



Deloitte.

THE RIPPLE EFFECT

Stories of purpose and lasting impact

Accounting for change

How Deloitte helped one company emerge from bankruptcy

RESETTING A **FRESH BALANCE SHEET** AFTER **BANKRUPTCY**

THE SITUATION

A company headquartered outside the United States found itself needing to restructure its debts and contracts. To do so, however, it had to file for Chapter 11 in the United States, the home of many of its financiers. That dynamic—a foreign entity filing for bankruptcy in the United States—created some significant financial reporting challenges.

The entity adheres to International Financial Reporting Standards (IFRS®), not US Generally Accepted Accounting Principles (GAAP). With GAAP, reorganized companies that qualify for Fresh Start accounting remeasure their assets and liabilities for both debtors and non-debtors. IFRS does not follow Fresh Start accounting.

While Fresh Start requires that the assets and liabilities of the emerging entity be reset to fair value, IFRS generally prohibits companies from remeasuring their assets and liabilities to fair value or resetting their opening equity balances.

This meant the company required knowledge and insights to help them solve two basic questions: Could it achieve an IFRS financial reporting result that was akin to Fresh Start accounting? And could the company reset its balance sheet and present itself, post-bankruptcy, as a new reporting entity without any disparities in guidance between the two geographies it served?

In addition to the two major questions at hand, the company determined that it was redomiciling its parent to the United Kingdom and needed help understanding the new reporting requirements in that country as well.



THE SOLVE

Deloitte was the client's choice based on its historical experience managing large projects; deep familiarity with the US Chapter 11 process; and experience in valuation, tax, unique system solutions, technical accounting, and controls. Its international capabilities around IFRS and foreign statutory reporting needs also positioned Deloitte to serve the client's unique needs.

The company's Fresh Start team developed a preliminary deal structure that would show outcomes similar to Fresh Start under US GAAP. To achieve this, Deloitte's knowledge of the Chapter 11 process, US GAAP, and IFRS helped the company structure its plan of reorganization to trigger the application of business combination accounting under IFRS. This also helped the company avoid undesired accounting answers around various liabilities as a result of the reorganization plan.

In doing so, the emerging company was able to create a new basis of accounting, as its assets and liabilities were remeasured at fair value and its equity was reset.

Moving forward, Deloitte assisted the company with redomiciling its parent to the United Kingdom. In doing so, Deloitte helped the company maintain alignment with local statutory reporting requirements and helped the company reevaluate its entire balance sheet.

CREATING A FRESH BALANCE SHEET AMID A RESTRUCTURING


THE IMPACT

Ultimately, Deloitte successfully helped the client achieve its goal of having a clean balance sheet with the emerged entity presenting its accounts at a fair value. Deloitte also assisted the client with meeting reporting requirements, including further assistance with updates in the measurement window allowed under IFRS.

Because of the bankruptcy, the company had bandwidth issues to make the needed accounting modifications; Deloitte filled those gaps so it would not face a delay in that process either.

Now a brand-new entity, the company has a new basis of accounting for its assets and liabilities and a new way to process and track reporting in a new country.

Deloitte helped the company create a clean balance sheet with the emerged entity, presenting its accounts at a fair value.



CLEANING ITS (BALANCE) SHEETS TO START ANEW

LET'S CONNECT.

Do these challenges sound familiar?



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