



THE 12th ANNUAL AOSSG MEETING
*Joining hands in regional cooperation and the development
of IFRS*
November 23-25, 2020, Virtual Meeting

Business Combinations under Common Control Education Session

Ernest Lee, Hong Kong Institute of CPAs
Yulia Feygina, International Accounting Standards Board

Recap of previous discussions

2016

AOSSG: Understanding the conceptual rationale for the accounting for BCUCC

2017

IFASS: Mergers and acquisitions: the premise for separate accounting methods
AOSSG: The predecessor method: how did it begin and how has it evolved

2018

IFASS & ASAF: HKICPA-OIC* investor survey on economic substance of mergers and acquisitions
IFASS: HKICPA-OIC experience in applying the predecessor method in Hong Kong and Italy
AOSSG:

- Accounting based on current values vs predecessor values
- (Sub-working group) Education session on IASB developments

* Organismo Italiano di Contabilità

2019

AOSSG (sub-working group): Education session on IASB developments

November 2020: IASB expects to publish the discussion paper

Objectives of today's session

- Provide an overview of the upcoming Discussion Paper (presented by the IASB staff)
- Inform the project plan and next steps for AOSSG

Overview of the IASB Discussion Paper

(Please refer to Agenda Paper 02B)

Project plan and next steps for AOSSG

Timeline	Major project milestones
November 2020	Conduct education session at the AOSSG annual meeting
March 2021	AOSSG BCUCC sub-working group: obtain preliminary views
Early June 2021	AOSSG BCUCC sub-working group: Obtain comprehensive views, including stakeholder's views
Late June 2021	Consider to present AOSSG views at the ASAF June meeting
July 2021	<ul style="list-style-type: none"> • Obtain comments in writing from AOSSG members • Draft the AOSSG submission
Early August 2021	Circulate the AOSSG submission to AOSSG members for comments
Mid August 2021	Finalise and submit the AOSSG submission to the IASB

Questions for AOSSG members

1. Do you have any questions on the upcoming IASB Discussion Paper on BCUCC?
2. Do you have any comments on the project plan and next steps for AOSSG?
3. What outreach or fieldwork plans do you have for the IASB Discussion paper on BCUCC?

Thank you

Please keep in touch with us and share your views!

HKICPA webpage on BCUCC:

<https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Major-projects/Business-Combinations-under-Common-Control>

E-mail: outreachhk@hkicpa.org.hk

Appendix

Initial feedback from Hong Kong stakeholders

When to use which measurement method

IASB's preliminary views

Receiving company's shares are publicly-traded

The acquisition method should be required for all BCUCC

Receiving company's shares are privately-held

The acquisition method should be required for BCUCC that affect non-controlling shareholders (NCS) of the receiving company

A book-value method is:

- (a) **required** for BCUCC that do not affect NCS of the receiving company
- (b) **required** if all NCS of the receiving company are related parties (exception)
- (c) **permitted** when all NCS of the receiving company have been informed about, and not objected to, the receiving company applying a book-value method (exemption)

Initial feedback received

Preparers: Mixed views

- Some prefer a book-value method for all companies as most BCUCC aim to streamline businesses for the group, and this method would better reflect the overall economics of the transaction
- The receiving company could meet their NCS's needs by providing additional disclosures such as consideration paid and historical financial information of the transferred company
- Others agree with the IASB's preliminary views for receiving companies whose shares are publicly-traded

Practitioners:

- Most agree with the IASB's preliminary views for receiving companies whose shares are publicly-traded; however, further outreach is needed to understand any instances where a book-value method may be more justifiable
- Allow related parties to select the accounting method as companies may already be using the acquisition method for tax reasons and do not see concerns to provide this information to their users
- No significant concerns on the exemption

IASB's preliminary views

Receiving company's shares are publicly-traded

The acquisition method should be required for all BCUCC

Receiving company's shares are privately-held

The acquisition method should be required for BCUCC that affect non-controlling shareholders (NCS) of the receiving company

A book-value method is:

- (a) required** for BCUCC that do not affect NCS of the receiving company
- (b) required** if all NCS of the receiving company are related parties (exception)
- (c) permitted** when all NCS of the receiving company have been informed about, and not objected to, the receiving company applying a book-value method (exemption)

Initial feedback received

Investors:

- Agree with the IASB's preliminary views for receiving companies whose shares are publicly-traded
- No particular concerns on applying a book value method for receiving companies whose shares are privately-held (as NCS usually have good working relationships with companies and can access information outside of the general purpose financial statements easily)

Applying a book-value method

IASB's preliminary views	Initial feedback received
<p><u>Carrying amounts</u> The receiving company should measure the assets and liabilities received using the transferred company's book values</p>	<p>Practitioners:</p> <ul style="list-style-type: none"> • A book-value method would be applied when the BCUCC does not affect NCS or NCS are related parties. Under these cases, the controlling party would be the main user of financial statements and so the controlling party's book values should be used • Book values reported by the controlling party provide more updated and complete information about the transferred company • Further outreach is needed to understand if there are cases where book values reported by the controlling party would provide useful information <p>Investors and preparers: No significant concerns</p>
<p><u>Pre-combination information</u> Pre-combination information should be provided only for the receiving company</p>	<p>Investors: Pre-combination information of the combined entity or the transferred company is useful but could be disclosed in the notes</p> <p>Practitioners and preparers: Pre-combination information of the combined entity is useful in IPO scenarios and in certain group reorganisations</p>

Applying the acquisition method

IASB's preliminary views

- The receiving company is not required to identify, measure and recognise a distribution
- The receiving company should recognise any excess of fair value of the identifiable net assets over the consideration paid as a contribution to equity

Initial feedback received

Investors:

- Conceptually, both amounts should be recognised in equity
- Additional disclosures, e.g. transaction price, fair value of the transferred company and expected synergies, can help assess the amount of distribution and contribution

Practitioners and preparers:

- Mixed views – some agree with the IASB's preliminary views; others consider contribution should be recognised in profit or loss to align with the IFRS 3 requirements
- Some also noted that contribution might be common in certain types of industries, e.g. real estate