



Financial Reporting Webinar Series: IASB project update - Business combinations under common control

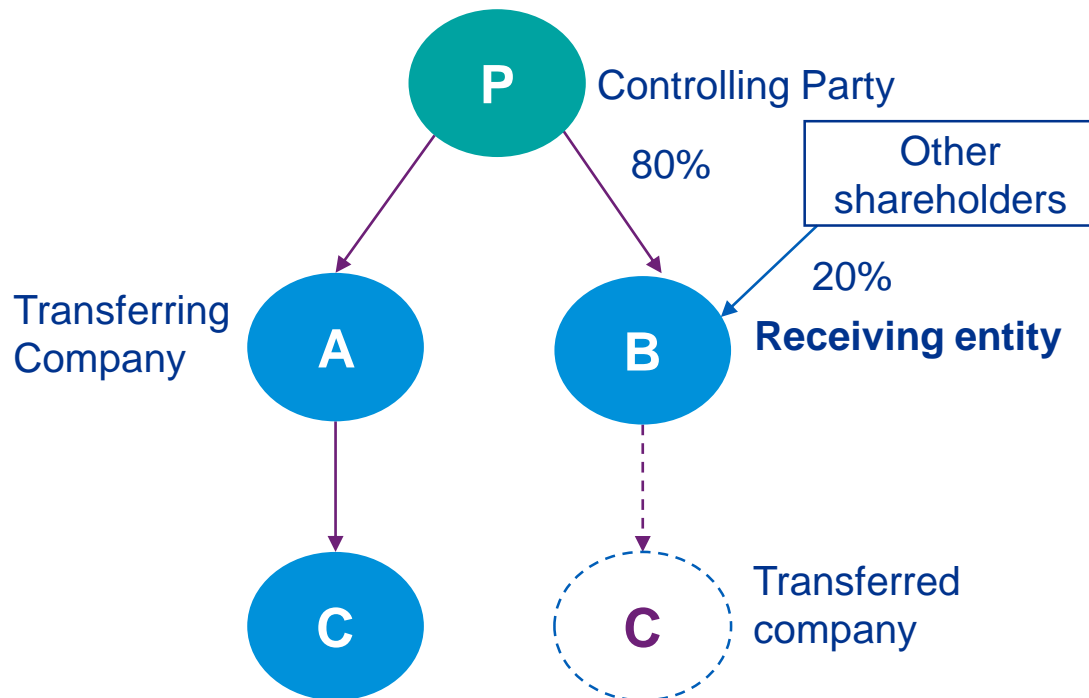
Friday 19 March 2021



Scope of the IASB BCUCC project



Purpose is to fill the gap in IFRS literature



Transactions scoped into the proposals

Perspective of accounting treatment

Financial statements considered

Transfers of businesses under common control

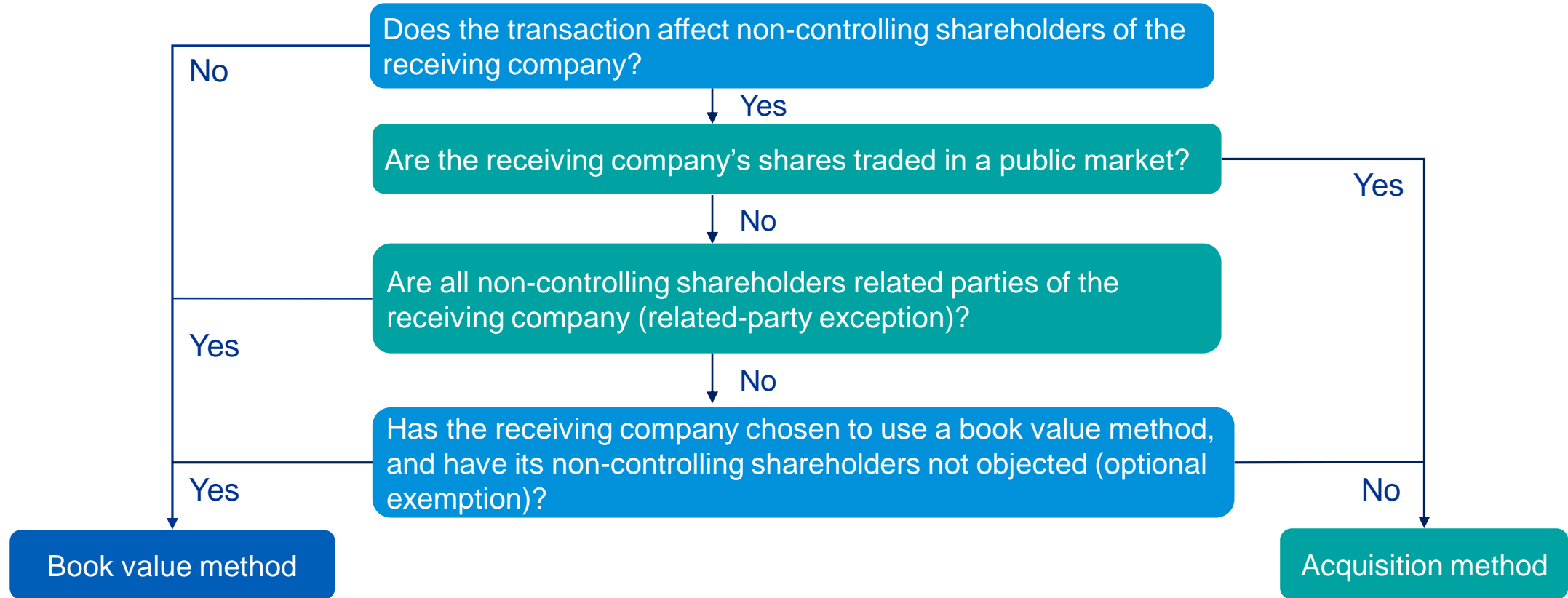
Receiving entity

Consolidated financial statements in general

Measurement approaches in the DP



One size does not fit all – acquisition and book value approaches applied depending on situation



IASB DP's book value approach



A single book value method to be applied in IFRS Standards



Assets and liabilities received

Measure at transferred company's book values



Consideration paid

Generally measure at book value



Difference

Recognise as an increase or decrease in equity



Pre-combination information

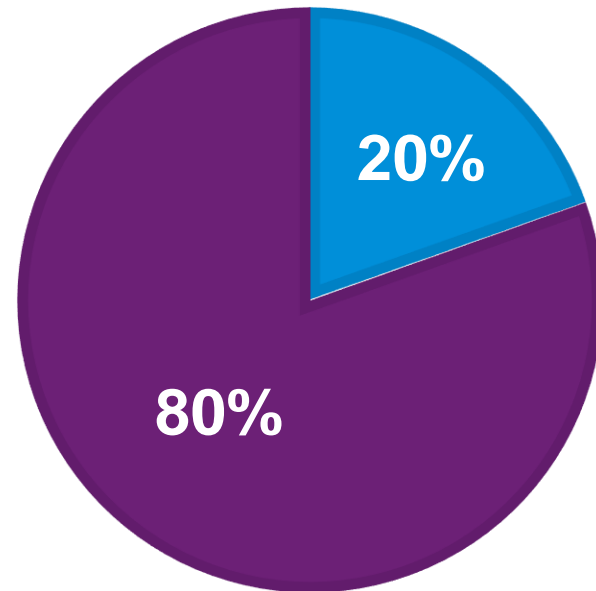
Provide about the receiving company only,
without restatement

Approach adopted by HKEX listed issuers between 2016-2020



BUSINESS COMBINATIONS UNDER COMMON CONTROL

■ HKFRS 3 Acquisition accounting ■ AG 5 Merger accounting



Total number of BCUCCs: 92*

Number of transactions accounted for under AG 5: 74

Number of transactions accounted for under HKFRS 3: 18

*Major acquisitions and/or very substantial acquisitions under the Listing Rules

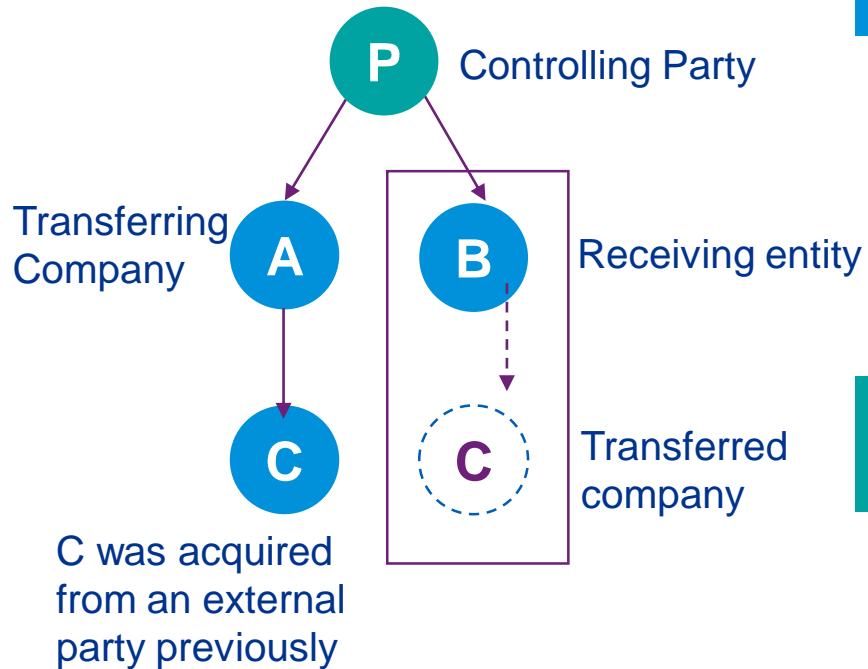
Source: KPMG Research

AG 5 vs IASB DP's book value approach



	AG 5	IASB DP
Measurement approach	Measure at book values stated in controlling party's financial statements	Measure at transferred entity's book values
Presentation of pre-combination information	Comparative amounts are presented as if the entities or businesses had been combined at the previous balance sheet date or from when entities are under common control	Prospective presentation from combination date without restating pre-combination information
Measurement of difference between consideration paid and business acquired	Consistent approach in general to recognize difference in equity	
Transaction cost	Consistent approach to expense	
Disclosures	Disclose some of the required information under IFRS 3	<ul style="list-style-type: none"> ▪ Disclosure required on difference between consideration paid and assets/liabilities received ▪ Not required to disclose pre-combination information

Snapshot of the measurement methods for BCUCCs



01

Proposed acquisition accounting approach

- Receiving entity determines the fair value of identifiable acquired assets and liabilities
- Goodwill is recognised for any excess between consideration paid and fair value of acquired business
- But, if consideration paid is lower than fair value of acquired business, recognize the “bargain purchase” **as a contribution to equity**

02

Proposed book value approach

- Measure the assets and liabilities of C **at amounts carried in C’s books**
- **Prospective approach** without restating pre-combination information

03

AG 5 book value approach

- Measure the assets and liabilities of C using the **controlling party’s book values**
- **Comparative period** will include pre-combination information i.e. C’s assets, liabilities, income and expenses presented

Way forward



- Participate in the HKICPA upcoming roundtable outreach with the IASB on 11 May 2021
- Submit a comment letter

Next steps



HKICPA roundtable



Date: Tuesday, 11 May 2021

Time: 4:00pm – 6:00pm

Location: Online or HKICPA Board room

IASB Board members: Sue Lloyd (Vice Chair), Dr Jianqiao Lu (Board member)

Submitting comments to the HKICPA



By 5 July



November 2020

IFRS® Standards
Discussion Paper DP/2020/2

Business Combinations under Common Control

Comments to be received by 1 September 2021



Accounting Guideline : **Merger Accounting Control Combi**

This Accounting Guideline is to be replaced for common control combinations that occur for reporting period beginning on or after 1 January 2022.



AG 5 (Revised)
Issued November 2005 Revised December 2020

Effective upon issue
Effective for common control combinations that occur
on or after the beginning of the first annual reporting
period beginning on or after 1 January 2022

Accounting Guideline 5 (Revised) **Merger Accounting for Common Control Combinations**



Webinar dates and topics for 2021

- **29 January – Navigating potential accounting fraud**
- **19 March – IASB project update - Business combinations under common control**
- **14 May – Interim reporting reminders**
- **16 July – Corporate governance and ESG update**
- **17 September – TBD**
- **19 November – TBD**
- **17 December – Year-end reporting reminders**



For more details and access to our webinar series:

<https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html>

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Thank you



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