



IFRS Adviser Alert

Insights into IFRS 3 – Identifying business combinations

March 2021

Executive summary

The Grant Thornton International IFRS team has published three *Insights into IFRS 3*:

- *Identifying a business combination within the scope of IFRS 3;*
- *Identifying the acquirer;*
- *Identifying the acquisition date.*

Overview

Mergers and acquisitions (business combinations) can have a fundamental impact on the acquirer's operations, resources and strategies. For most entities, such transactions are infrequent and each is unique. IFRS 3 *Business Combinations* contains the requirements for these transactions, which are challenging in practice. The standard itself has been in place for more than ten years now and has undergone a post-implementation review by the IASB. It is one of the most referred to standards currently issued.

The *Insights into IFRS 3* series summarizes the key areas of the standard, highlighting aspects that are more difficult to interpret and revisiting the most relevant features that could impact your business.

After issuing [Insights into IFRS 3 – The acquisition method at a glance](#), the Grant Thornton International IFRS team released the following three *Insights into IFRS 3* which set out the steps when identifying whether business combinations are within the scope of IFRS 3, identifying the acquirer and identifying the date of the business combination in accordance with IFRS 3:

- *Identifying a business combination within the scope of IFRS 3;*
- *Identifying the acquirer;*
- *Identifying the acquisition date.*

Resource

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Insights into IFRS 3

Identifying a business combination within the scope of IFRS 3

Mergers and acquisitions are becoming more and more common as entities aim to achieve their growth objectives. IFRS 3 ‘Business Combinations’ contains the requirements for these transactions, which are challenging in practice.

Our ‘Insights into IFRS 3’ series summarises the key areas of the Standard, highlighting aspects that are more difficult to interpret and revisiting the most relevant features that could impact your business.

In order to determine if the guidance of IFRS 3 should be applied to the acquisition of an asset or a group of assets, an entity should first identify if the asset or group of assets acquired represents a business combination. If the entity concludes it is a business combination, it should then ensure the business combination transaction falls within the scope of IFRS 3. This article sets out how an entity should determine if the transaction is a business combination, and whether it is within the scope of IFRS 3.

This article should be read closely with our other ‘identification’ articles:

- [Insights into IFRS 3 – Identifying an acquirer](#)
- [Insights into IFRS 3 – Identifying the acquisition date](#)



Identifying a business combination

IFRS 3 refers to a 'business combination' rather than more commonly used phrases such as takeover, acquisition or merger because the objective is to encompass all the transactions in which an acquirer obtains control over an acquiree no matter how the transaction is structured. A business combination is defined as a transaction or other event in which an acquirer (an investor entity) obtains control of one or more businesses.

An entity's purchase of a controlling interest in another unrelated operating entity will usually be a business combination (see Example 1 on page 3). However, a business combination may be structured, and an entity may obtain control of that structure, in a variety of ways.

Examples of ways a business combination may be structured

- A business becomes the subsidiary of an acquirer
- Net assets of one or more businesses are legally merged with an acquirer
- One combining entity transfers its net assets, or its owners transfer their equity interests, to another combining entity or its owners
- Two or more entities transfer their net assets, or the owners of those entities transfer their equity interests to a newly created entity, which in exchange issues shares, or
- A group of former owners of one of the combining entities obtains control of the combined entity, i.e. former owners, as a group, retain control of the entity they previously owned.

Examples of ways an entity may obtain control

- The entity transfers cash, cash equivalents or other assets (including net assets that constitute a business)
- The entity incurs liabilities
- The entity issues shares
- The entity transfers more than one type of consideration, or
- The entity does not transfer consideration and obtains control (for example) by contract alone. Some examples of this:
 - 'dual-listed companies' or 'stapled entity structures'
 - acquiree repurchases a sufficient number of its own shares for an existing shareholder to obtain control
 - a condition in the shareholder agreement that prevents the majority shareholder exercising control of the entity has expired, or
 - a call option over a controlling interest that becomes exercisable.

Therefore, identifying a business combination transaction requires the determination of whether:

- what is acquired constitutes a 'business' as defined in IFRS 3, and
- control has been obtained.

If an entity acquires an interest in a business entity but does not obtain control, it should apply IAS 28 'Investments in Associates and Joint Ventures', IFRS 11 'Joint Arrangements' or IFRS 9 'Financial Instruments', depending on the nature of the relationship that the interest creates and the level of influence the entity can exert over the investee's financial and operating policies.

Example 1 - Straightforward business combination

Entity T is a clothing manufacturer and has traded for a number of years. Entity T is deemed to be a business.

On 1 January 2020, Entity A pays CU 2,000 to acquire 100% of the ordinary voting shares of Entity T. No other type of shares has been issued by Entity T. On the same day, the three main executive directors of Entity A take on the same roles in Entity T.

Analysis

Entity A obtains control on 1 January 2020 by acquiring 100% of the voting rights. As Entity T is a business, this is a business combination in accordance with IFRS 3.



Is the investee a “business”?

IFRS 3 requires the entity determine whether assets acquired and any liabilities assumed constitute a business. If the assets and liabilities are not considered to be a business, then the transaction should be accounted for as an asset acquisition.

IFRS 3 has detailed guidance on the definition of a business and this guidance has been considered in our separate article ‘[Insights into IFRS 3 – Definition of a business \(Amendments to IFRS 3\)](#)’. This publication presents only the guidance on the new definition of a business that was issued in October 2018, which should be applied to business combinations for which

the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period.

Business combination accounting does not apply to the acquisition of an asset or asset group that does not constitute a business. The distinction between a business combination and an asset acquisition is important as the accounting for an asset purchase differs from business combination accounting in several key respects, some of which are summarised below:

Accounting topic	Business combination	Asset purchase
Recognition of identifiable assets and liabilities	Measured at fair value (with limited exceptions).	Total cost allocated to individual items based on their relative fair values (Note 1).
Goodwill or gain on bargain purchase	Recognised as an asset (goodwill) or as income (gain on bargain purchase).	Not recognised.
Transaction costs	Expensed when incurred (Note 2).	Typically capitalised.
Deferred tax on initial temporary differences	Recognised as assets and liabilities.	Not recognised.
Contingent consideration	Recognised at fair value at acquisition date, subsequent changes to the profit or loss if not initially classified as equity.	No specific guidance in IFRS, often not recognised until it is confirmed whether or not the conditions are met, refer to IFRIC discussion in March 2016.

Notes to table

- In November 2017, the IFRS Interpretations Committee (IFRIC) discussed some issues related to how to allocate the transaction price to the identifiable assets acquired and liabilities assumed when the sum of the individual fair values of the identifiable assets and liabilities is different from the transaction price and when the group includes identifiable assets and liabilities initially measured both at cost and at an amount other than cost. For the details of the discussions, click [here](#).
- Except for costs related to the issuance of equity instruments or debt instruments that have to be accounted for in accordance with IFRS 9 and IAS 32 ‘Financial Instruments: Presentation’.

Has control been obtained?

A business combination involves an entity obtaining control over one or more businesses (this entity is known as ‘the acquirer’). IFRS 10 ‘Consolidated Financial Statements’ and IFRS 3 provide guidance to determine whether an entity has obtained control.

In most cases control of an investee is obtained through holding the majority of voting rights. Therefore control is normally obtained through ownership of a majority of the shares that confer voting rights (or through obtaining additional voting rights resulting in majority ownership if some were already held). In transactions where an acquired business is not a separate legal entity (a trade and assets deal), control typically arises through ownership of those assets.

However, control can also be obtained through various other transactions and arrangements – some of which require careful analysis and judgement. The definition of control and relevant guidance issued by both the IASB and IFRIC should then be considered. As well as assessing whether control is obtained, this guidance is also relevant in addressing the related questions of when control transfers and which entity obtains control.

Definition of control of an investee

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control requires:

- power over the investee
- exposure, or rights, to variable returns
- ability to use power to affect returns.

For more explanation on how to apply the definition of control, refer to our IFRS 10 guide entitled **‘Under control? A practical guide to applying IFRS 10 Consolidated Financial Statements’**.

If applying the guidance of IFRS 10 does not clearly indicate which of the combining entities is the acquirer, additional factors included within IFRS 3 should be considered. For instance, it is possible for control to be obtained:

- without holding or acquiring a majority of the investee’s voting rights
- without the investor actually being party to a transaction or paying consideration.

The identification of an acquirer is discussed in more detail in a separate article. Refer to **‘Insights into IFRS 3 – Identifying the acquirer’**.

“The determination of whether an entity has obtained control is based on guidance in both IFRS 10 ‘Consolidated Financial Statements’ and IFRS 3.”

Is the business combination within the scope of IFRS 3?

IFRS 3 applies to all business combinations identified as such under IFRS 3 with the following three exceptions:

- the formation of a joint arrangement in the financial statements of the joint arrangement itself
- a combination of entities or businesses under common control (referred to as common control combinations)
- the acquisition by an investment entity, as defined in IFRS 10, of an investment in a subsidiary that is required to be measured at fair value through profit or loss (without exception).

Formation of a joint arrangement in the financial statements of the joint arrangement itself

There is no specific guidance in IFRS on how a joint arrangement should account for a business contribution which consists in the parties to the joint arrangement in contributing operating activities which satisfy the definition of businesses in exchange for equity instruments issued by the 'joint arrangement structure'. Our view is that IFRS 3, by analogy, can be applied by the joint arrangement, even though the transaction is outside the mandatory scope of IFRS 3. Alternative approaches may also be acceptable, such as the use of predecessor value method or application of fresh start accounting. Management should use their judgement and apply the requirements of IAS 8 'Accounting policies, changes in accounting estimates and errors' to determine the most appropriate accounting policy to provide relevant and reliable information to users of the financial statements.

Common control combinations

Business combinations involving common control frequently occur. Broadly, these are transactions in which an entity obtains control of a business (hence a business combination) but both combining parties are ultimately controlled by the same party, or parties, both before and after the combination and that control is not transitory. These combinations often occur as a result of a group reorganisation in which control of subsidiaries changes at a certain level within a group as a result of reclassification of ownership interests between the members of the group, but where control by the ultimate parent remains the same over those subsidiaries.

Examples of common control combinations

- Combinations between subsidiaries of the same parent
- The acquisition of a business from an entity in the same group
- Bringing together entities under common control into a legally defined group, or
- Some transactions involving the insertion of a new parent company at the top of a group.

Our separate article '[Insights into IFRS 3 – Business combinations under common control](#)' provides more details on how to identify and account for these combinations.

“Of the three scoped-out transactions in IFRS 3, business combinations involving common control frequently occur.”

The acquisition by an investment entity of an investment in a subsidiary that is required to be measured at fair value through profit or loss

For the avoidance of doubt, IFRS 10 provides a limited scope exception from the consolidation guidance for a parent entity that meets the definition of an investment entity. Entities that meet the definition of an investment entity in accordance with IFRS 10, should not consolidate certain subsidiaries. Instead they are required to measure those investments that are controlling interests in another entity (ie their subsidiaries) at fair value through profit and loss. Therefore, any acquisition that involves an investment entity being the acquirer of an investment in a subsidiary is specifically excluded from the scope of IFRS 3.

Refer to IFRS 10 guide **‘Under control? A practical guide to applying IFRS 10 Consolidated Financial Statements’** for more details.

Watch this space

At the time of writing the International Accounting Standards Board (IASB) is conducting a research project on business combinations under common control. The IASB has acknowledged that the absence of specific requirements has led to diversity in practice and has published a discussion paper in November 2020. The IASB is seeking views on the paper before 1 September 2021 and we will be submitting our views. For more details of the project and its next steps, click [here](#).



How we can help

We hope you find the information in this article helpful in giving you some insight into IFRS 3. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.global/locations to find your local member firm.



Insights into IFRS 3

Identifying the acquirer

Business combinations are infrequent transactions that are unique for each occurrence. IFRS 3 ‘Business Combinations’ contains the requirements and despite being fairly stable in the ten years since its been released, still provides challenges when accounting for these transactions in practice.

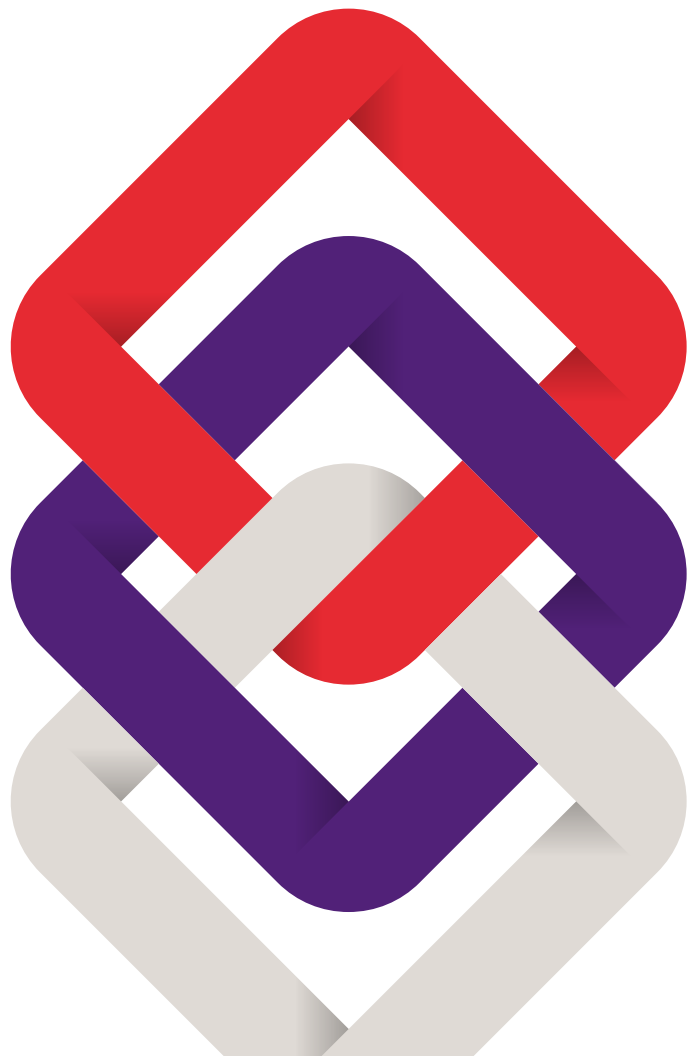
Our ‘Insights into IFRS 3’ series summarises the key areas of the Standard, highlighting aspects that are more difficult to interpret and revisiting the most relevant features that could impact your business.

The acquisition method set out in IFRS 3 is applied from the point of view of the acquirer – the entity that obtains control over an acquiree which meets the definition of a business. An acquirer must therefore be identified whenever there is a business combination. This article explains how to identify the acquirer.

This article should be read closely with our other ‘identification’ articles:

- **Insights into IFRS 3 – Identifying a business combination within the scope of IFRS 3**
- **Insights into IFRS 3 – Identifying the acquisition date**

A critical point to note is the acquirer for IFRS 3 purposes (the accounting acquirer) may not always be the legal acquirer (the entity that becomes the legal parent, typically through ownership of majority voting power in the other combining entity).



What is IFRS 3's approach to identifying the acquirer?

IFRS 3 initially directs an entity to IFRS 10 'Consolidated Financial Statements' to identify the acquirer, and to consider which entity controls the other (ie the acquiree). In most business combinations identifying the acquirer is straightforward and is consistent with the transfer of legal ownership. However, the identification can be more complex for business combinations when:

- businesses are brought together by contract alone such that neither entity has legal ownership of the other
- a combination is affected by legal merger of two or more entities or through acquisition by a newly created parent entity
- there is no consideration transferred (combination by contract), or
- a smaller entity arranges to be acquired by a larger one.

In these more complex situations, IFRS 3 takes an in-substance approach to identifying the acquirer rather than relying solely on the legal form of the transaction. This in-substance approach looks beyond the rights of the combining entities themselves. It also considers the relative rights of the combining entities' owners before and after the transaction. Combinations where the acquirer of a business is the acquiree rather than the acquirer are reverse acquisitions and IFRS 3 provides specific guidance on how to account for these. Refer to page 6 for more details.

This means if, when applying the control guidance in IFRS 10, it is not clear which of the entities being combined is the acquirer, entities should revert back to IFRS 3 which provides the following additional indicators to consider:

Factors to consider	Who is usually the acquirer?
Combination effected primarily by transferring cash, other assets or incurring liabilities	The entity that transfers cash or other assets or incurs the liabilities.
Combination effected primarily by exchanging equity interests	The entity that issues the equity interests. However, see more considerations in the table on page 5.
Relative size or more than two entities involved	The entity whose size is significantly greater than that of the other combining entity or entities.
A new entity is formed to effect a business combination	If the new entity is formed to issue equity interests, one of the existing combining entities is usually the acquirer. See more considerations in the table on page 3. If the new entity transfers cash or other assets or incurs liabilities, the new entity may be the acquirer.

Examples involving the creation of a new entity

In practice, one of the most common situations where the process of identifying the acquirer requires a more in-depth analysis is when a new entity is formed to bring about a business combination. This can be done in many ways and sometimes can result in a 'reverse acquisition' which is explained on page 6. Below are situations of when a new entity might be formed to bring about a business combination:

In-depth analysis when a new entity is formed to bring about a business combination

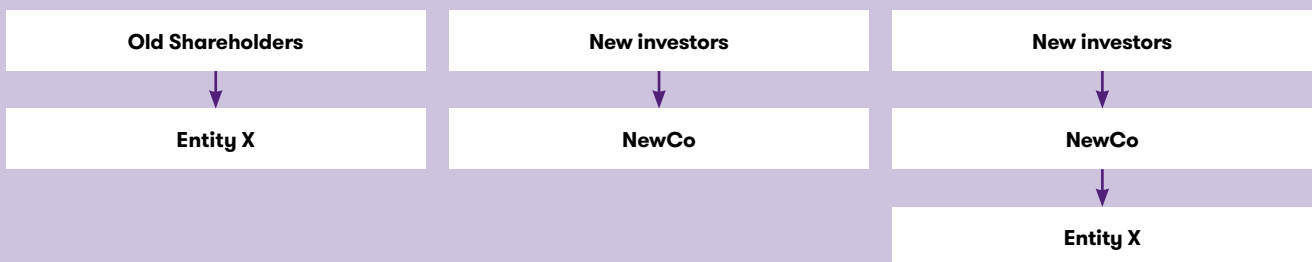
New parent pays cash to bring about a business combination (Example 1)

New entity is created to acquire a business by issuing shares (Example 2)

New entity is created by the existing shareholders to hold their subsidiaries – in this situation there is no acquirer as it is a business combination under common control.

Example 1 – New parent pays cash to bring about a business combination

New unrelated investors are wishing to take control of Entity X, and it uses a newly formed entity (NewCo) to effect this transaction. The new investors have invested cash in NewCo in exchange for shares in NewCo. NewCo then acquires all the shares in Entity X using the cash it has obtained from its new shareholders.



Analysis

In this situation, Newco uses the cash it has obtained from its new shareholders to effect the acquisition of Entity X.

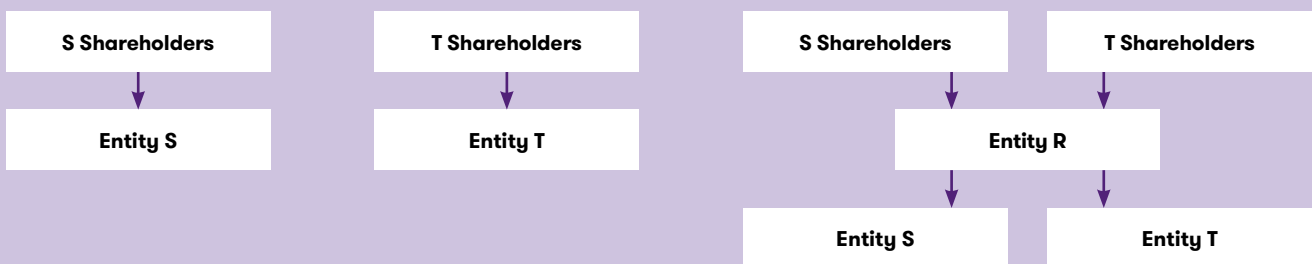
Although NewCo is a newly formed entity, NewCo is identified as the acquirer not only because it paid cash but also because with the help of new investors, NewCo has been able to obtain control of Entity X from its previous shareholders. NewCo is effectively considered an extension of the new investors, which ultimately used NewCo to gain control over Entity X.

This analysis would be similar when evaluating special purpose acquisition companies (SPACs) which are new companies created by investors (including managers or experienced business executives) with the objective to raise significant funds through an IPO to effect an acquisition of a target in a specific sector and/or area.

Example 2 – New entity is created to acquire a business by issuing shares

Entity S, a company with its own retail division, plans to expand its operations by acquiring another retailer, Entity T. Entity T's retail operations are smaller and less valuable than Entity S. To effect the acquisition, S and T Shareholders (who which are unrelated), agree to form a new entity, Entity R, and to transfer their shares in each respective entity to Entity R in exchange for Entity R shares.

After the transfer, Entity R owns 100 % of Entity S and Entity T equity interests. The former shareholders of Entity S collectively hold the majority of the equity shares of Entity R. In addition, former S Shareholders, as a group, have the right to appoint four of the six directors of Entity R. The remaining two directors are appointed by former T Shareholders, as a group. Entity R will prepare its own IFRS consolidated financial statements.



Analysis

Based on the legal form of the transactions, it appears that Entity R acquired two retail businesses (the retail company Entity S and the smaller retailer Entity T) in exchange for its own shares. However, when a new entity is formed to issue shares to effect a business combination between two businesses, IFRS 3 requires that one of the businesses being combined be identified as the acquirer. The identification of the acquirer in this situation requires management to determine which of the former shareholders of each entity being combined, as a group, has retained control of its entity.

In this example, Entity S is deemed to be the acquirer because it is the entity whose former shareholders collectively retain or receive the largest portion of the voting rights in the new combined entity, and they are able to appoint four out of six directors of Entity R.

“IFRS 3 initially directs an entity to IFRS 10 ‘Consolidated Financial Statements’ to identify the acquirer, and to consider which entity controls the other (ie the acquiree).”

Business combination effected by exchanging equity interests

When considering a combination effected primarily by exchanging equity interests, other factors and circumstances shall also be considered such as:

Factors to consider	Who is usually the acquirer?
Relative voting rights in the combined entity	The entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity (see Example 3 below).
Existence of a single large minority interest in the combined entity	The entity whose single owner or organised group of owners holds the largest minority voting interest in the combined entity, if no other owner or organised group of owners has a significant voting interest.
Composition of the governing body of the combined entity	The entity whose owners have the ability to elect or appoint or remove a majority of the members of the governing body of the combined entity.
Senior management of the combined entity	The entity whose (former) management dominates the combined management.
Terms of the exchange of equity interest	The entity that pays a premium over the pre-combination fair value of the equity interest of the other combining entity or entities.

It is important to note there is only ever one acquirer in a business combination. In those that involve more than two entities, it is important to consider which entity initiated the combination and the relative size of the combining entities.

Example 3 – Merger of four companies and their relative voting rights

Four companies decide to group their businesses and to do so, they decided to merge together and form NewCo. This is to create economies of scale. Each company has agreed to contribute their business to NewCo in exchange for shares in NewCo. The characteristics of the four companies are as follows:

- all 4 companies run independent cafés all in the same region
- Company A runs 3 café's and Company's B, C and D have one each
- Company A is given 40% of the voting rights, and B, C and D are given 20% each, and
- there are no other factors to indicate who the acquirer is.

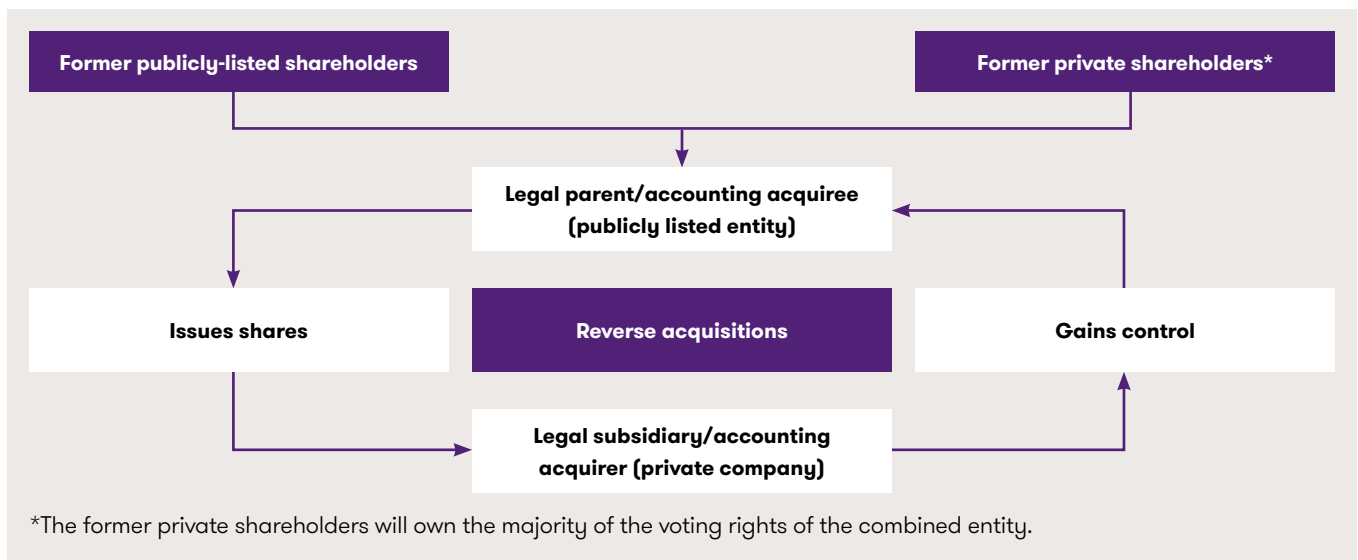
In this situation, Company A is the acquirer. Usually, the entity whose owners obtain the largest portion of the capital of the combined entity generally also has the ability to elect the majority of the members to the governing body.

Reverse acquisitions

Another common situation where the process of identifying the acquirer requires some in-depth analysis is when shares are exchanged, and the result is that the accounting acquirer is not the legal acquirer. Normally it is the entity who issues shares to acquire a business who obtains the control of the business it acquired. It is then identified as the acquirer. However, it could happen that following the issuance of the shares by the entity (legal acquirer), it is instead the legal subsidiary that is identified as the acquirer. These are known as reverse acquisitions.

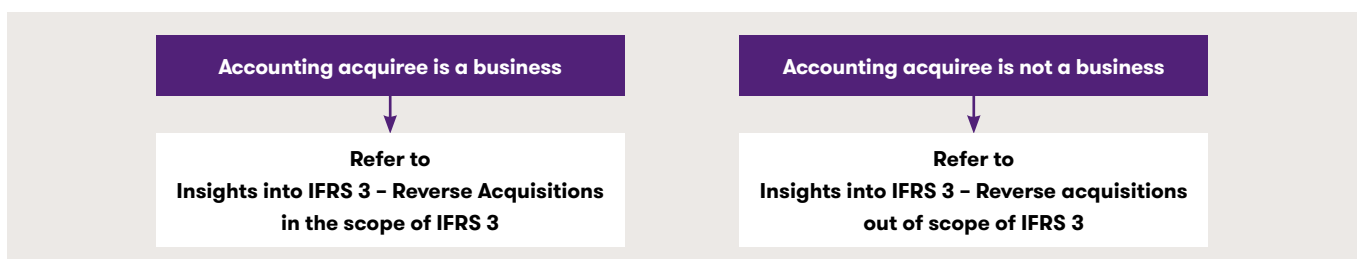
One situation in which reverse acquisitions often arise is when a private operating entity is looking for a fast-track to a public listing. To accomplish this, the private entity arranges for its

equity interests to be acquired by a smaller, publicly-listed entity. The listed entity effects the acquisition by issuing shares to the owners of the private operating entity. After the exchange of shares, the former shareholders of the private entity, as a group, hold the majority of the voting rights of the combined entity. In addition, the former shareholders of the private entity have appointed the majority of the members of the new combined entity's board. In this case, although the publicly-listed entity issued shares to acquire the private entity, the listed entity will be identified as the accounting acquiree and the private entity as the accounting acquirer. This is because the former shareholders of the private entity, as a group, have retained control over the private entity.



The accounting for reverse acquisitions depends on whether the accounting acquiree is a business. When the accounting acquiree is a business, the recognition and measurement principles in IFRS 3 apply, including the requirement to recognise goodwill. If the accounting acquiree is not a business, then it is outside the scope of IFRS 3.

As this topic is a challenging one in practice, we have a published separate guidance on this, including examples, as follows:



Business combinations by contract alone

When a business combination is achieved by contract alone, such as a stapling arrangement, with no combining entity obtaining control of the other combining entities, the acquirer should usually be the combining entity whose owners (as a group) receive the largest portion of the voting rights in the combined entity. This matter was considered by the IFRIC and an agenda decision confirming this accounting treatment was issued in May 2014.



How we can help

We hope you find the information in this article helpful in giving you some insight into IFRS 3. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.global/locations to find your local member firm.



Insights into IFRS 3

Identifying the acquisition date

Acquisitions of businesses can take many forms and can have a fundamental impact of the acquirer's operations, resources and strategies. These acquisitions are known as mergers or business combinations which should be accounted for using the requirements in IFRS 3 'Business Combinations'.

Our 'Insights into IFRS 3' series summarises the key areas of the Standard, highlighting aspects that are more difficult to interpret and revisiting the most relevant features that could impact your business. This article discusses how to identify the date of acquisition or the date the business combination is effected.

This article should be read closely with our other 'identification' articles:

- **Insights into IFRS 3 – Identifying a business combination within the scope of IFRS 3**
- **Insights into IFRS 3 – Identifying an acquirer**



How does IFRS 3 define the acquisition date?

IFRS 3 defines the acquisition date as the date the acquirer obtains control of the acquiree. In a combination effected by a sale and purchase agreement, this is generally the specified closing or completion date (the date when the consideration is transferred and acquiree shares or underlying net assets are acquired).

The acquisition date is critical because it determines when the acquirer recognises and measures the consideration transferred, the assets acquired, and liabilities assumed. The acquiree's results are consolidated from this date. The acquisition date materially impacts the overall acquisition accounting, including post-combination earnings.

The acquisition date is often readily apparent from the structure of the business combination and the terms of the sale and purchase agreement (if applicable) but this is not always the case. Complications can arise because of the many ways, both contractual and non-contractual, that business combinations can be put together.

The period between the start of negotiations and final settlement of all aspects of a combination can be protracted. Applicable corporate laws, shareholder approval requirements, competition rules and stock market regulations also vary and may affect the analysis and the date at which control is transferred to the acquirer.

Because no two business combination transactions are identical, there are few (if any) 'rules of thumb' to assist in identifying the acquisition date. Instead, the definition of control should be applied to the specific facts and circumstances of each situation. Judgement will often be required, and disclosure of the assessment made will need to be fully disclosed under the requirements of IAS 1 'Presentation of Financial Statements'.



The following are some examples of situations which require analysis and their relevant considerations when determining the date of when an acquisition of a business has taken place:

The purchase agreement specifies that control is transferred on an effective date different from the closing date

Consider whether the provisional effective date actually changes the acquisition date. In practice, many of these types of provisions are simply mechanisms to adjust the price but may not affect the date when control is obtained.

An agreement that artificially backdates the date of acquisition cannot justify the acquisition date (from an accounting perspective) being the earlier date. In other words, it cannot be subsequently decided that control took place at a date when the acquirer and the acquiree were unlikely having any relationship. Control cannot be decided afterwards on the basis of a contractual term that artificially places the acquisition date before the terms of the contract provided the acquirer with the benefits associated of returns from that date.

The purchase is complete subject to shareholder approval

Consider the date when the acquirer can effect change in the board of directors of the acquiree.

Until the approval is obtained it would be difficult to consider that control has been transferred.

The purchase is complete subject to regulatory approval

Consider whether the date of regulatory approval is merely a formality.

For example, a target company operates in a market and jurisdiction where the acquirer is already a significant competitor. Where this transaction requires the approval of the competition authority in that jurisdiction, it would be difficult to conclude this regulatory approval is just a formality. Therefore, until the approval is obtained, control cannot have been transferred to the acquirer.

No closing date specified

Consider, for example, when an investee repurchases own shares held by other investors resulting in an existing shareholder becoming a majority shareholder. In this case, the starting point is to identify the date when the shareholder's proportionate voting rights amounted to a controlling interest.

Made by public offer

Consider the date a public offer becomes unconditional (with a controlling interest acquired).

The purchase is complete subject to other conditions

Consider the date when the acquirer starts directing the acquiree's operating and financing policies.

“The acquisition date is critical because it determines when the acquirer recognises and measures the consideration transferred, the assets acquired, and liabilities assumed.”

IFRS insight – designating an effective date

For convenience an entity might wish to designate an acquisition date of the end (or the beginning) of a month, the date on which it closes its books, rather than the actual acquisition date (ie a date during the month). Unless events

between the ‘convenience’ date and the actual acquisition date result in material changes in the amounts recognised, that entity’s practice would comply with the requirements of the Standard as noted in the Basis for Conclusions to IFRS 3.

How we can help

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