



Accounting Standard Board, Nepal

The 143rd Meeting of the Accounting Standard Board, Nepal held on July 15, 2022 (2079 Ashad 31) approved the following Interpretation/Explanatory Notes on NFRS 3: Business Combination.

NFRS 3 Business Combination – Interpretation/Explanatory Notes

Reference

Conceptual Framework for Financial Reporting

NFRS 3: Business Combinations (as revised in 2018)

NFRS 13: Fair Value Measurement (as revised in 2018)

NAS 1: Presentation of Financial Statements

Background

1. *While implementing the NFRS 3 Business Combination, there may be circumstances where the fair value for the purpose of determining the purchase consideration settled in the form of equity interests issued by the acquirer and also recognizing and measuring the goodwill or a gain from a bargain purchase may not be determined because of various legislative provisions and other factors as outlined below.*
2. *Carve-outs provided earlier by the Board were only partially effective.*
3. *There may be practical difficulties in the Nepalese market in determining the fair value for the purpose of NFRS 3 – Business Combination.*

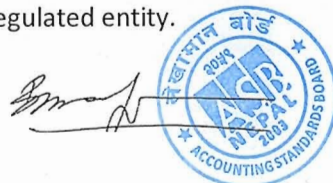
Scope

This interpretation applies only to determining the “fair value” for the purpose of determining the purchase consideration settled in the form of equity interests issued by the acquirer and recognizing and measuring the goodwill or a gain from a bargain purchase (in the case of NFRS 3 – Business Combination).

Issues

This interpretation addresses the following issues relating to NFRS 3 Business Combination:

- (a) What should be the fair value for the purpose of determining purchase consideration settled in the form of equity interests issued by the acquirer, and recognizing and measuring the goodwill or a gain from a bargain purchase, considering the following factors in the case of Nepal:
- Quoted prices may not be available on the acquisition date in case of a merger, as both the entities’ shares are suspended by the stock exchange (NEPSE).
 - Capital market may not be considered an active market on the basis of the volume of transactions traded in the stock exchange. The market has also been observed volatile.
 - The entities have different types of shares within the same class (ordinary) that are listed and have different prices. The majority of shares (“promoter” category) are traded at a much lower price than general public shares. The quoted prices are not readily accessible for all types of shares mainly for promoter shares. The majority of (promoter) shares are restricted from trading and were traded in a closed-ended market, for which approval of the Board of Directors and Regulator is required, in the case of the regulated entity.



- The price (buy and sale price) has been agreed upon/ decided on the basis of independent valuation carried out by professional accountants (experts) as fair value, considering NFRS 13 - Fair value measurement.
- Share swap ratio (for exchange of shares) between the entities (under merger and acquisition) is agreed based on the fair value (or adjusted fair value, as the case may be) as valued by the professional accountants/valuers. Where regulated, directives issued by the regulators also are considered for this purpose.
- Observable inputs are developed using market data, such as publicly available information about the actual events or transactions, and that reflects the assumptions that market participants/investors would use when pricing the asset or liability. In the case of merger/acquisition, the price and fair value information are taken from observable inputs and the investors are able and willing to do the transaction at that price.
- Those charged with governance and general meetings of both entities (acquirer /acquiree or merged) who are the market participants have agreed on the fair value as per due diligence audit (by professional) and also for the purpose of share swap ratio. Where regulated, the same is accepted by the regulator as well.
- Market participants are buyers and sellers in the principal or the most advantageous market for the assets (e.g. both entities: the shareholders) and have the characteristics of (i) they are independent of each other or not related to influence the price (ii) they are knowledgeable (iii) they are able to enter into the transaction and (iv) they are willing to enter into the transaction.
- The transactions are entered into on an arm's length basis at large by independent participants supported by professional valuation.

Consensus

In the case of NFRS 3- Business Combination, "fair value" for the purpose of determining the purchase consideration settled in the form of equity interests issued by the acquirer, and recognizing and measuring the goodwill or a gain from a bargain purchase, may be:

- Value determined as per Fair value hierarchy (NFRS 13 – Fair value measurement); or
- Value or price agreed between the acquirer and acquiree (includes merged entities) duly approved by the general meeting of both the entities

Disclosure

An entity shall disclose at least the following information:

- Value or price used for the purpose of purchase consideration settled in the form of equity interests issued by the acquirer and recognizing and measuring the goodwill or a gain from a bargain purchase ;
- Calculation of purchase consideration and the goodwill or a gain from a bargain purchase; and
- Assumptions used for determining the fair value and purchase consideration

Carve-Out

Carve-out provided based on the decisions of the Board Meeting held on 19 October 2020 (3 Kartik 2077) has now been withdrawn.

Effective date

On initial application, an entity shall apply this interpretation retrospectively when NFRS 3 – Business Combination (2018 version) was made effective.

