

IFRS[®] Foundation

Business Combinations under Common Control

12th Annual AOSSG Meeting

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Agenda

Introduction

Which measurement method to apply

How to apply the acquisition method

How to apply a book-value method

Key takeaways

Next steps



Introduction

Why are we doing this project?

Business combinations under common control are not addressed by IFRS Standards



Diversity in practice

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

Fill the gap in IFRS Standards



Which transactions?

Transfers of businesses between companies under common control



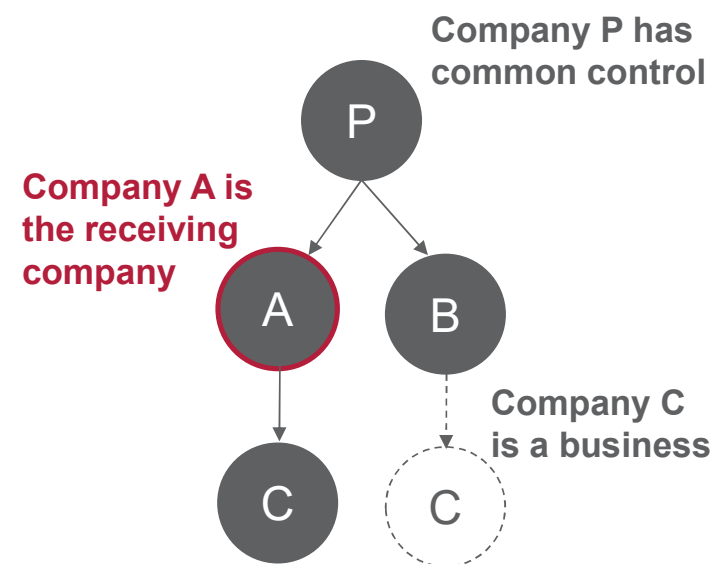
Which company?

Receiving company to which the business is transferred



Which financial statements?

Consolidated, separate or individual financial statements



Our focus

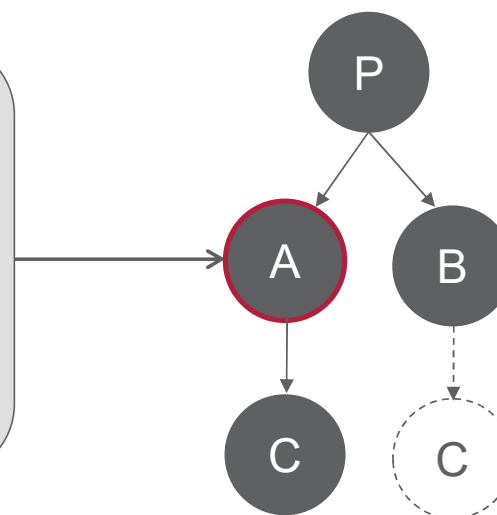
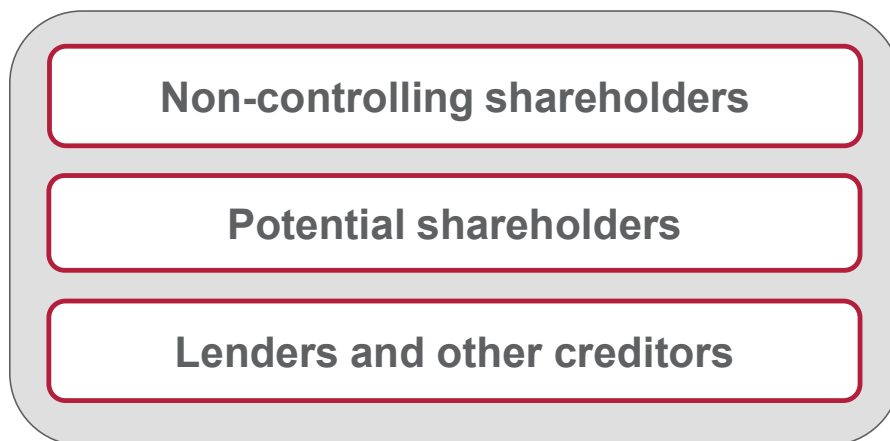


Common information needs of the primary users of the receiving company's financial statements

Nature of transactions

Composition of primary users

Subject to the cost-benefit trade-off



A grayscale world map with a grid of latitude and longitude lines. Overlaid on the map are several curved, semi-transparent gray bands and dotted lines that sweep across the globe from the bottom left towards the top right. The text "Which measurement method to apply" is centered on the right side of the map.

Which measurement method
to apply

The IASB's preliminary views

Which measurement method to apply

 **No one size fits 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

What have we heard in initial consultations?



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



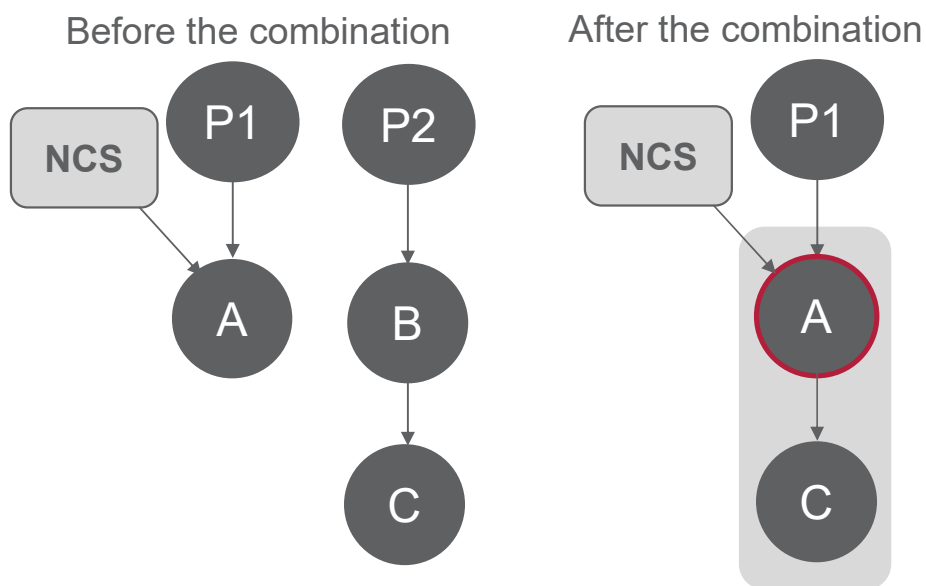
Use a book-value
method when non-
controlling shareholders
are not affected



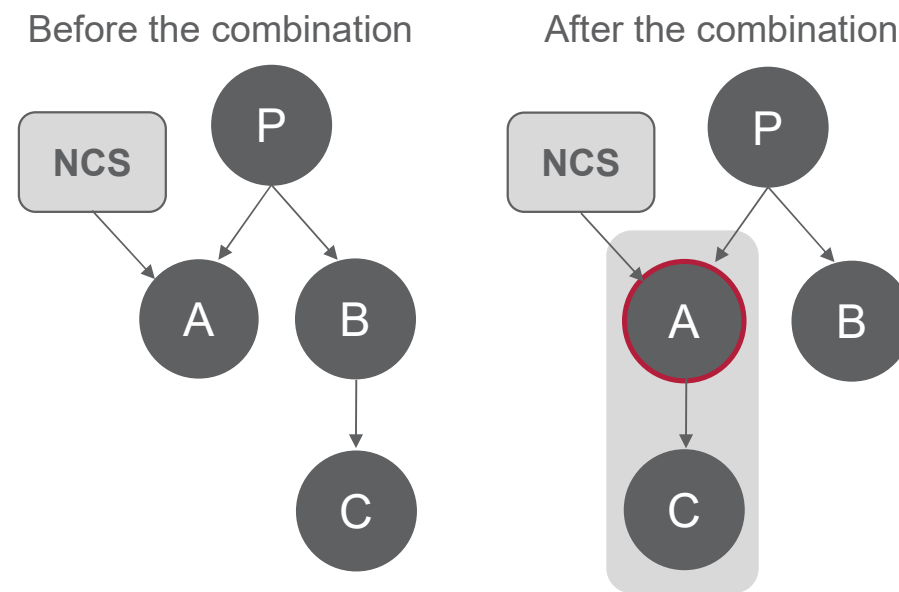
Use the acquisition
method when non-
controlling shareholders
are affected

Why focus on non-controlling shareholders?

Business combination



Business combination under common control



Similar to combinations covered by IFRS 3 *Business Combinations*

Nature of transactions

Composition of primary users

The cost benefit trade-off

What are the exception and the exemption?

Receiving company's shares are publicly traded

Costs are presumed to be justified

Require the acquisition method

Receiving company's shares are privately held

Costs may or may not be justified

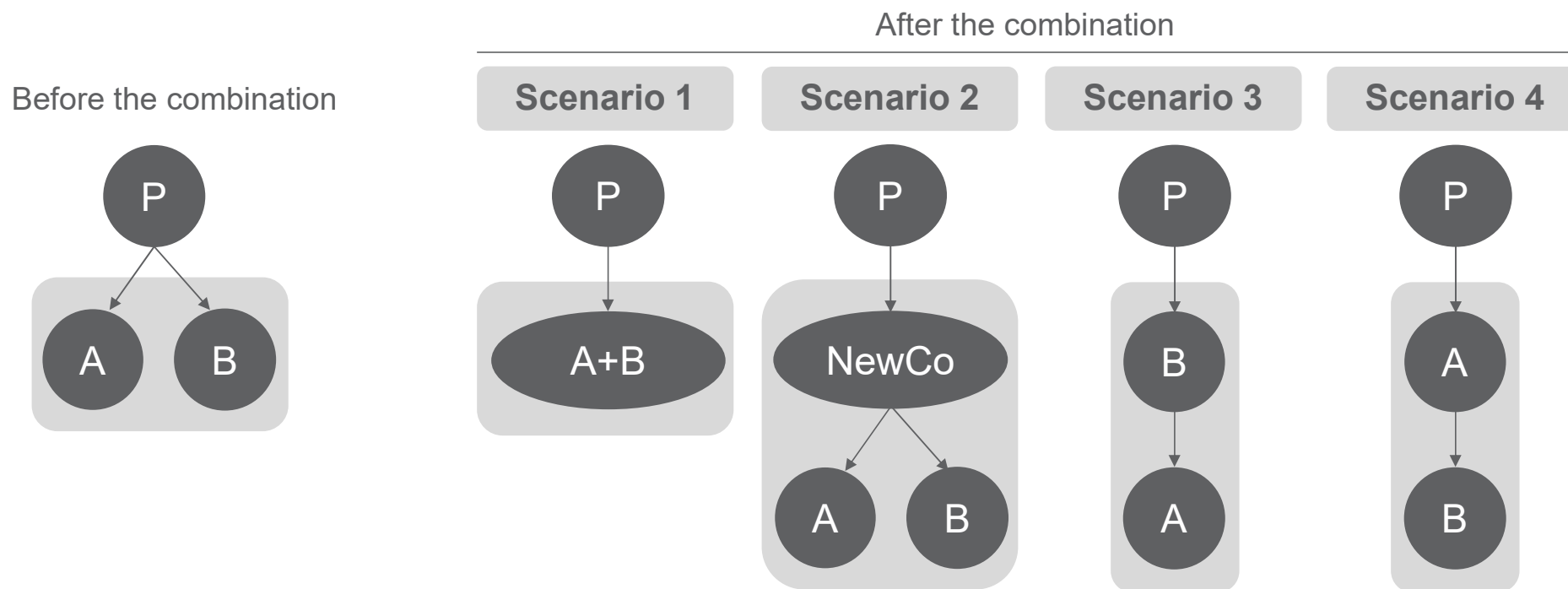
Permit a book-value method if non-controlling shareholders do not object

The exemption from the acquisition method

Require a book-value method if non-controlling shareholders are the company's related parties

The exception from the acquisition method

Combinations between wholly-owned companies



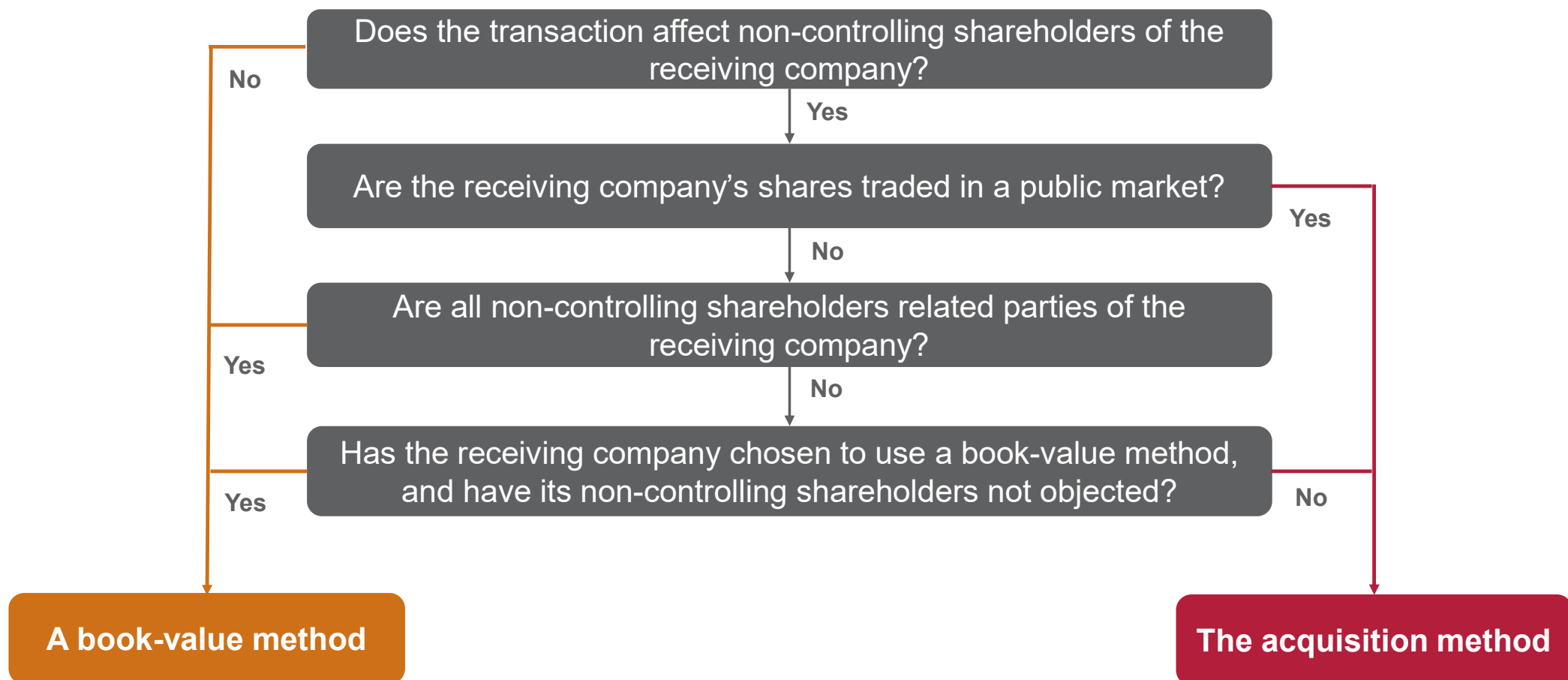
Different from combinations covered by IFRS 3 *Business Combinations*

Nature of transactions

Composition of primary users

The cost benefit trade-off

How to determine which method to use?

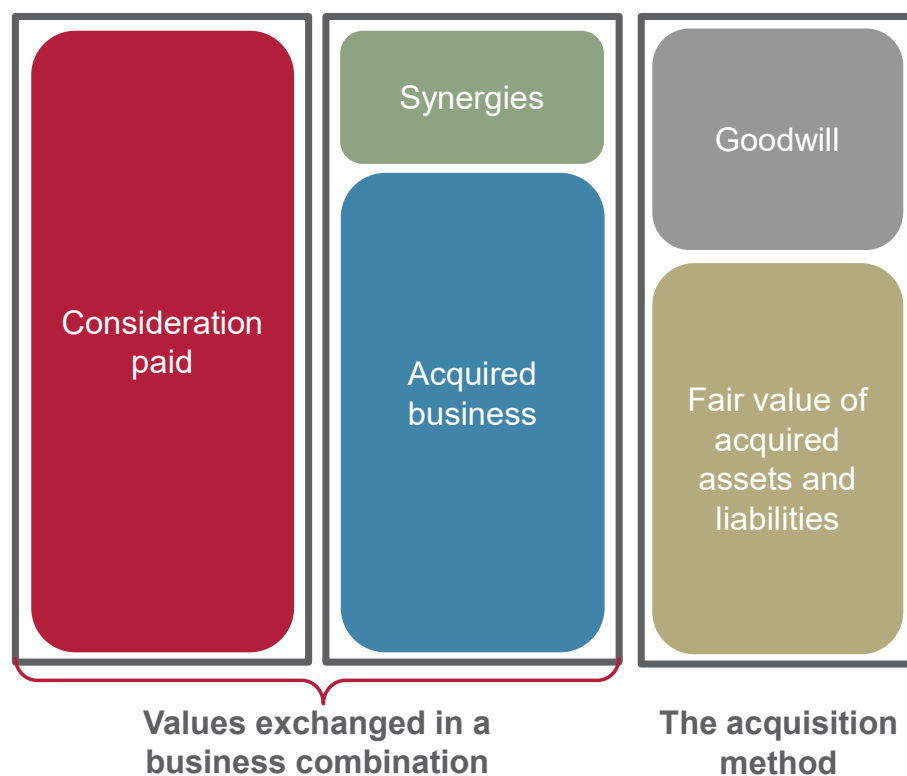


A dark gray background featuring a faint world map. Overlaid on the map are several curved, concentric lines that sweep across the frame from the bottom left towards the top right. These lines include solid gray bands and dotted white lines, creating a sense of global connectivity and movement.

How to apply the acquisition method

Overview of the acquisition method

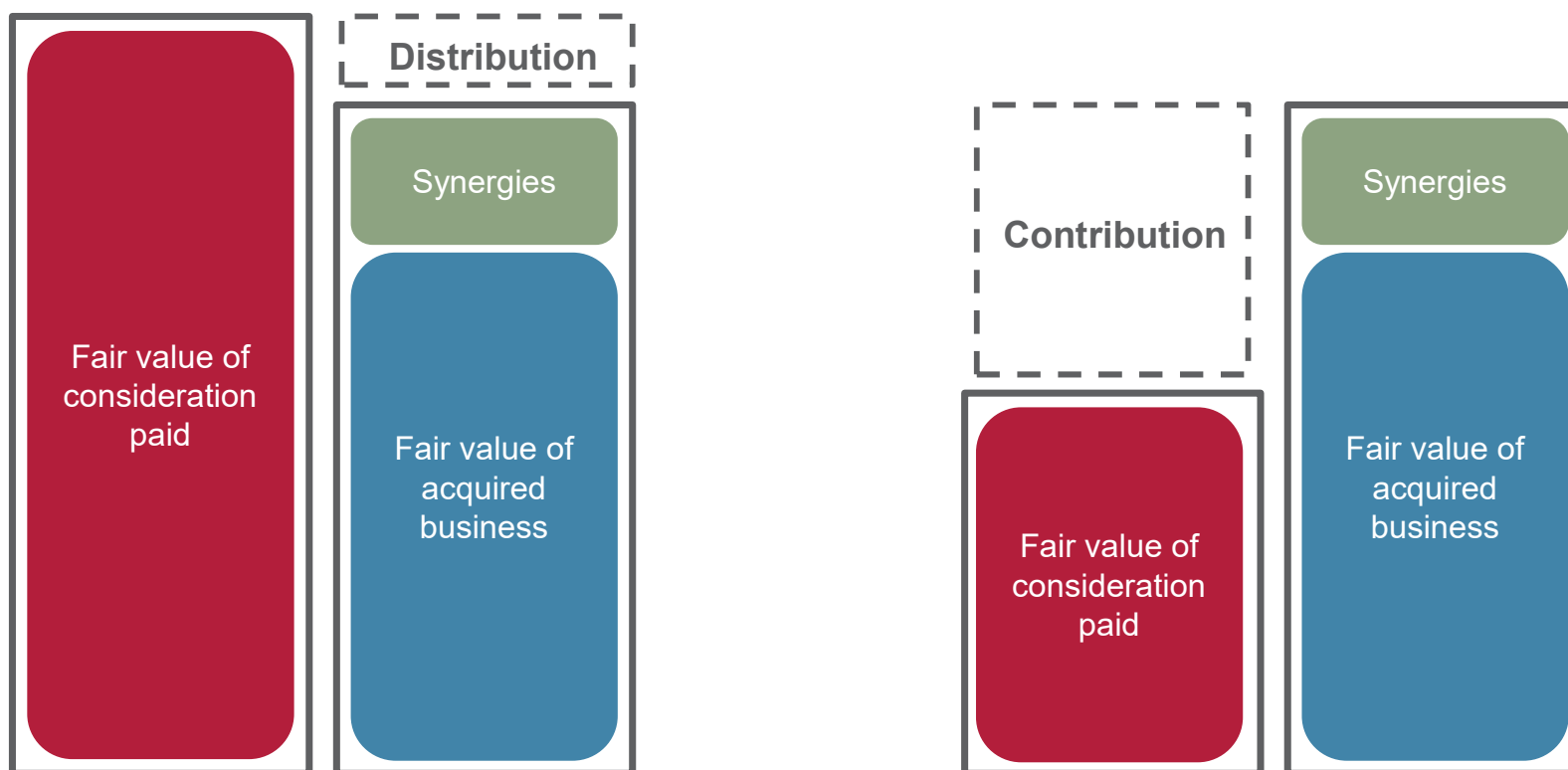
Business combination covered by IFRS 3



- In a rare case of a 'bargain purchase', a gain is recognised
- Combining companies are combined from the combination date

What is the issue?

What if consideration is higher or lower than in an arm's length transaction?



What have we heard in initial consultations?



Distributions are unlikely in transactions that affect non-controlling shareholders due to regulation



The acquisition method should be applied without modifications



Distributions would be difficult to measure



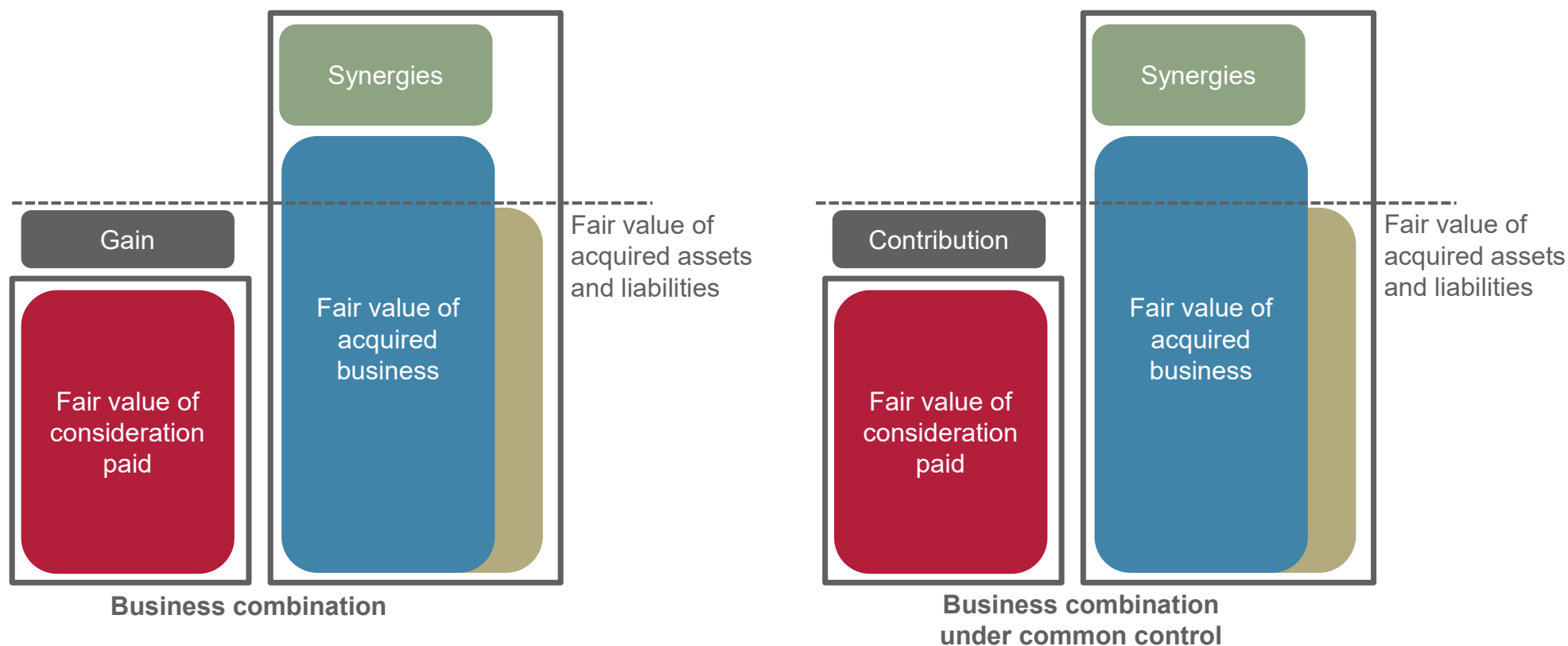
Investors and analysts need information to help them make their own assessments of the transaction price



Controlling party is unlikely to allow transfer of wealth to non-controlling shareholders

How to measure a contribution?

Apply the existing mechanics in IFRS 3



The IASB's preliminary views

How to apply the acquisition method



General principle

Apply the acquisition method as set out in IFRS 3



Special feature

Recognise a contribution in a 'bargain purchase'



Disclosure

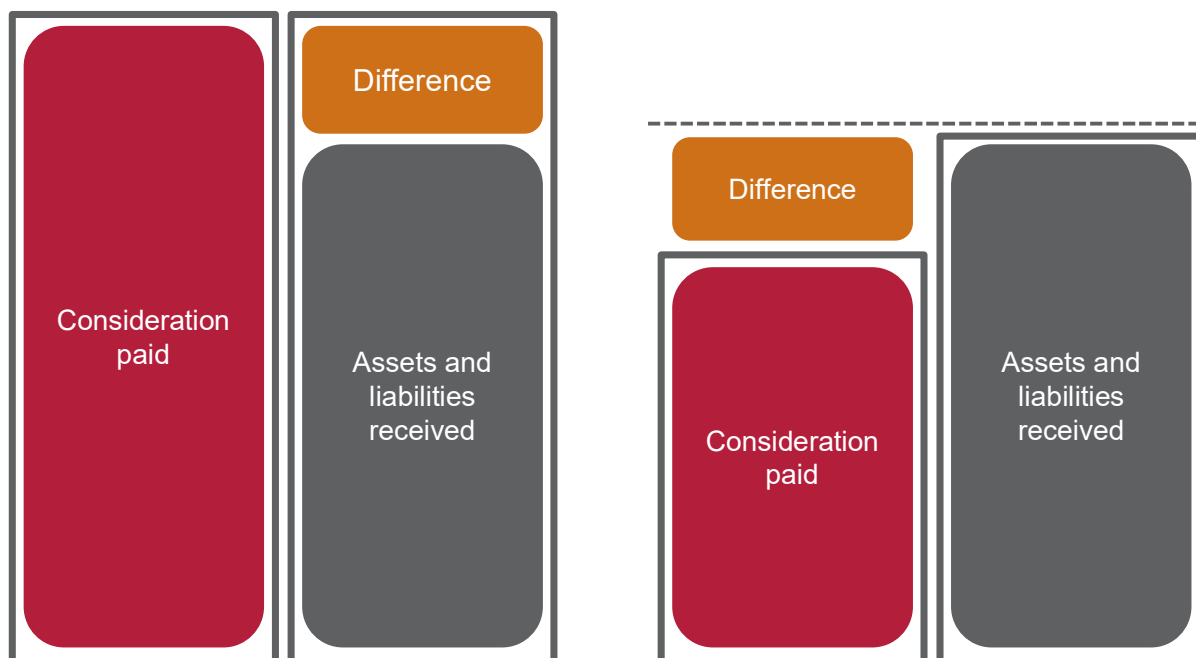
Disclose information about the transaction price

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How to apply a book-value method

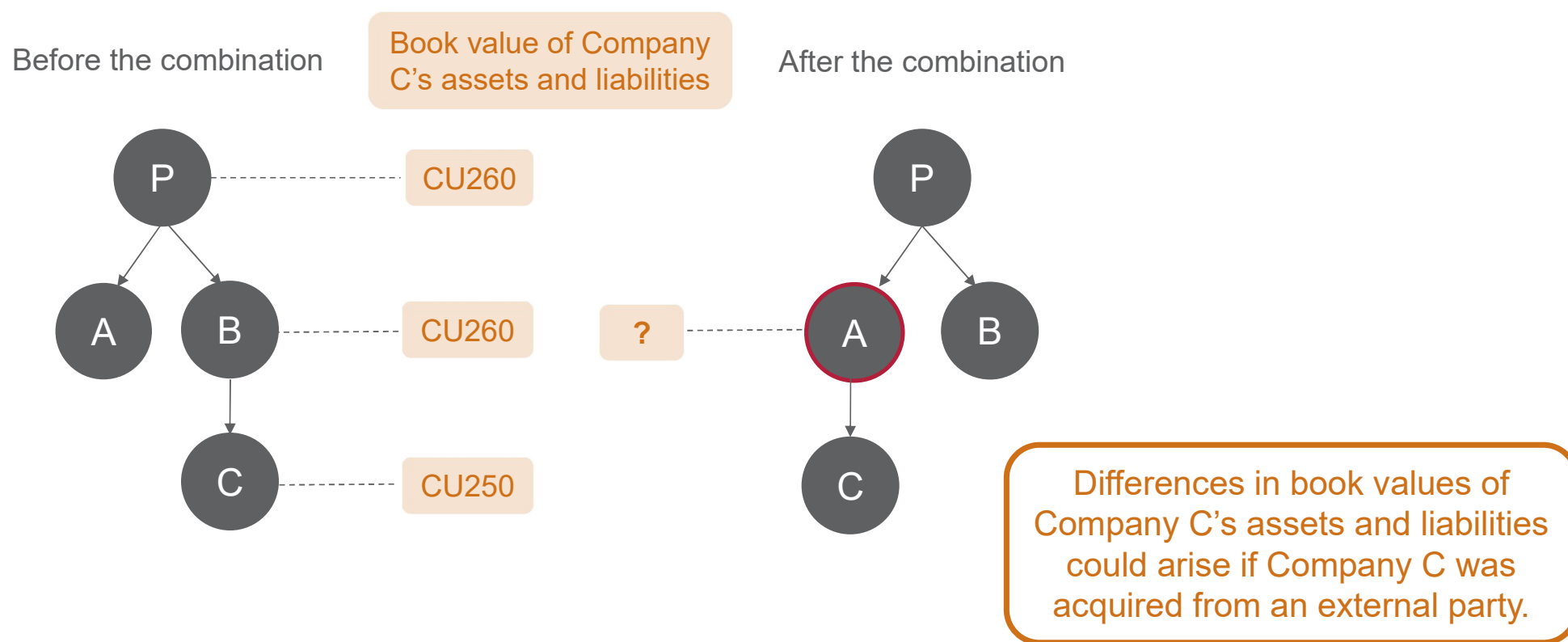
Overview of a book-value method

Diversity in practice



- From which date to combine the companies and how to provide pre-combination information?

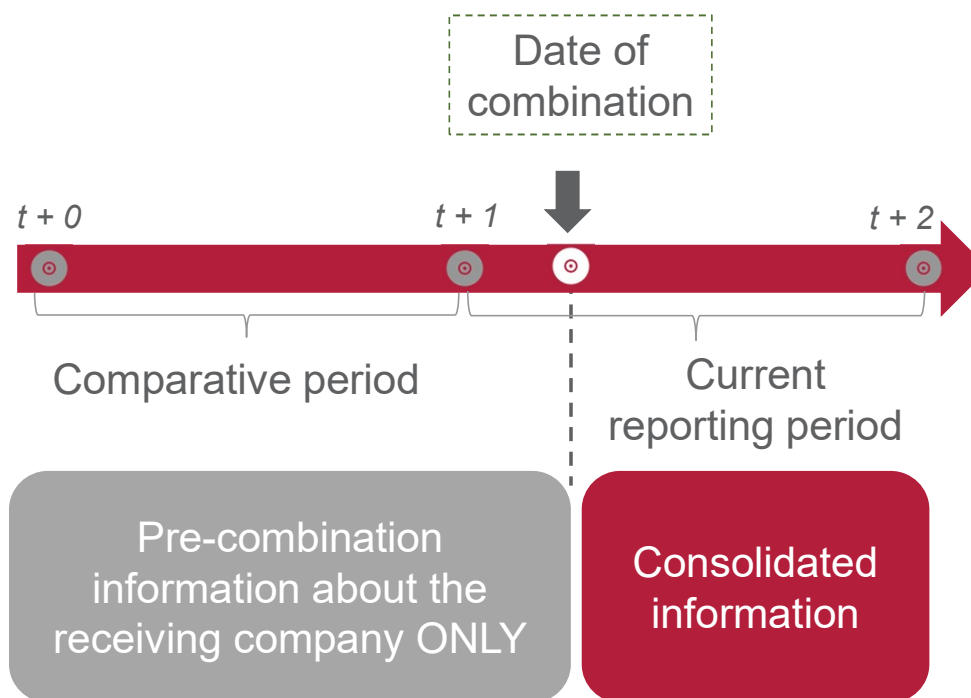
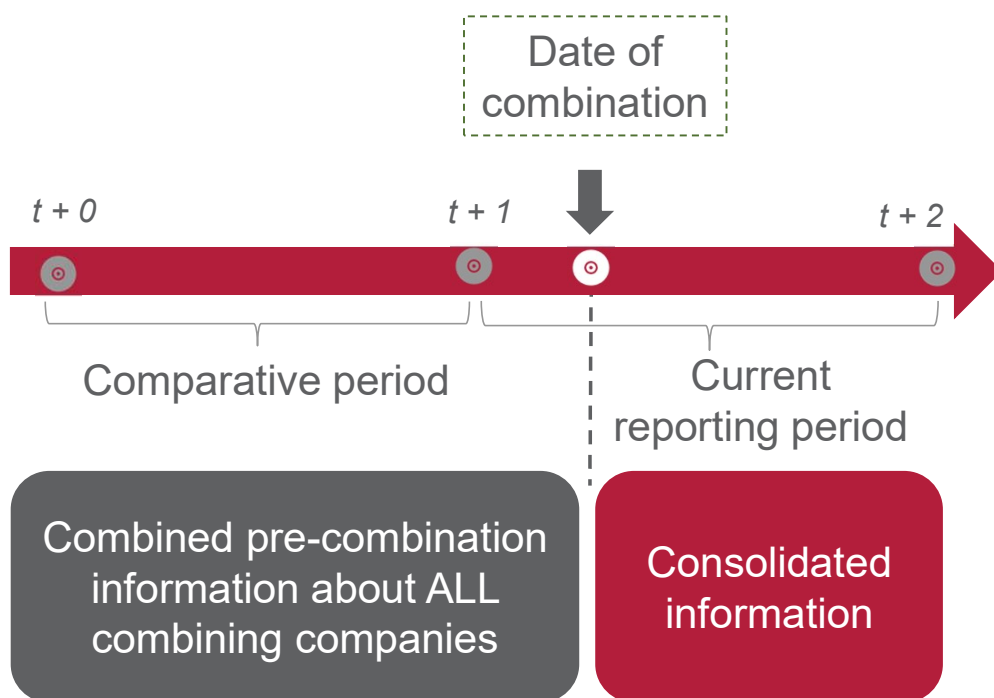
Book values—what is the issue?



Pre-combination information—what is the issue?

Combine from the comparative period

Combine from the date of combination



What have we heard in initial consultations?

Diverse views on whether to measure consideration at fair value or book value



Always use a book-value method

Book values reported by the controlling party

Pre-combination information for all combining companies



Always use the acquisition method, subject to the cost-benefit trade-off

Diverse views on which book values to use

Pre-combination information for the receiving company



The acquisition method in some cases and a book-value method in other cases

Diverse views on which book values to use

Diverse views on pre-combination information

Recognise in equity the difference between consideration and assets and liabilities

The IASB's preliminary views

How to apply a book-value method



Consideration paid

Generally measure at book value



Assets and liabilities received

Measure at transferred company's book values



Difference

Recognise in equity



Pre-combination information

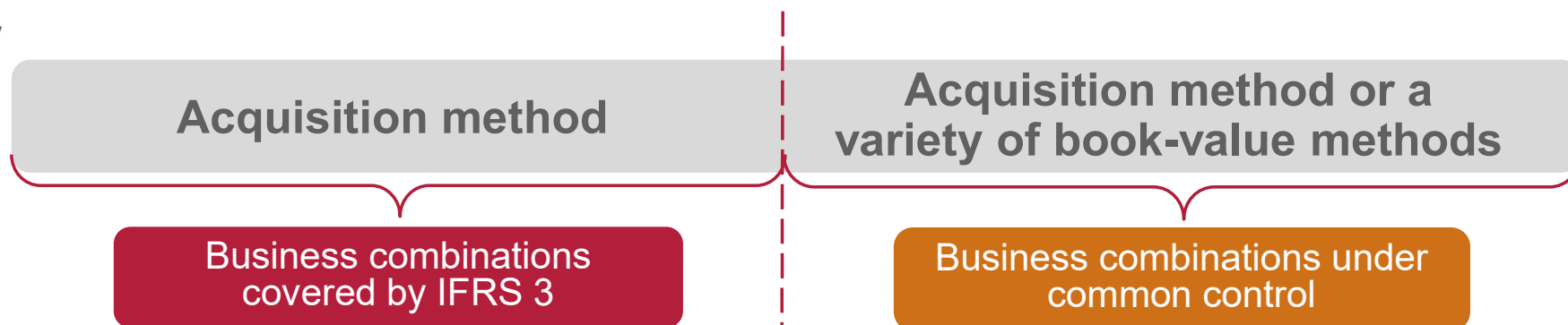
Provide about the receiving company only

A grayscale world map is centered in the background. Overlaid on the map are several concentric, semi-transparent curved lines that sweep across the globe from the bottom left towards the top right. A grid of dotted lines representing latitude and longitude is also visible.

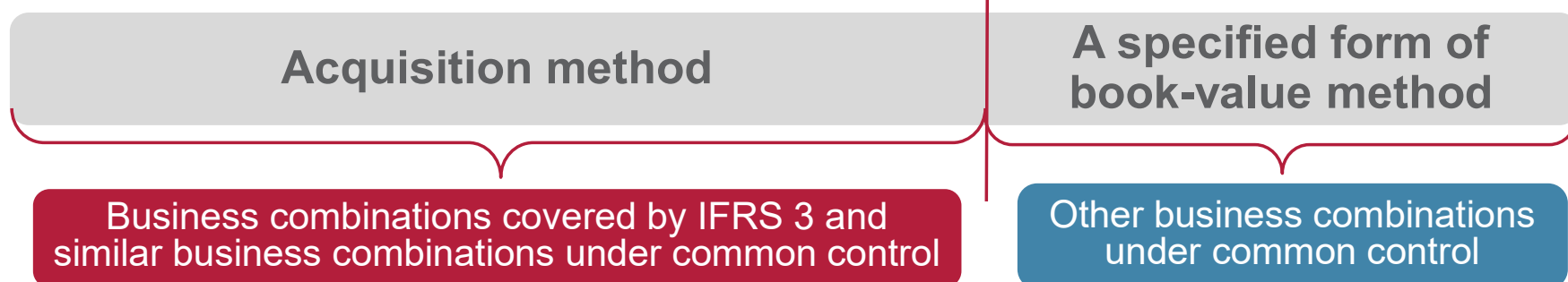
Key takeaways

Effect of the IASB's preliminary views

Today



The IASB's preliminary views



What improvements are we aiming for?



Better information about business combinations under common control



Relevance

Useful information is provided about such combinations



Comparability

Similar transactions are reported in a similar way



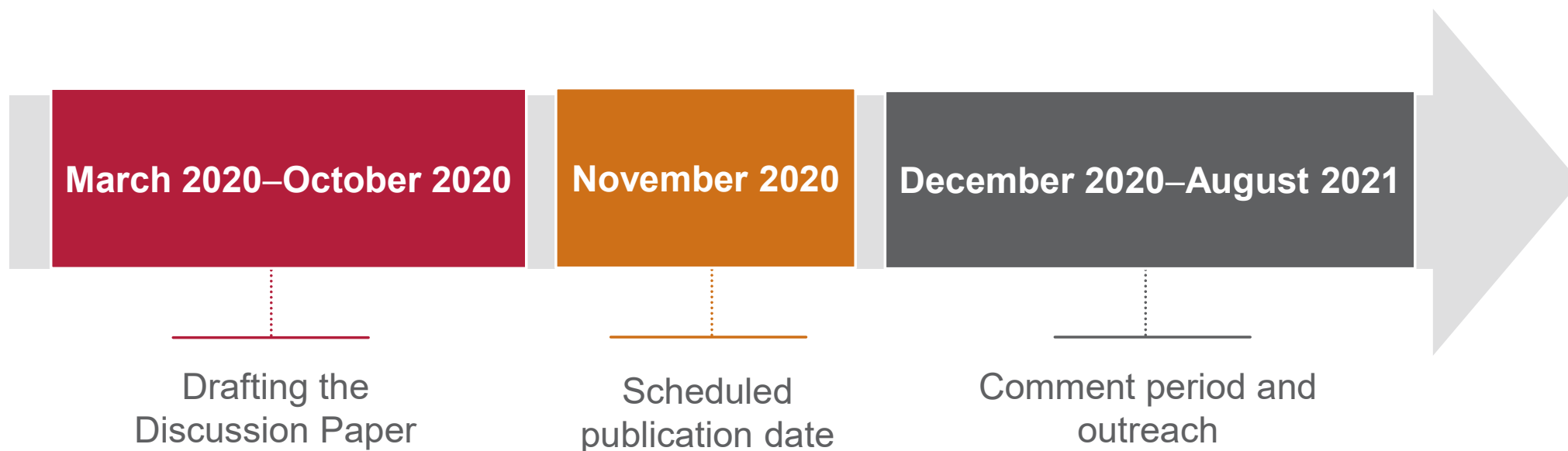
Transparency

Accounting method is specified by IFRS Standards

A grayscale world map is centered on the Atlantic Ocean, showing the continents of North America, South America, Europe, Africa, and Australia. The map is overlaid with a grid of dotted lines representing latitude and longitude. In the bottom-left corner, there are three overlapping, semi-transparent curved bands that sweep across the map from the bottom-left towards the top-right.

Next steps

Next steps and how can you help?



For more details about the project, please refer to the project update *Combinations of businesses under common control—one size does not fit all* posted in the IFRS website.



Questions?

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