Business Combinations under Common Control

IASB discussion paper DP/2020/2

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Welcome

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The views expressed in this presentation are those of the presenters and not necessarily those of the UK Endorsement Board, the International Accounting Standards Board or the IFRS Foundation, nor are they necessarily reflective of any official policy or position.

Business Combinations under Common Control (BCUCC)

- Get involved.

- Formal outreach activities

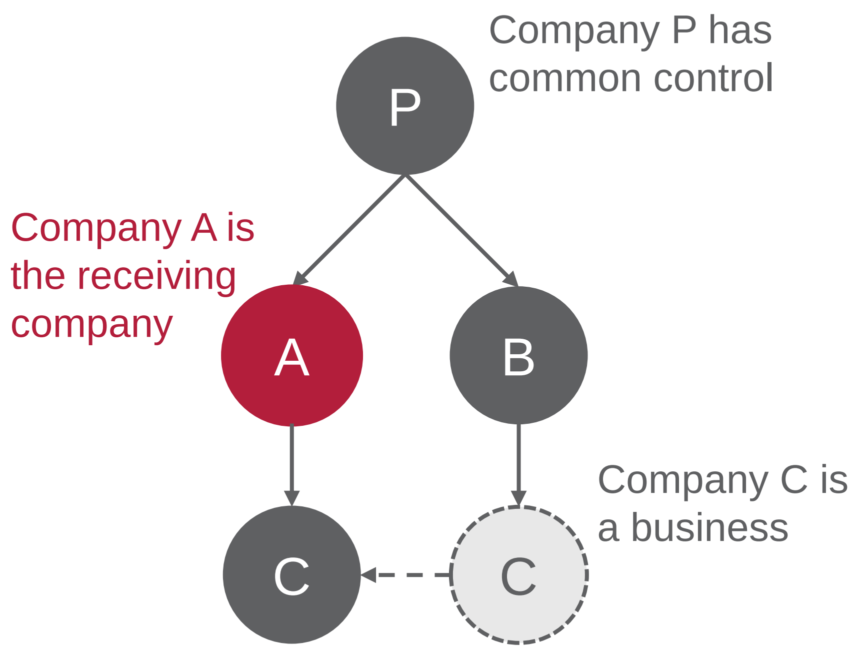
UKEB Survey	From April 2021
Draft Comment Letter feedback	From June 2021

- IASB deadline for comments is 1 September 2021.

- Email us with thoughts at any time at Contact@endorsement-board.uk

Introducing the Discussion Paper

IFRS 3 *Business Combinations* requires the acquisition method.
Business combinations under common control are not addressed by IFRS standards.



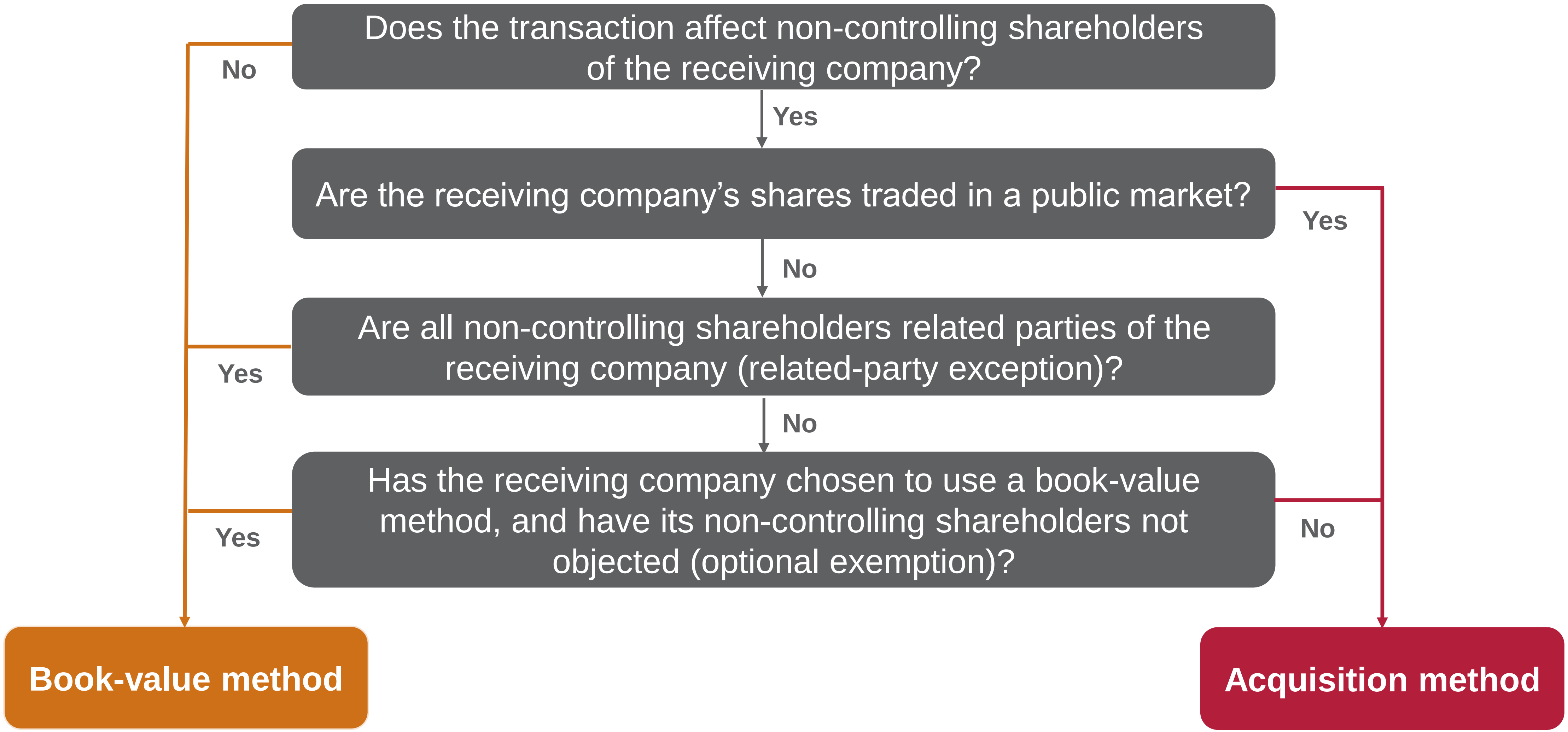
Similar transactions reported differently

The acquisition method or a book-value method

Such combinations are common

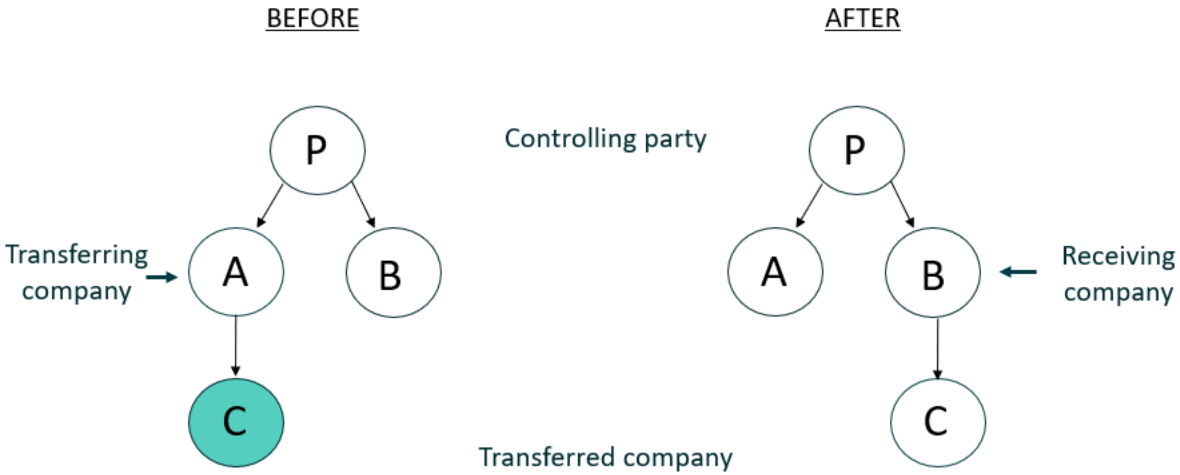
Particular concern of securities regulators

The IASB’s preliminary view
How the receiving company should select the method



Introduction to the book value method

- The receiving company accounts for the assets & liabilities acquired at book value.
- Whose book value? The book value of the transferred company (company C below).
- Non cash consideration – generally measured at book value. Different (flexible) approach for own shares.
- Pre-combination information – no restatement.



Introduction to the acquisition method

- Method is generally the same as for a business combination covered by IFRS 3.
- Assets & liabilities acquired are recorded at fair value.
- Goodwill arises if the consideration is greater than fair value of those assets and liabilities.

The IASB's preliminary view

How the receiving company should apply the method

	Acquisition method	Book-value method
Overall summary	Generally apply as set out in IFRS 3 *Business Combinations*	A single book-value method to be specified in IFRS Standards
Assets and liabilities received	Measure at fair value. Recognise all identifiable assets and liabilities received	Measure at book value. Recognise only previously recognised assets and liabilities
Consideration paid	Measure at fair value	Measure at book value
Difference between consideration paid and assets and liabilities received	Recognise any excess as goodwill and any shortfall as a contribution to equity	Recognise as a decrease or increase in equity
Pre-combination information	Do not restate to include the transferred company	Do not restate to include the transferred company

Introduction to disclosure

- Currently, IFRS 3 disclosure requirements do not apply to BCUCC.

- The discussion paper suggests:

    - Acquisition method – apply IFRS 3 disclosure requirements in full and provide additional information about the transaction price applying IAS 24 *Related Party Disclosures*.

    - Book value method – apply a reduced set of IFRS 3 disclosure requirements.

- Disclosures are only made at receiving company level (ie would not appear in the consolidated accounts of ParentCo.)

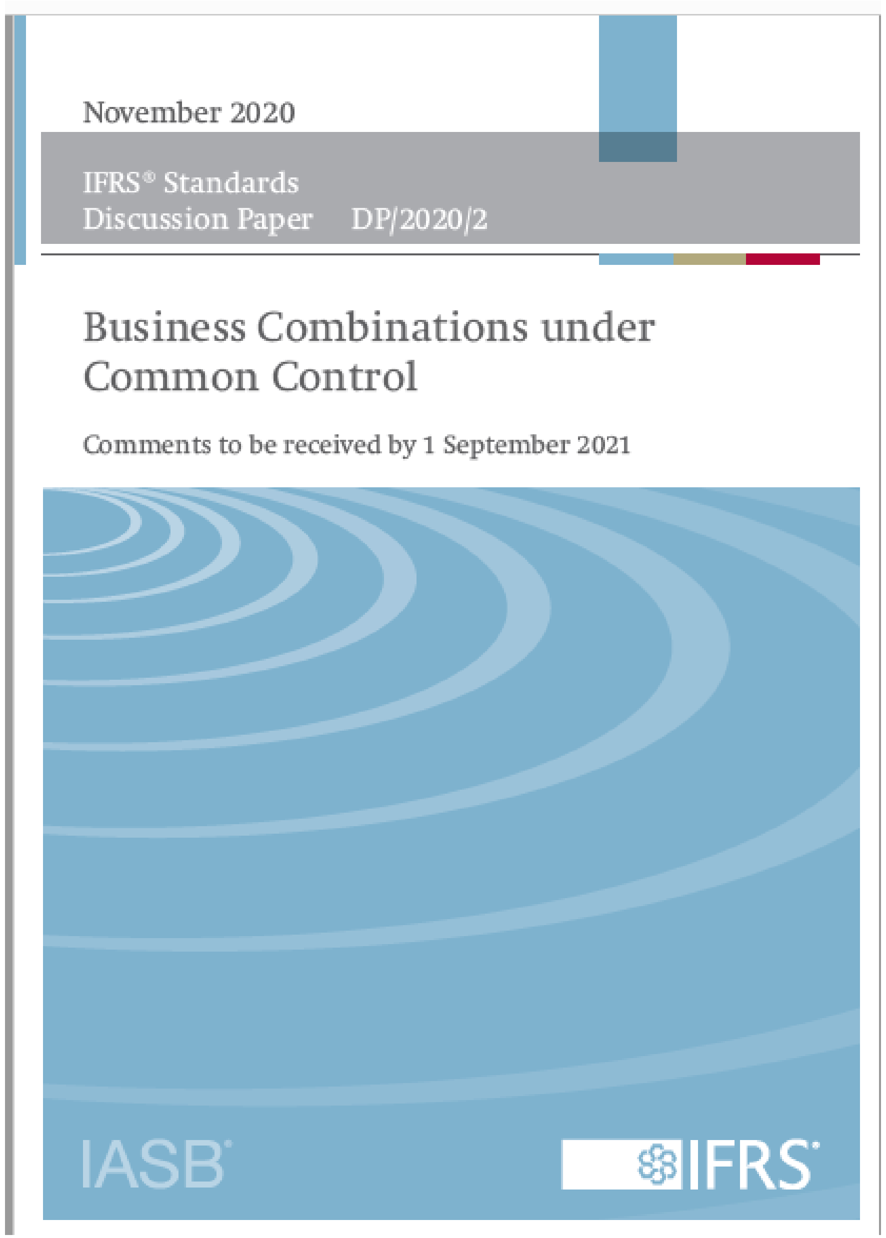
Introduction to disclosure – book value method

- Aim is to help users evaluate the nature and financial effect of the combination, and understand the expected benefits

- Requires a subset of the IFRS 3 disclosures including:
    - Company name, description, date, voting interests, reason for combination, how the receiving company obtained control.
    - Recognised amounts of each major class of assets & liabilities acquired, including those arising from financing activities and defined benefit pension liabilities.
    - The carrying amount of any non controlling interest in the transferred company.
    - The amount and explanation of any gain or loss recognised in the current reporting period that relates to assets or liabilities received.
    - Information about combinations that occur after the end of the reporting period but before the financial statements are authorized.

- This information is also required in aggregate for individually immaterial combinations that are material collectively.

Discussion



November 2020

IFRS® Standards
Discussion Paper DP/2020/2

Business Combinations under Common Control

Comments to be received by 1 September 2021

IASB

IFRS

BCUCC Timeline

Formal outreach activities

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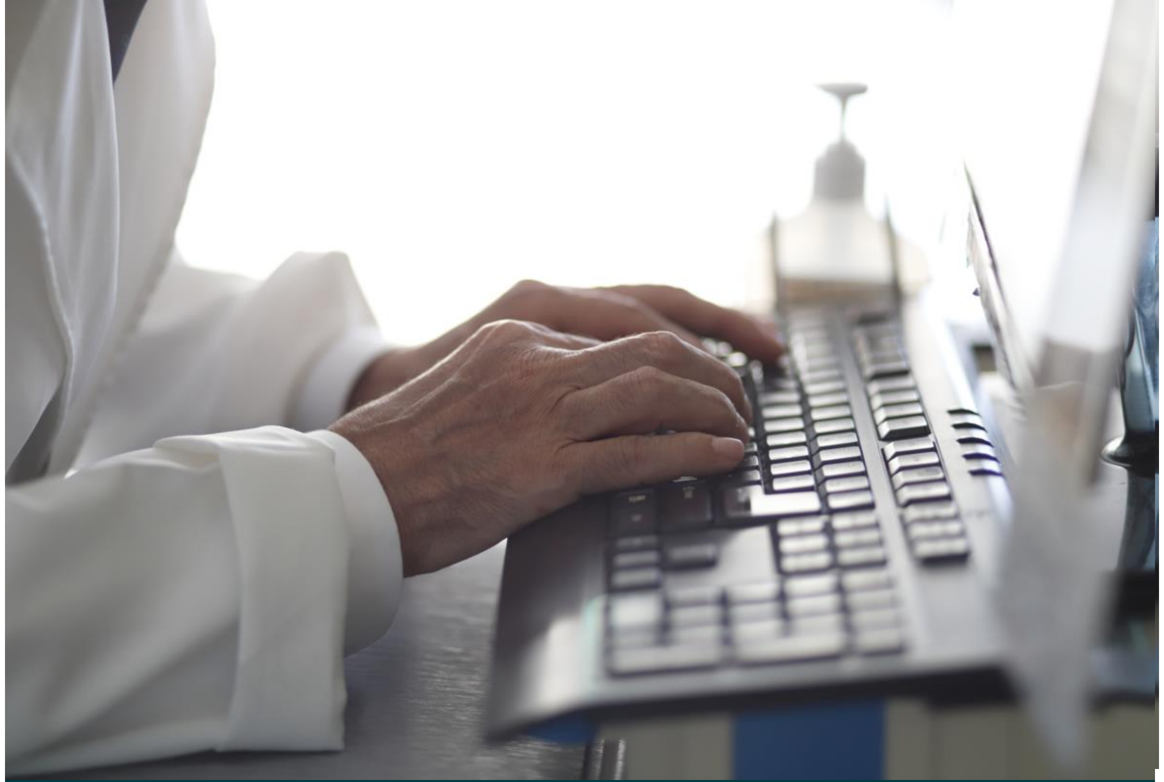
No need to wait: get in touch today at Contact@endorsement-board.uk



IASB resources

The discussion paper

https://cdn.ifrs.org/-/media/project/business-combinations-under-common-control/discussion-paper-bcucc-november-2020.pdf

A one page summary of the preliminary views.

https://cdn.ifrs.org/-/media/project/business-combinations-under-common-control/factsheet-dp-bcucc-nov-2020.pdf

A project snapshot explaining the preliminary views.

https://cdn.ifrs.org/-/media/project/business-combinations-under-common-control/snapshot-dp-bcucc-november-2020.pdf

A webinar on the preliminary views (January 2021).

https://www.ifrs.org/projects/work-plan/business-combinations-under-common-control/webinar-explaining-discussion-paper-business-combinations-under-common-control/

What do you think?

- Do you use IFRS and do you expect to be affected?
- To what extent do ideas in the discussion paper match your existing practices in this area?
- Do you agree/disagree with the preliminary views you have heard today?
- Do you see any practical difficulties in implementing these preliminary views?
- What are the benefits for investors and creditors?

We welcome UK stakeholder views on the topics covered today.

Please email with your questions, views or if you would like to be involved in future outreach activities.

Contact Info

Email: BCUCC@endorsement-board.uk

Website: https://www.endorsement-board.uk/

UKEB UK Endorsement Board