



Business Combinations under Common Control

Board Education Session
on IASB DP/2020/2

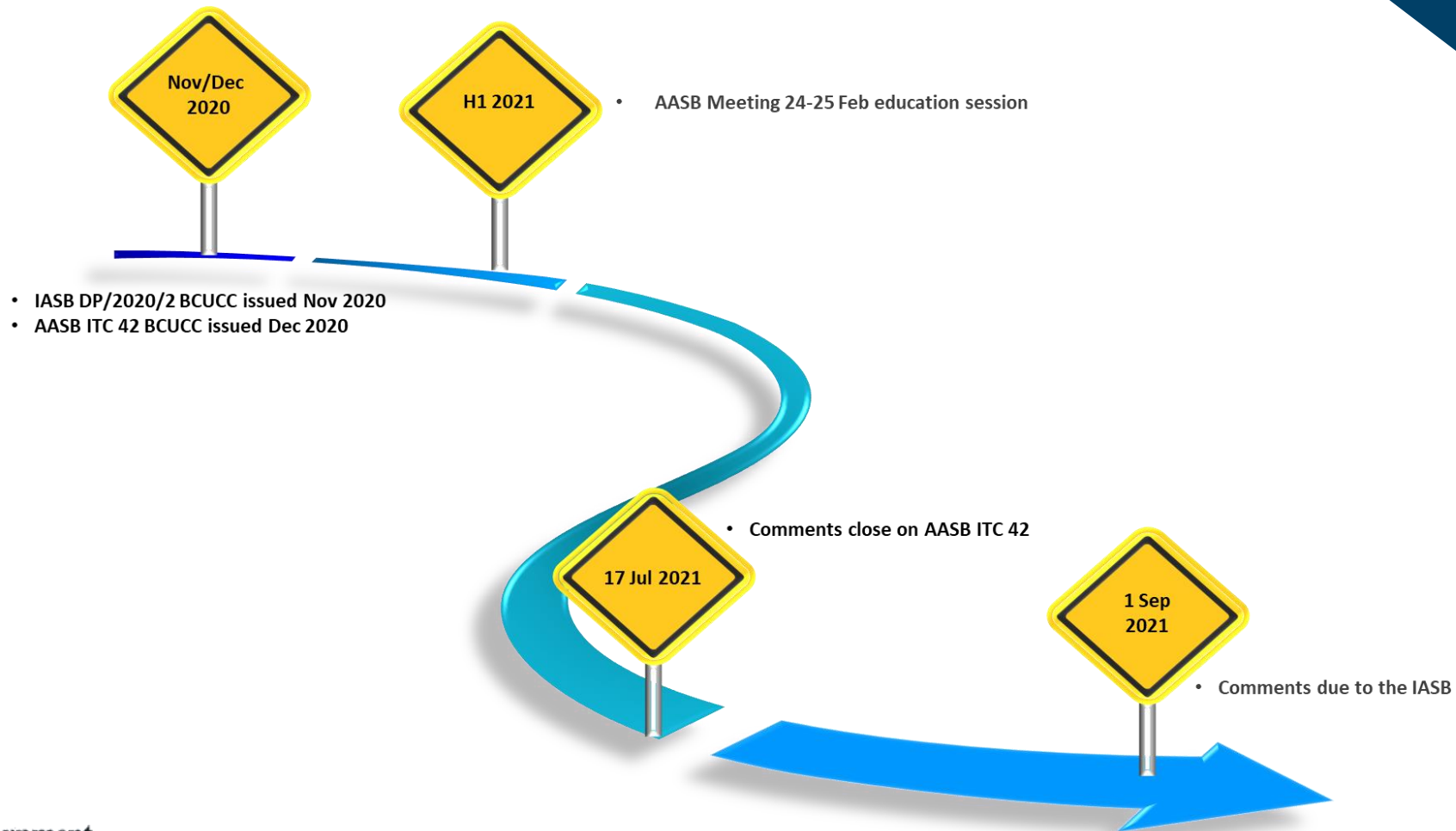
AASB Meeting
24-25 February 2021



Australian Government

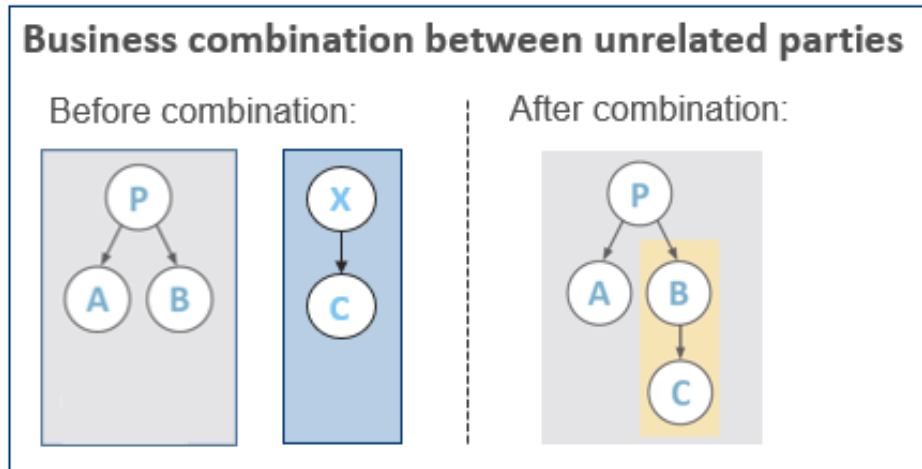
Australian Accounting Standards Board

IASB DP/2020/2 Business Combinations under Common Control

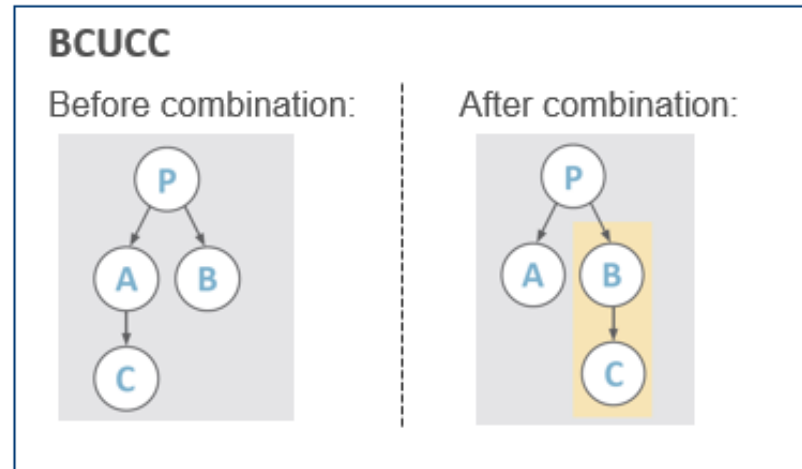


Issue addressed by the DP

DP proposes alternatives for the accounting by the receiving entity (B) in a BCUCC transaction



✓ **IFRS 3 applies** – B accounts for C's assets and liabilities at fair value (acquisition method)



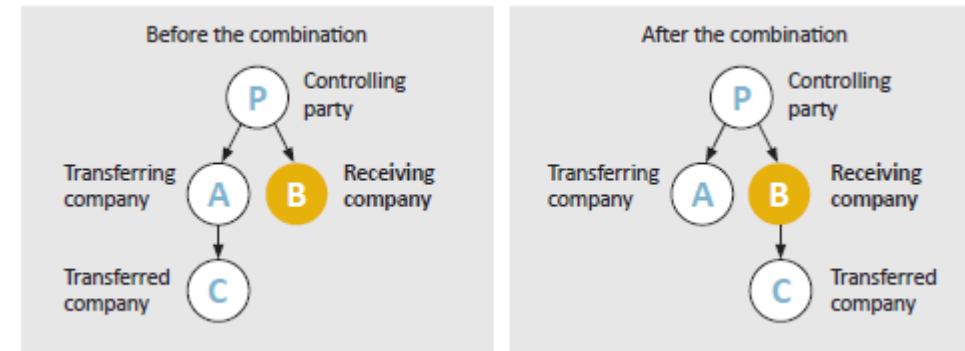
✗ **Outside the scope of IFRS 3** – no specific accounting requirements



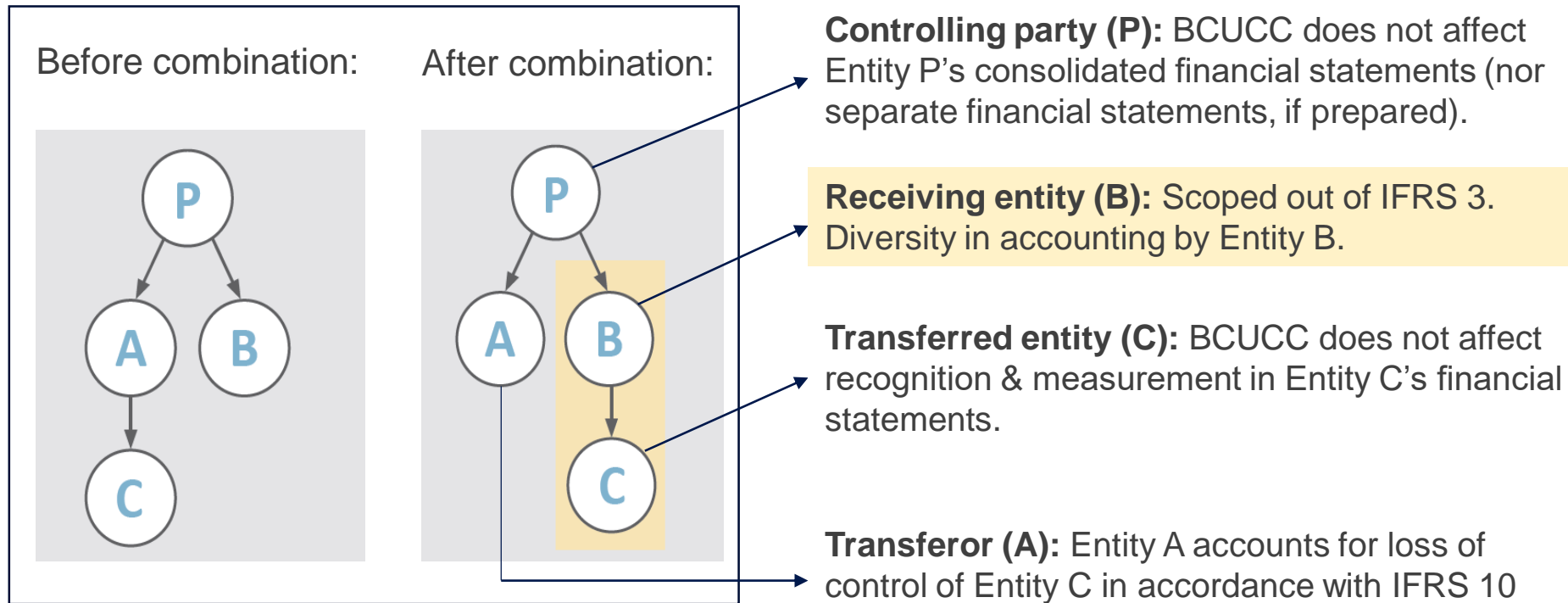
Diversity in practice

	Acquisition method	Book-value method
How does Company B measure the assets and liabilities of Company C received in the combination?	Fair value, with limited exceptions	Book value—various book values are used in practice, for example those reported: <ul style="list-style-type: none"> • by Company C (the transferred company); or • by Company P (the controlling party).
Does Company B recognise all the identifiable assets and liabilities of Company C received in the combination?	Yes, with limited exceptions	No—only assets and liabilities already recognised before the combination
Does Company B recognise goodwill as a result of the combination?	Yes, unless the combination results in a gain	No
From which date does Company B include in its financial statements the assets, liabilities, income and expenses of Company C?	From the date of the combination	Various approaches are applied—for example, including assets, liabilities, income and expenses of Company C: <ul style="list-style-type: none"> • from the date of the combination; or • from the beginning of the earliest period presented.

Images source: IASB DP/2020/2



Existing IFRS R&M requirements



Source: NZASB Meeting 17 December 2020, Agenda Paper 7.1, modified slightly



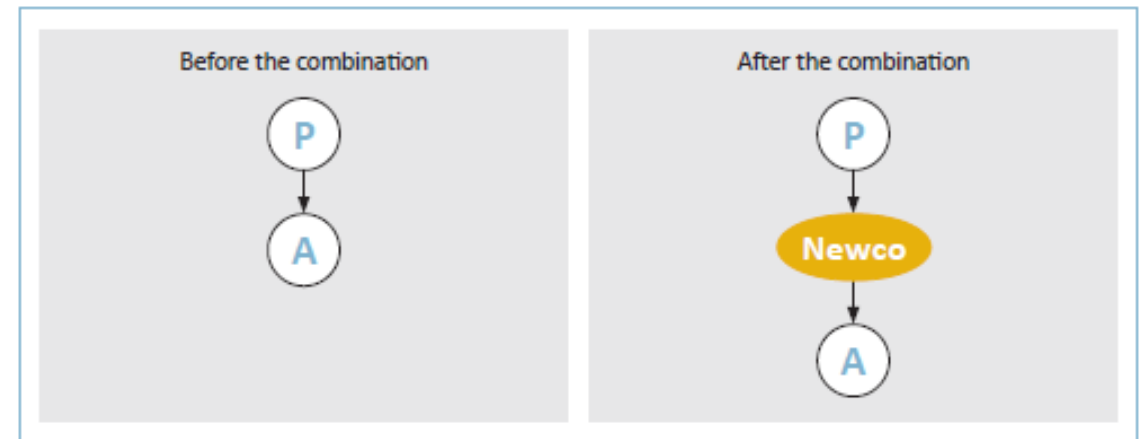
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Scope of the proposals

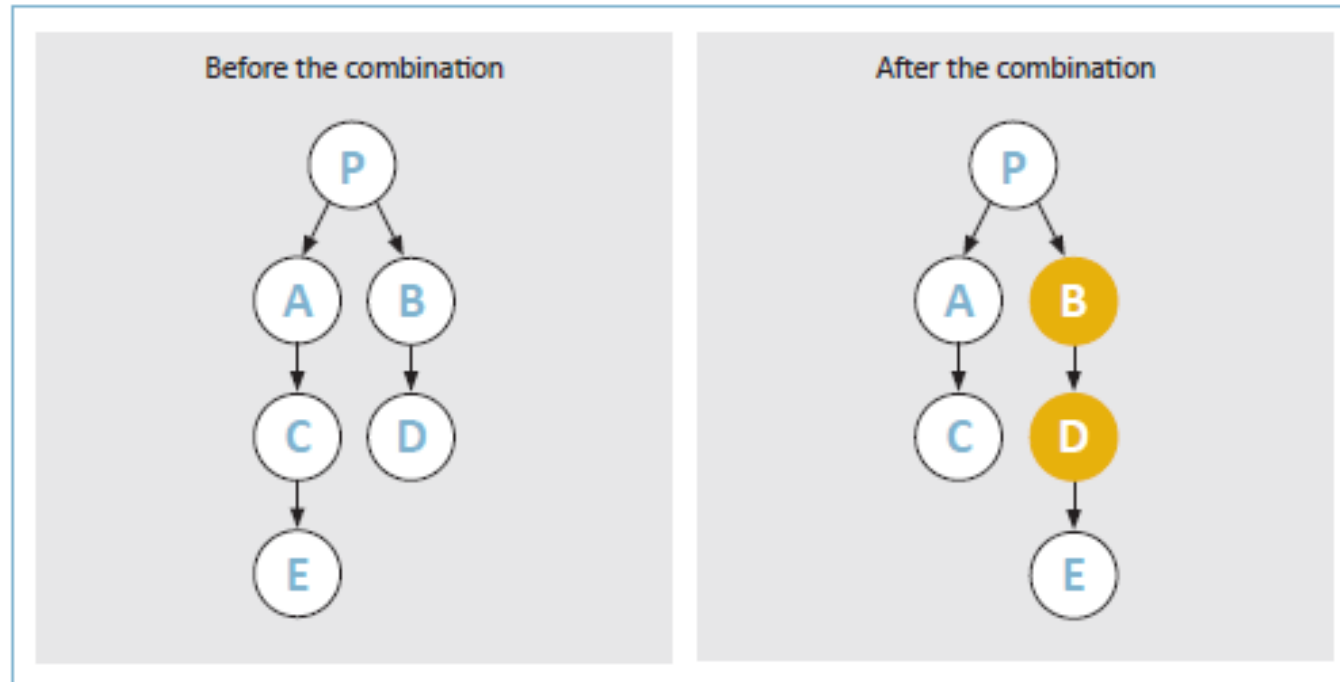
The proposed accounting views extend also to:

- transfers of unincorporated businesses
- instances where the transfer is:
 - preceded by an acquisition from an external party or followed by the sale of one or more of the combined entities to an external party
 - conditional on the sale of the combining entities to an external party (e.g. in an IPO)
- group restructurings that involve the transfer of a business under common control but do not meet the definition of a business combination (e.g. insertion of a Newco)

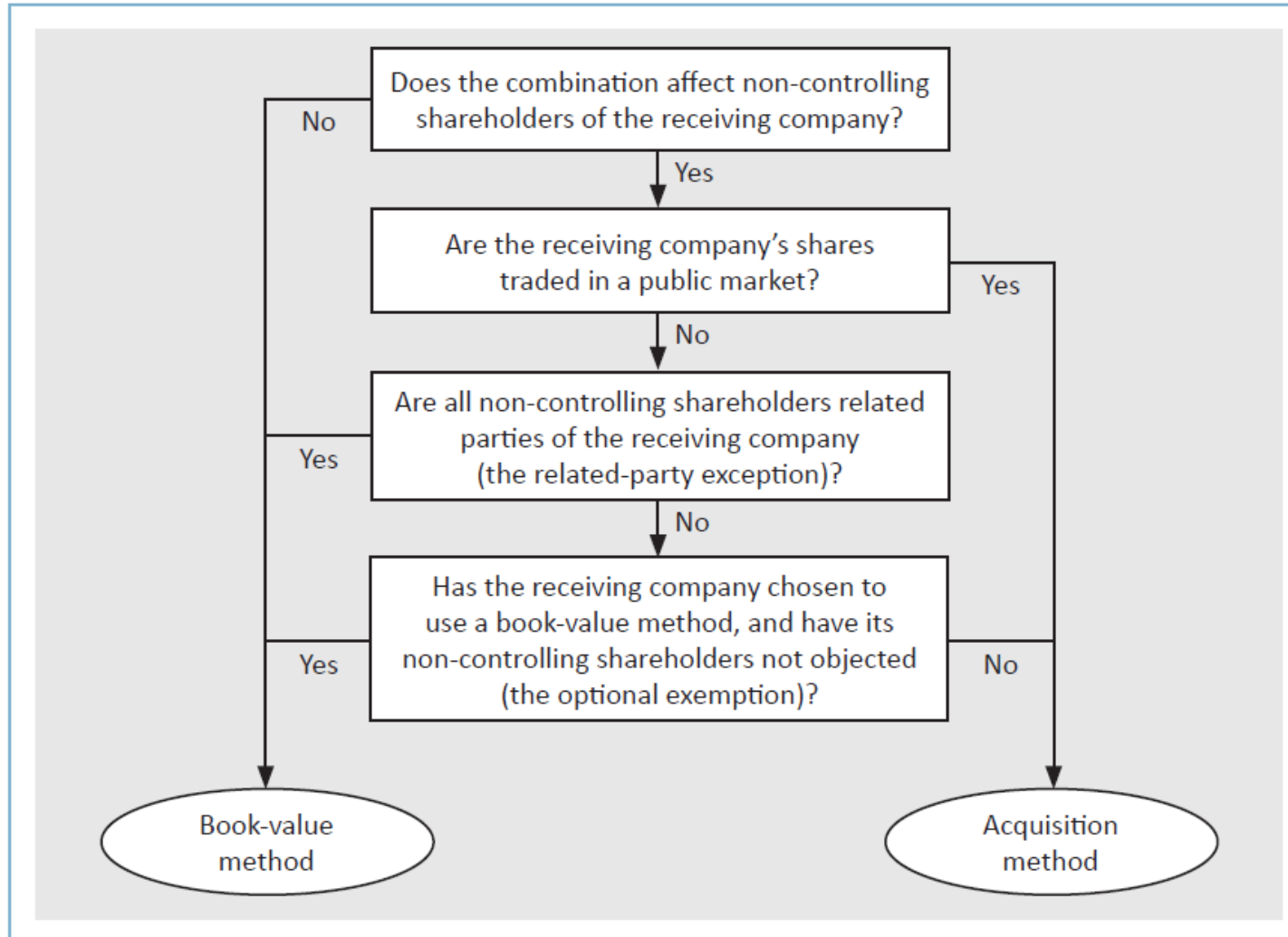


Scope of the proposals

The proposed accounting will apply to the receiving entity (B and D):



Measurement proposals

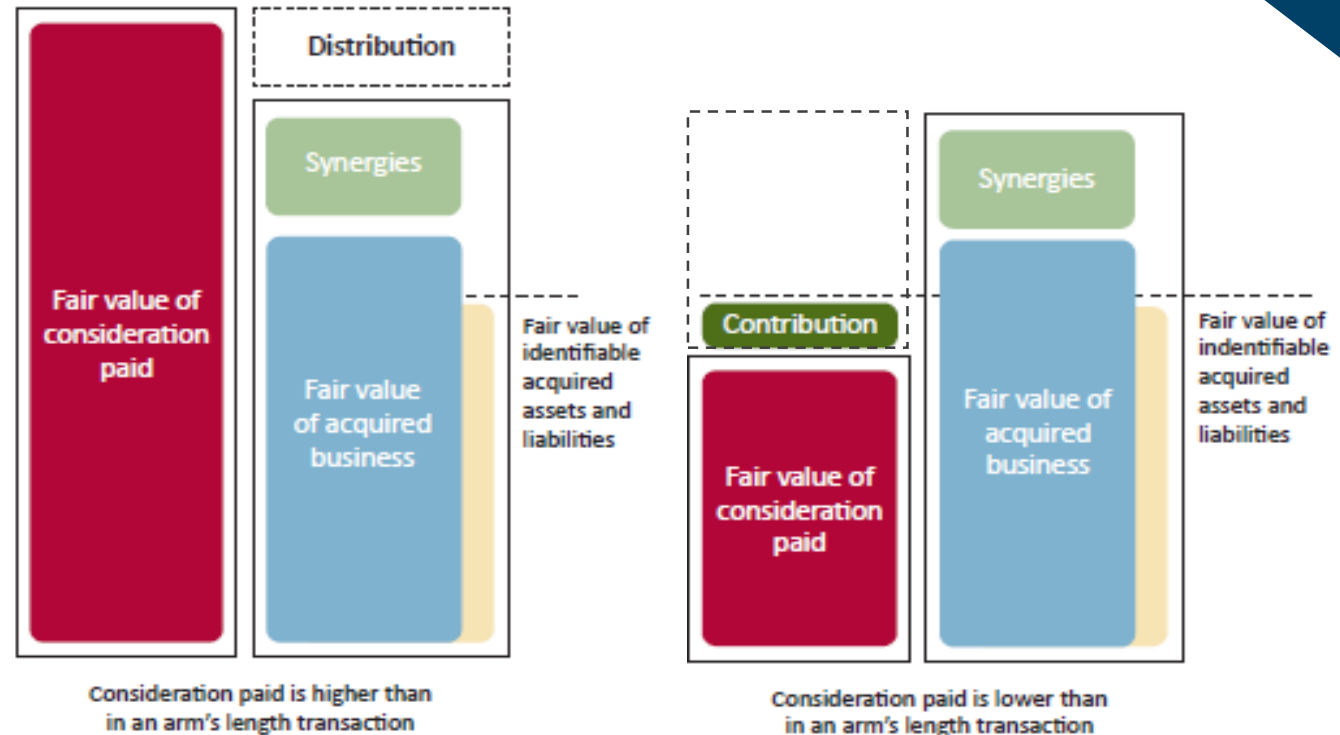


Source: IASB DP/2020/2



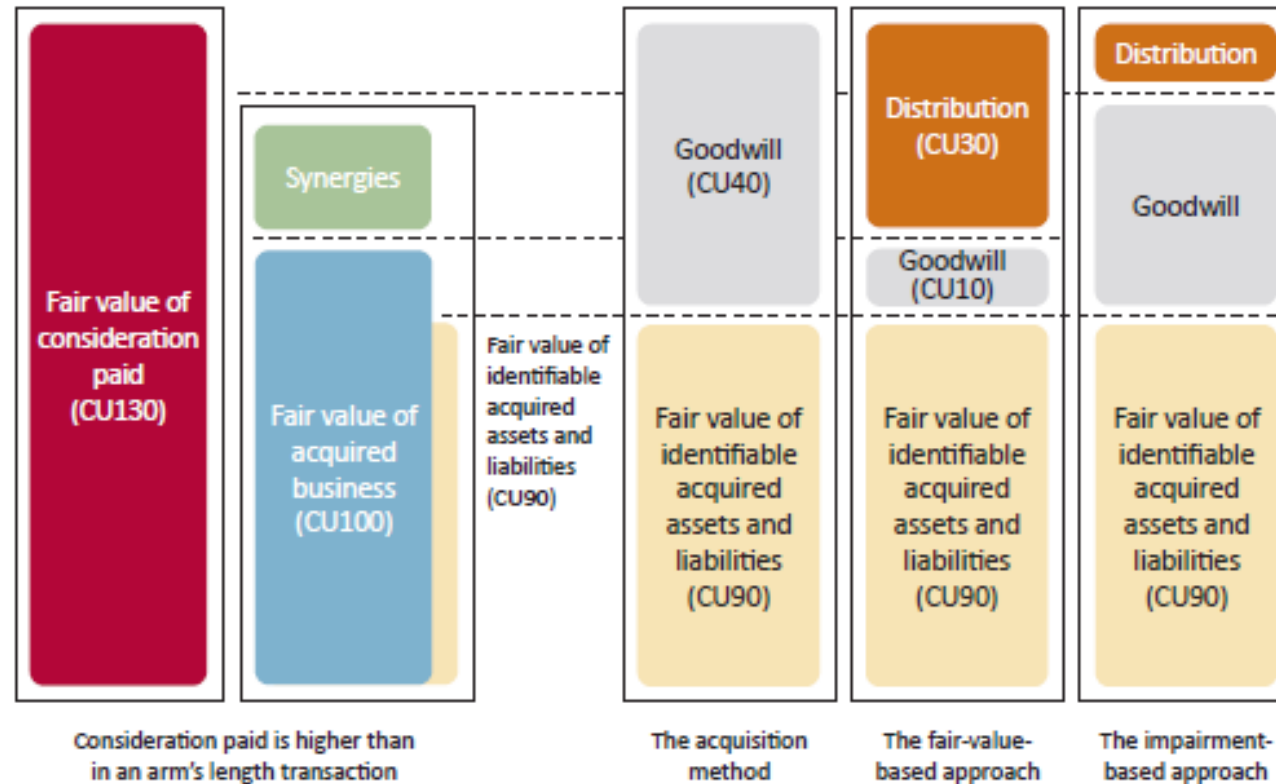
Acquisition method

- Because the purchase price might not be an arms'-length price, the combination includes an additional component – a transaction with owners acting in their capacity as owners
- IASB proposes not to develop a requirement for the receiving entity to recognise a distribution from equity
- Recognise contribution to equity rather than gain on bargain purchase



Acquisition method

- Possible approaches to measuring a distribution from equity (if the IASB decides not proceed with its preliminary view):
 - fair value-based approach
 - impairment-based approach



Source: IASB DP/2020/2



Acquisition method

Proposed disclosure:

- IFRS 3 disclosure requirements + improvements arising from IASB DP *Business Combinations—Disclosures, Goodwill and Impairment*
- Application guidance to be developed: interaction with IAS 24

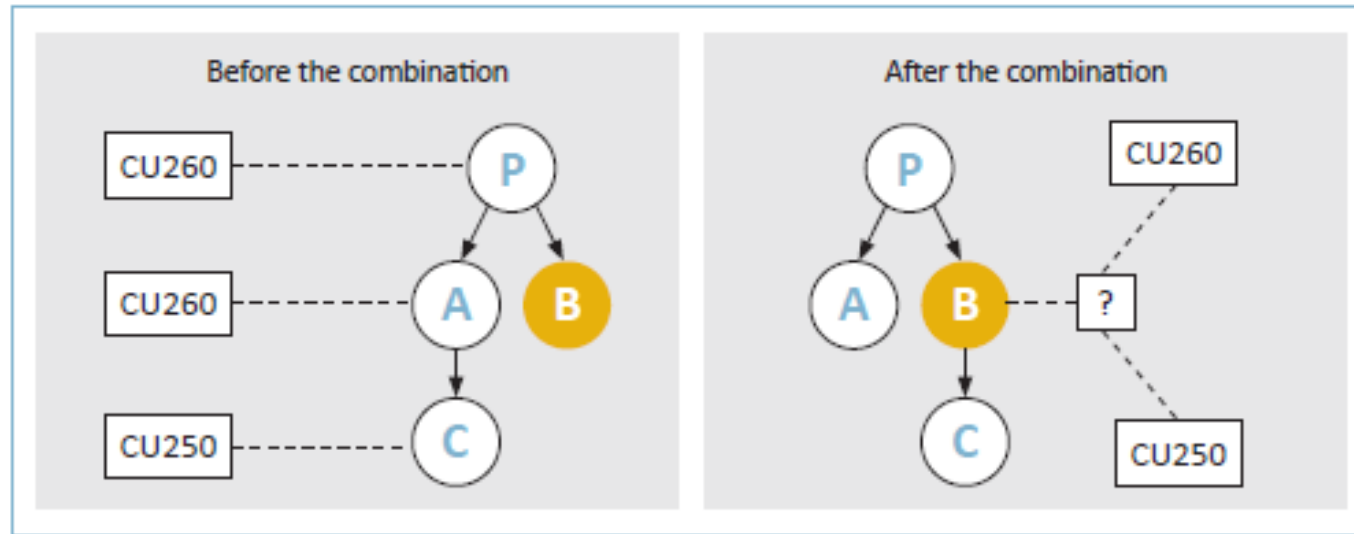


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Book value method

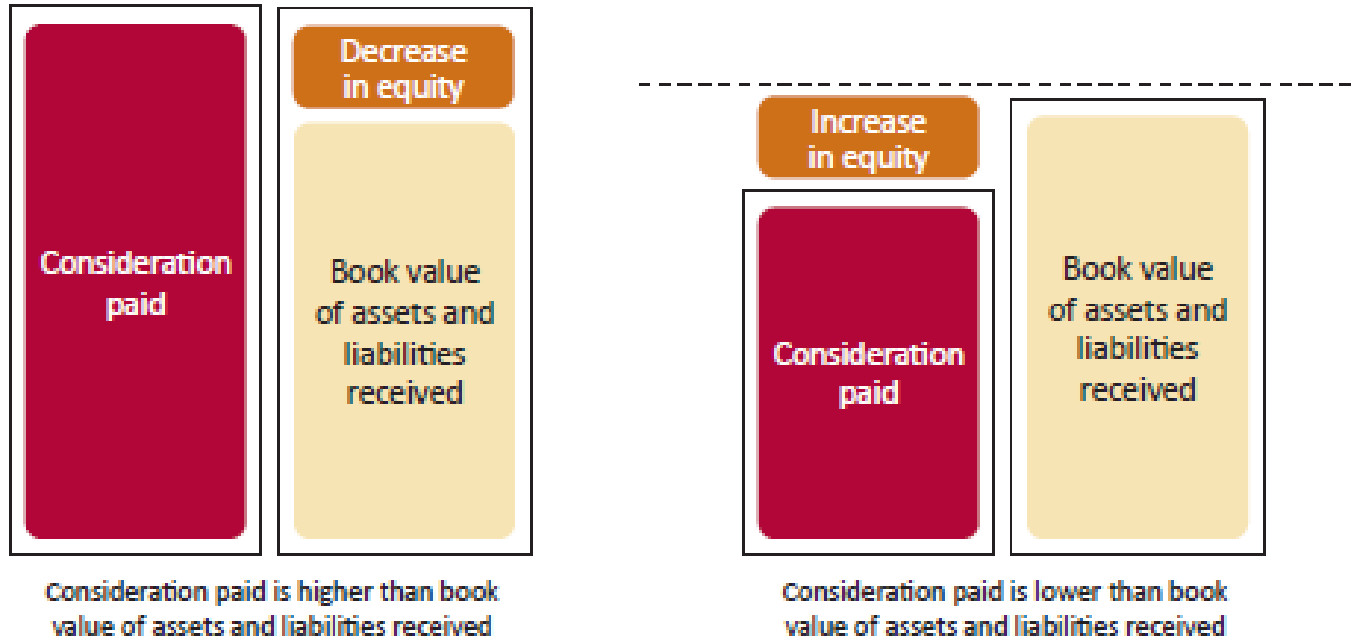
- Which book values?



- Combine transferred net assets prospectively from the combination date
- Follow the legal structure to identify the receiving entity
- Transaction costs as expenses/equity, consistent with IFRS 3 approach

Book value method

- Proposal: Recognise increase/decrease in equity for the full difference between consideration and book value of net assets received



Source: IASB DP/2020/2



Book value method

Consideration paid:

- in shares – IASB does not intend to prescribe measurement

<i>(all amounts are in CU)</i>	Issued shares at par value	Issued shares at fair value
Company B's equity		
Issued shares	200	270
Difference between the consideration paid and the book value of the assets and liabilities received	50	(20)
Net increase in equity	250	250

- in assets – measure at receiving entity's book value of the assets at combination date

<i>(all amounts are in CU)</i>	Assets transferred at book value	Assets transferred at fair value
Company B's statement of profit or loss		
Gain on disposal	–	50
Company B's equity		
Retained earnings or other appropriate component of equity	–	50
Difference between the consideration paid and the book value of the assets and liabilities received	30	(20)
Net effect on equity	30	30

- by incurring/assuming liabilities – at applicable IFRS initial recognition amount at combination date



Book value method

Proposed disclosure:

- Recognises that the information needs of users of BV BCUCC may differ from acquisition method BCUCC. Cost-benefit considerations may also differ.
- Require disclosure of some, but not all, IFRS 3 + improvements arising from IASB DP *Business Combinations—Disclosures, Goodwill and Impairment*
- Will not require pre-combination information to be disclosed
- Additional disclosure: amount recognised in equity (and where it is recognised)

Question for Board members

Do Board members have any questions, or observations about IASB DP/2020/2?

Question for Board members

Do Board members want to make a AASB submission to IASB DP/2020/2 *Business Combinations under Common Control*?

Proposed work plan

