

AOSSG Business Combinations under Common Control Sub-working Group Discussion Paper for Meeting on 28 November 2017

Objective

To discuss the IASB staff's preliminary views on:

- The scope of the BCUCC research project (Appendix A)
- Factors to consider in selecting an appropriate accounting method for transactions within the scope of the project (Appendix B)

Before the sub-working group meeting, please read Appendices A and B and consider the discussion points below and HKICPA staff preliminary views.

Discussion points

Scope of the project (Appendix A)

Q1. Do you agree with the proposed scope of the project (slides 30 – 37)?

Q2. Are there any other transactions that should be considered?

Methods of accounting (Appendix B)

IASB staff have identified four factors that may influence the decision to apply the acquisition method or a predecessor method:

- Decision making process
- Purpose of the transaction
- Consideration
- Commercial substance

Q3. How does each factor influence your decision about which method should be applied, and why?

In thinking about whether and how the factors would help determine which method to apply, you may first consider the example situations below.

IASB staff factors	An example of the factors
Decision making process	The combination was directed by the ultimate controlling party.
Purpose of the combination	The combination brings benefit to both combining entities and the ultimate controlling party (tax benefit to the controlling party and streamlining of operations for the combining parties).
Consideration: Form	50% cash and 50% shares.

IASB staff factors	An example of the factors
Consideration: Pricing	Reflects the fair value of the entity to be acquired.
Commercial substance	Negative cash outflow upon completion of the transaction. Budgeted cash inflow in the future.

Q4. On top of the factors identified by the IASB staff, should there be any additional factors to be considered, and why?

For example, consider situations where a privately-held group plans to go IPO versus no plans for IPO.

Q5. Should one factor weigh more heavily over the other? If so, which are the ones with higher weighting? Were there challenges in considering the factors if all factors are treated equal?