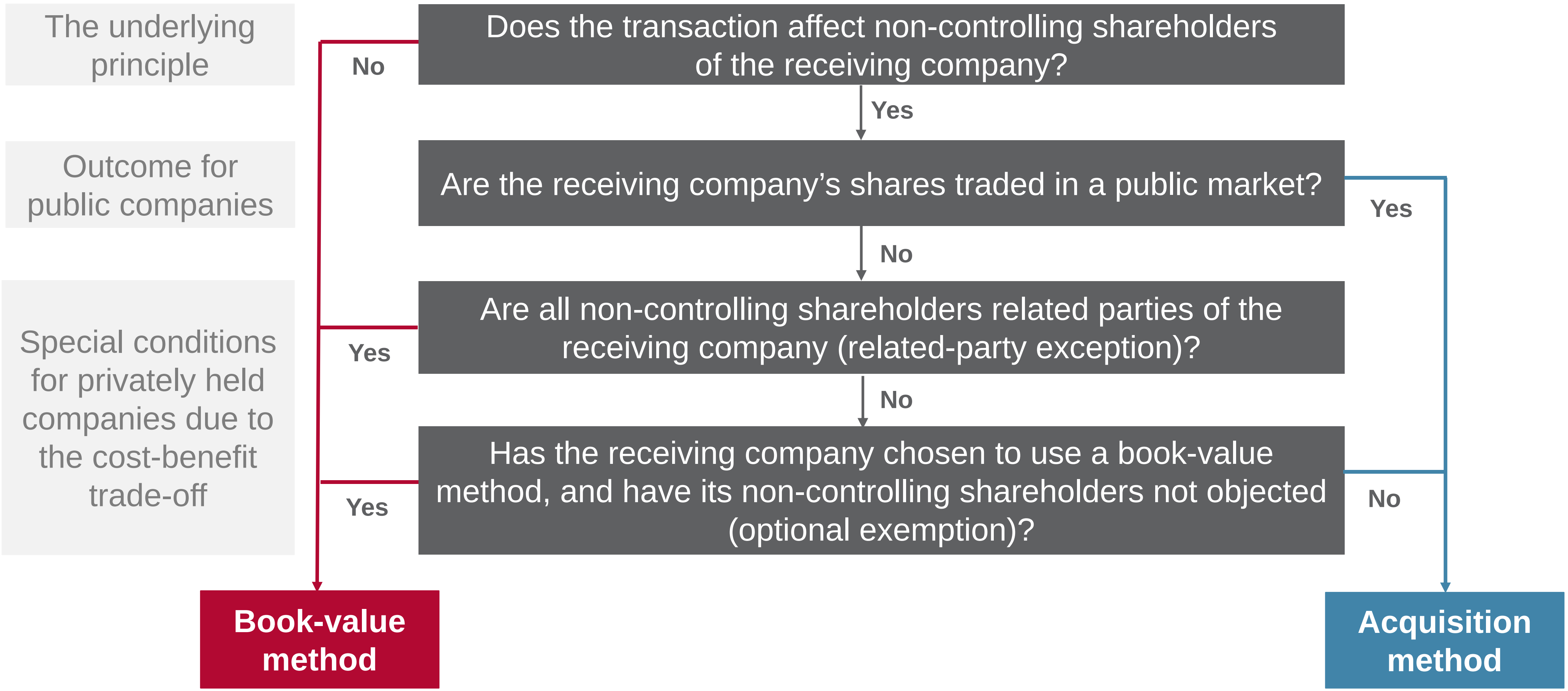
The acquisition method or a book-value method?

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

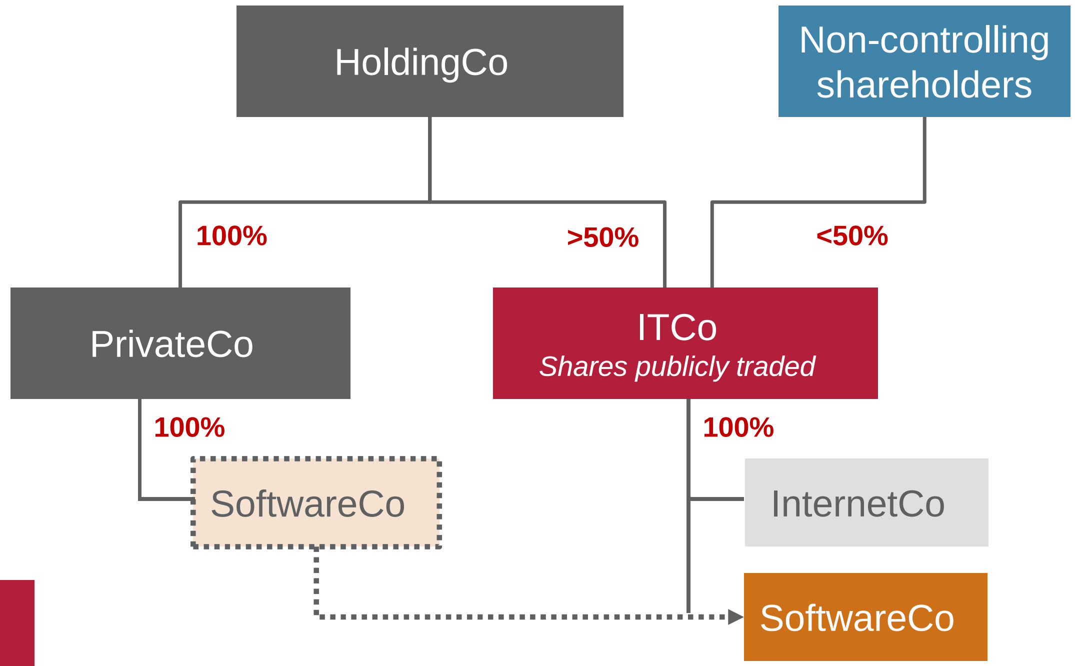
The Board's decision tree



Illustrating the Board's views
Non-controlling shareholders

Receiving 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:

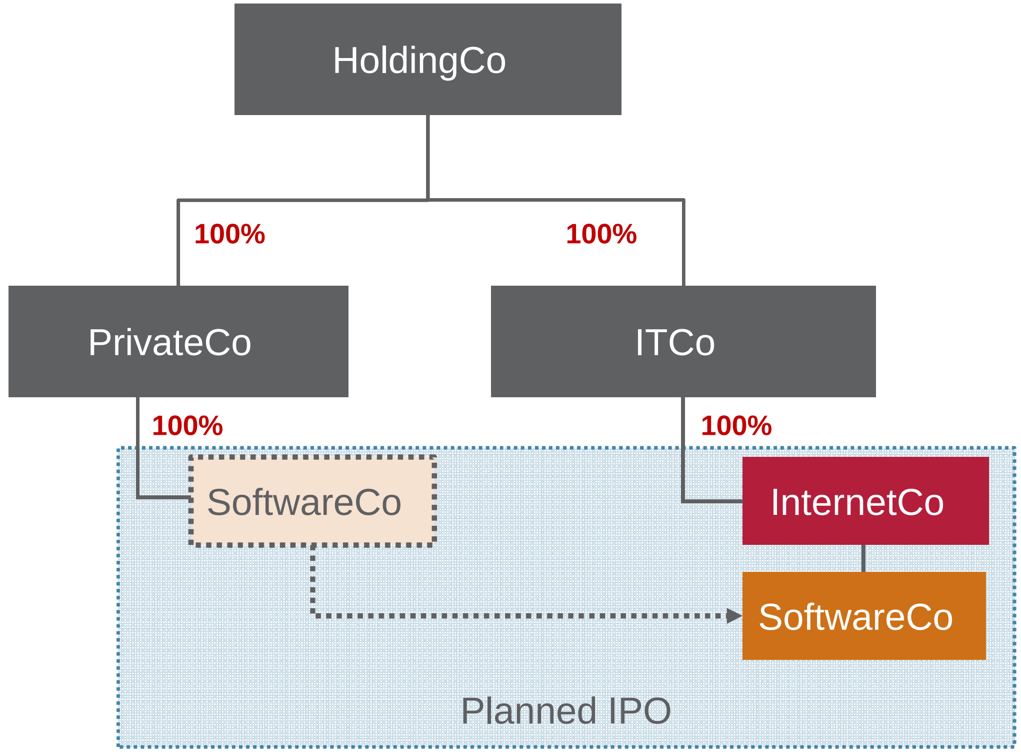
- brand name (previously unrecognised);
- software (previously measured at book value).

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

Illustrating the Board's views
Wholly-owned receiving company

Preparing for an IPO

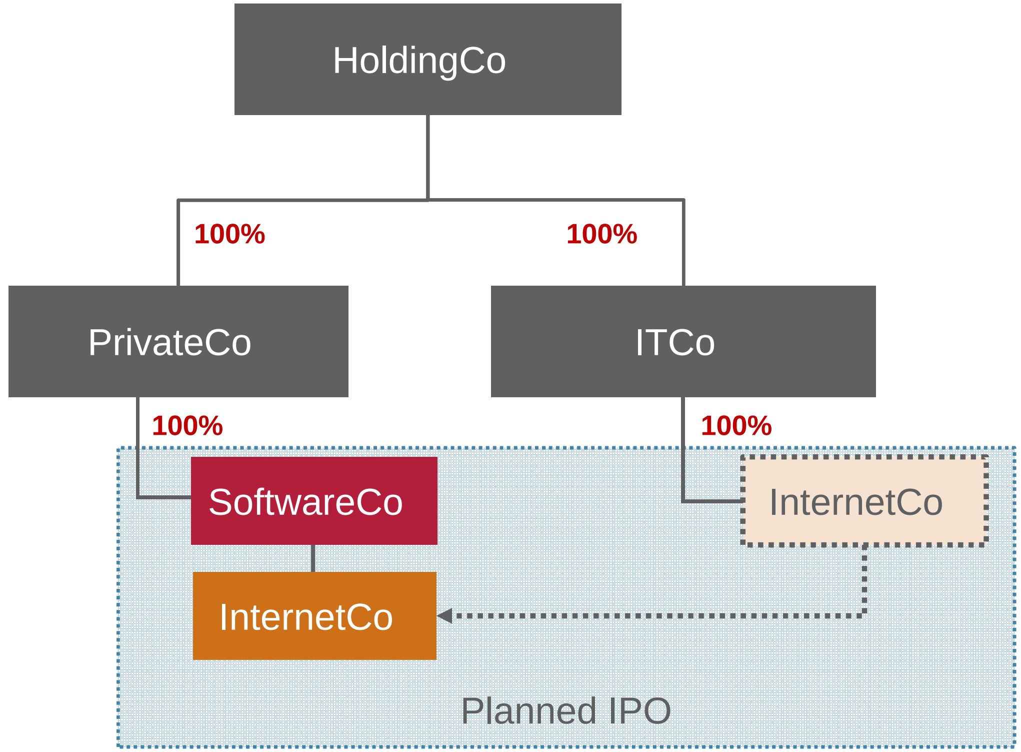
- HoldingCo wishes to sell its wholly-owned businesses, SoftwareCo and InternetCo, together in an IPO.
- To organise its businesses into a single sub-group in preparation for an IPO, HoldingCo could, for example, transfer SoftwareCo to InternetCo…



Illustrating the Board's views
Wholly-owned receiving company (continued)

Preparing for an IPO (continued)

- Alternatively, to organise its businesses into a single sub-group in preparation for an IPO, HoldingCo could transfer InternetCo to SoftwareCo.
- HoldingCo could also introduce a new holding company (NewCo) to acquire both businesses or legally merge the combining businesses into a single company.



The Board's view is that the receiving company should apply a book-value method so consistent information is provided regardless of how the combination is structured.

How to apply the acquisition method

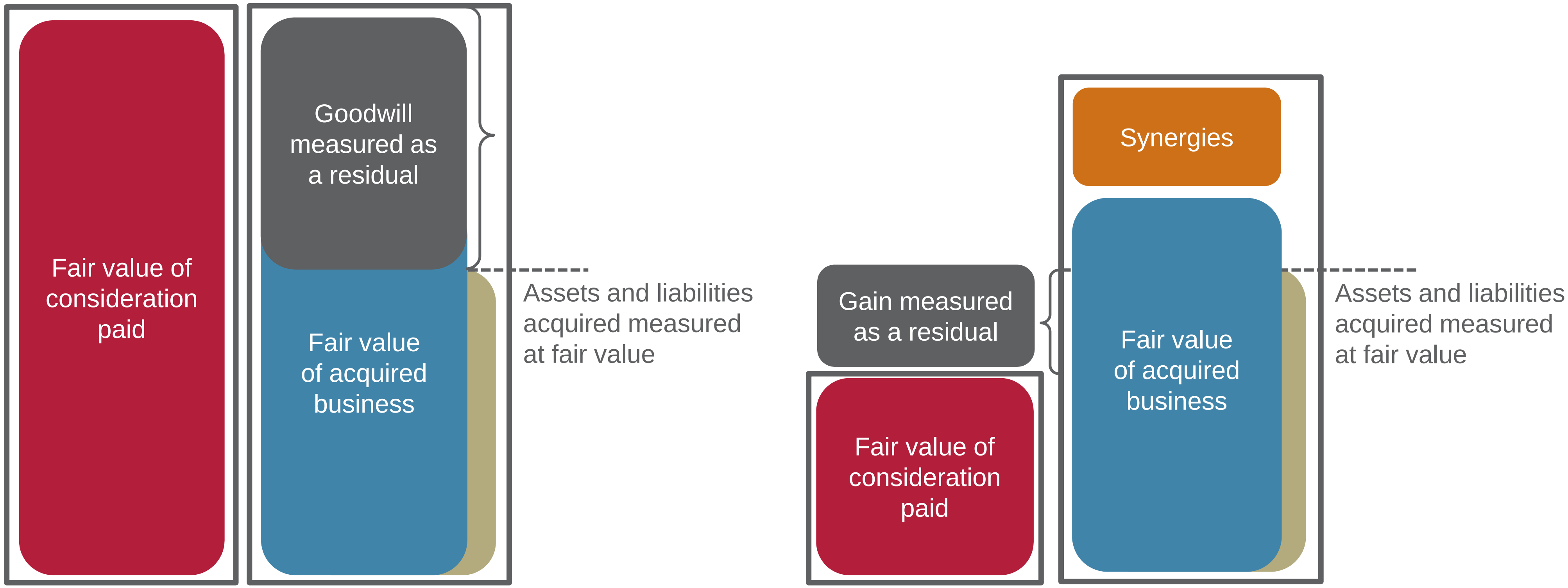
What are the Board's views?

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

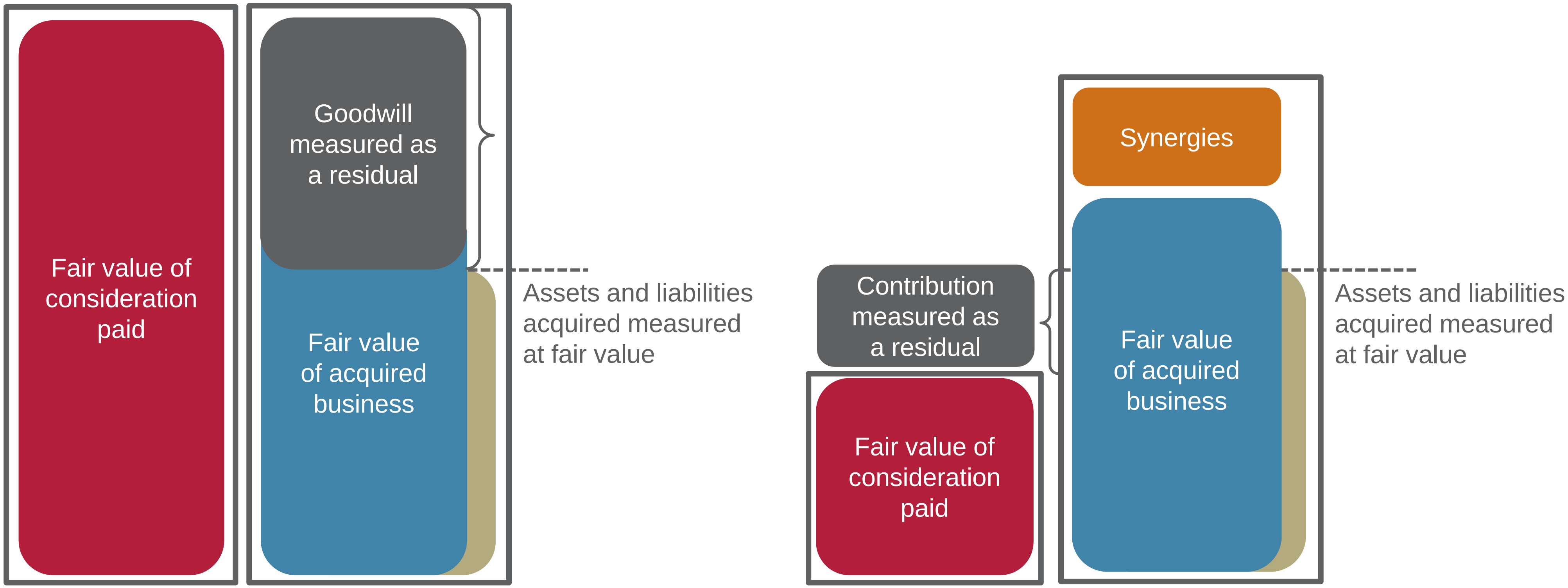
Illustrating the Board's views

Applying the acquisition method to business combinations…



Illustrating the Board's views

…and to business combinations under common control



How to apply a book-value method

What are the Board's views?

A single book-value method to be specified in IFRS Standards

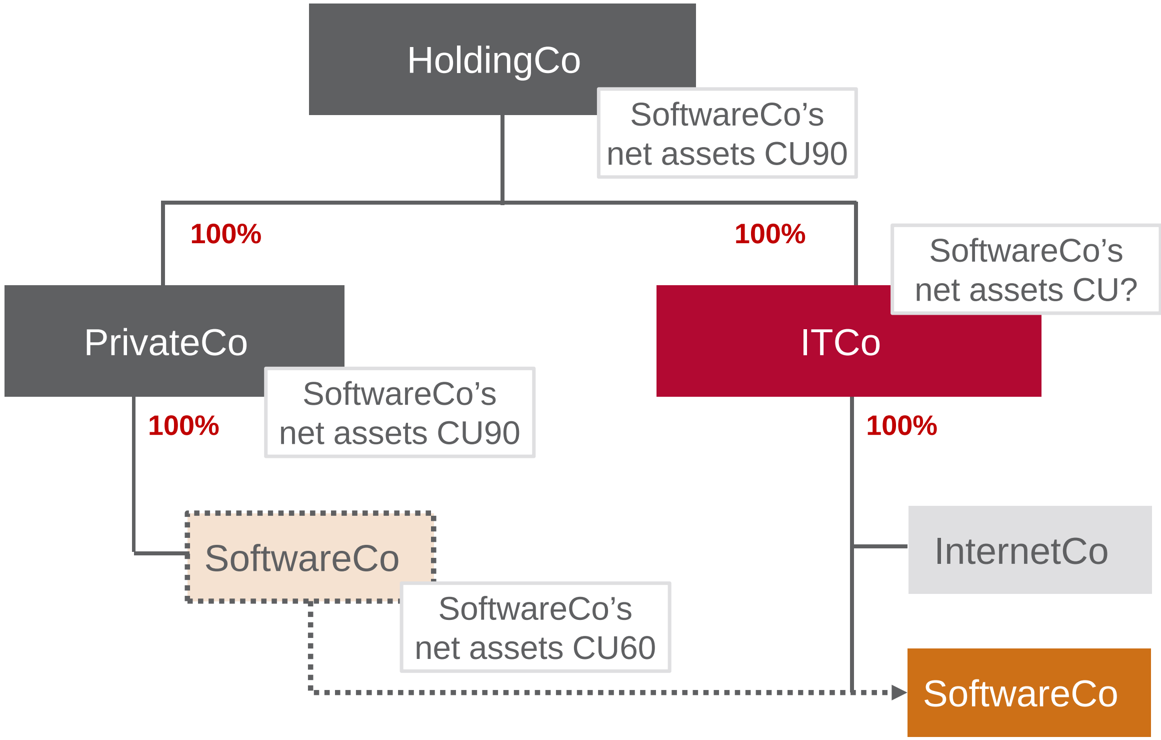
Assets and liabilities received	Measure at transferred company's book values
Consideration paid	Generally measure at book value
Transaction costs	Generally recognised as an expense
Difference	Recognise as an increase or decrease in equity
Pre-combination information	Include the transferred company prospectively, without restatement
Disclosure	A subset of IFRS 3 disclosure requirements and the difference in equity

Illustrating the Board's views

Which book values to use?

- SoftwareCo's assets and liabilities might be recognised at different book values by different companies.
- For example, PrivateCo could have acquired SoftwareCo in a business combination, recognising SoftwareCo identifiable assets and liabilities at fair value, and recognising goodwill.

The Board's view is that the transferred company's book values should be used.



Illustrating the Board's views

If a retrospective approach is applied, pre-combination information is restated.

Combination date

	30 June 20X1 profit (CU)	31 December 20X1 profit (CU)	30 June 20X2 profit (CU)	31 December 20X2 profit (CU)
InternetCo	5	4	3	6
SoftwareCo	16	20	24	30
ITCo	21	24	27	36

Receiving company's consolidated financial statements for previous periods include the transferred company and so present a group that did not exist at that time.

Illustrating the Board’s views

The Board’s view is that the receiving company should use a prospective approach.

Combination date

	30 June 20X1 profit (CU)	31 December 20X1 profit (CU)	30 June 20X2 profit (CU)	31 December 20X2 profit (CU)
InternetCo	5	4	3	6
SoftwareCo				30
ITCo	5	4	3	36

Receiving company’s consolidated financial statements for previous periods do not include the transferred company and so present the group that existed at that time.

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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