
IASB[®] meeting

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Project	Business Combinations under Common Control
Topic	Whether to change project direction
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Introduction and purpose

1. As Agenda Paper 23 explains:
 - (a) this paper summarises and analyses feedback on whether the International Accounting Standards Board (IASB) should:
 - (i) choose Option I (develop recognition, measurement and disclosure requirements);¹ or
 - (ii) change project direction—that is, choose Option II (develop disclosure-only requirements) or Option III (discontinue the project);
 - (b) Agenda Paper 23B summarises and analyses feedback on what the IASB should do if it changes project direction—that is, whether to choose Option II or Option III; and
 - (c) Agenda Paper 23C provides an updated assessment of the Due Process Handbook requirements for a standard-setting project (taking into account stakeholders' feedback and our analysis of that feedback) and explains our

¹ As paragraph A4 of Agenda Paper 23C explains, if the IASB chooses Option I it would then need to decide which specific recognition, measurement and disclosure requirements to develop, which might differ from the preliminary views in the Discussion Paper *Business Combinations under Common Control*.

initial views on whether to change project direction and, if so, whether to choose Option II or Option III.

2. This paper does not contain any questions for the IASB. IASB members can raise any comments or questions on the feedback and our analysis when responding to question 1 on page 13 of Agenda Paper 23C.

Overview and structure

3. Stakeholders provided feedback on whether to change project direction. A summary of stakeholders' feedback, and our analysis of that feedback, is presented in:
 - (a) paragraphs 5–28—arguments primarily raised in support of Option I;
 - (b) paragraphs 29–55—arguments primarily raised in support of changing project direction;
 - (c) Appendix A—Additional arguments—covering arguments which were less common and have therefore not been presented in paragraphs 5–55; and
 - (d) Appendix B—Detailed feedback on particular topics—providing additional details of feedback on particular topics, for example, the frequency of business combinations under common control (BCUCCs).
4. Stakeholders sometimes provided counterarguments, explaining why they disagreed with other stakeholders' arguments for Option I / to change project direction. Feedback, including any related counterarguments, is presented and analysed in the section which the feedback primarily relates to.

Arguments primarily raised in support of Option I

5. Stakeholders' arguments for choosing Option I (develop recognition, measurement and disclosure requirements) include:
 - (a) diversity and comparability (paragraphs 7–12);

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- (b) costs incurred (paragraphs 13–16);
 - (c) recognition and measurement requirements needed to meet user information needs (paragraphs 17–21);
 - (d) disclosure-only requirements would not meet user information needs (paragraphs 22–28); and
 - (e) other arguments (paragraph A2).
6. As paragraph 4 explains, stakeholders who supported Option I also sometimes provided counterarguments to the arguments raised in support of changing project direction. Those counterarguments are presented and analysed as part of the relevant argument for changing project direction in paragraphs 29–55.

Diversity and comparability

Feedback

7. Some of the stakeholders who supported Option I said Option I was necessary to reduce diversity in recognising and measuring BCUCCs and to improve comparability.² These stakeholders said:
- (a) there is diversity in the measurement methods entities apply to similar BCUCCs, how entities apply a book-value method and one stakeholder said there is diversity in how entities apply the acquisition method;
 - (b) diversity can have a long-term effect on primary financial statements and key performance indicators; and
 - (c) one regulator said lengthy guidance on BCUCCs by accounting firms and regulators is evidence of diversity and complexity.

² Unless otherwise specified, references in this agenda paper to 'diversity' relate to diversity in recognising and measuring BCUCCs.

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8. In contrast, of the stakeholders who suggested changing project direction:
- (a) some acknowledged the diversity but nonetheless suggested changing project direction because:
 - (i) users can work with the diversity;
 - (ii) practice is largely settled;
 - (iii) any diversity reflects diversity in the substance of BCUCCs;
 - (iv) the preliminary views in the [Discussion Paper *Business Combinations under Common Control* \(Discussion Paper\)](#) would move reporting from disorganised diversity to organised diversity; and/or
 - (v) the diversity does not appear to have adversely impacted capital markets; and
 - (b) some others said they do not experience any diversity because:
 - (i) in their jurisdiction there are local requirements or practice has settled; and
 - (ii) one national standard-setter said that although auditors in their jurisdiction receive questions about BCUCCs, those questions are easily resolved and any diversity is justified.

Staff analysis

9. We acknowledge there is diversity in reporting BCUCCs but think the diversity may not be extensive because:
- (a) in some jurisdictions there are local requirements and in other jurisdictions some stakeholders said practice has largely settled, for example, as a result of guidance from national standard-setters, auditors or regulators; and
 - (b) in our 2019 research (see Appendix C of [Agenda Paper 23B](#) of the IASB's February 2020 meeting), 94% of the transactions were accounted for applying

a form of book-value method, suggesting diversity in selecting the measurement method is not extensive.

10. However, we acknowledge that there remains diversity in reporting BCUCCs because:
- (a) although there are local requirements or practice has largely settled in jurisdictions, there may be differences between guidance from different national standard-setters, auditors and regulators; and
 - (b) in our 2019 research there was diversity in how entities applied the acquisition method / a book-value method—for example, when an entity applied a form of book-value method, the controlling party’s book values were used in 45.8% of transactions, the transferred entity’s book values were used in 11.6% of transactions and we could not determine which book values were used in the remaining 42.6% of transactions.
11. [Agenda Paper 23A](#) of the IASB’s April 2023 meeting explained that the extent to which Option I would reduce diversity would depend on which specific requirements the IASB develops. For example:
- (a) prescribing which measurement method to apply to a BCUCC (for example, in line with the preliminary views in the Discussion Paper) would reduce diversity;
 - (b) allowing an accounting policy choice of which measurement method to apply would likely not reduce diversity; and
 - (c) similar considerations would apply to other workstreams of the project—for example, [Agenda Paper 23B](#) of the IASB’s April 2023 meeting explained that different approaches to applying a book-value method might be more appropriate in different circumstances so the IASB could:
 - (i) prescribe different book-value methods and the circumstances in which each book-value method should be required—however, this may

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- require significant resources to develop and be complex for stakeholders to interpret and apply;
- (ii) prescribe one standardised book-value method—however, this may not provide the most useful information for some BCUCCs; or
 - (iii) allow entities a choice of how to apply a book-value method—however, this would likely not reduce diversity.
12. If the IASB changes project direction, Option II and Option III would not reduce diversity in recognising and measuring BCUCCs (because the IASB would not develop recognition and measurement requirements) but Option II could reduce diversity in disclosure of information about BCUCCs.

Costs incurred

Feedback

13. Some of the stakeholders who supported Option I said they need requirements in IFRS Accounting Standards rather than relying on guidance from auditors and regulators (which creates costs and challenges). For example:
- (a) auditors, preparers and regulators incur costs researching comparable transactions and engaging with each other to debate and agree the appropriate reporting for a BCUCC; and
 - (b) regulators said they:
 - (i) incur costs ensuring entities across their jurisdiction apply consistent policies to report similar BCUCCs—some regulators expressed views on which recognition and measurement requirements the IASB should prescribe for some/all BCUCCs, for example, preventing an entity from applying the acquisition method to a BCUCC that does not affect the receiving entity's non-controlling shareholders (NCS); or

- (ii) cannot ensure entities across their jurisdiction apply consistent policies to report similar BCUCCs because IFRS Accounting Standards do not contain any requirements they can enforce.

Staff analysis

14. Paragraph 5.4 of the Due Process Handbook says:

The [IASB] evaluates the merits of adding a potential project to the work plan primarily on the basis of the needs of users of financial reports, while also taking into account the costs of preparing the information in financial reports.
15. We therefore think that the costs incurred by stakeholders (such as preparers) as a result of IFRS Accounting Standards not containing requirements for BCUCCs should be considered as part of the overall merits of a standard-setting project compared to the resources required for such a project.
16. If the IASB chooses Option I, costs incurred by stakeholders would be reduced. However, the IASB might:
 - (a) allow entities choices in how to report BCUCCs so regulators might still be unable to ensure consistency across their jurisdiction; or
 - (b) develop prescriptive requirements which do not align with a regulator's views on which recognition and measurement requirements to prescribe.

Recognition and measurement requirements needed to meet user information needs

17. The feedback in paragraphs 18–20, and therefore our analysis, primarily relate to user information needs of NCS for BCUCCs that affect NCS.

Feedback

18. Of the stakeholders who supported Option I:
 - (a) some said for BCUCCs that affects NCS the acquisition method would provide NCS more relevant information than applying a book-value method; and
 - (b) a few said applying the acquisition method to BCUCCs that do not affect NCS would be misleading or result in structuring opportunities.
19. Considering user feedback specifically, some users suggested choosing Option I for various reasons, including a few who said that as an NCS they would prefer information provided by the acquisition method.
20. In contrast, most users said to change project direction, of which:
 - (a) some said they can work with diversity in reporting for BCUCCs; and
 - (b) a few expressed preferences on which measurement method entities should apply, of which:
 - (i) one said NCS would be interested in fair value information;
 - (ii) one said as a credit analyst they could work with information provided by either method;
 - (iii) one user from China said users (including Chinese users and overseas users with whom they interacted) think book-value information (which is required in China) is useful; and
 - (iv) all said, regardless of those preferences, the project is not a priority for them.

Staff analysis

21. As [Agenda Paper 23E](#) of the IASB's November 2022 meeting explains, our initial view after considering feedback on the Discussion Paper was that the acquisition method would meet users' common information needs for a BCUCC that affects NCS better than a book-value method. However:

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- (a) jurisdictional diversity in user feedback (see paragraphs 42–46) means the acquisition method wouldn't meet the information needs reported by users in all jurisdictions;
 - (b) from recent feedback, most users preferred to change project direction suggesting that they can work with information provided by either method (some of the users who support changing project direction specifically said they can work with diversity); and
 - (c) even if the IASB chooses Option I it might develop requirements that differ from those suggested in paragraph 18 and, for example, allow entities to choose which method to apply to BCUCCs that affect NCS.

Disclosure-only requirements would not meet user information needs

22. The feedback in paragraphs 23–24, and therefore our analysis, primarily relate to user information needs of the receiving entity's NCS for BCUCCs that affect NCS.

Feedback

23. Some of the stakeholders who supported Option I said requiring an entity to disclose fair value information when applying a book-value method (if required under Option II³) would be insufficient to meet user information needs because it would not reduce diversity, which has a long-term effect on the primary financial statements and key performance indicators. A few stakeholders said 'good disclosure cannot replace bad accounting'.
24. In contrast, some of the stakeholders who suggested changing project direction said requiring entities to disclose such fair value information could meet user information needs, so the IASB does not need to develop recognition and measurement requirements prescribing the acquisition method.

³ As paragraph 7 of Agenda Paper 23B explains, the IASB has not yet discussed what a disclosure-only project would cover if the IASB chooses Option II.

Staff analysis

25. Paragraph 44 of [Agenda Paper 23E](#) of the IASB’s November 2022 meeting analysed whether disclosure of fair value information would meet users’ common information needs and is reproduced for convenience:

A few respondents suggested requiring a receiving entity to disclose fair value information at the transaction date instead of applying the acquisition method. Almost all users—except users from China—supported the use of the acquisition method in scenario 1 (see paragraph 26 [of [Agenda Paper 23E](#) of the IASB’s November 2022 meeting]) which provides fair value information at the transaction date and uses that fair value information as the basis for subsequent measurement. We think if NCS need fair value information about a BCUCC, their information needs will be no different to the information needs of investors in [a business combination covered by IFRS 3 *Business Combinations*], for which IFRS 3 requires the acquisition method.

26. Based on our previous analysis and recent feedback, we think disclosure of fair value information at the transaction date:
- (a) would provide useful information to evaluate the BCUCC transaction pricing at the transaction date; but
 - (b) unlike the acquisition method, would not help to evaluate the subsequent performance of the entity’s investment in a BCUCC.
27. We therefore think that, for a BCUCC that affects NCS, disclosure of fair value information at the transaction date would partially meet users’ information needs so could be considered as a compromise when considering project direction.
28. Paragraphs 14–18 of [Agenda Paper 23B](#) provide further feedback and analysis of fair value disclosures in the context of whether to choose Option II.

Arguments primarily raised in support of changing project direction

29. Stakeholders' arguments for changing project direction include:
- (a) importance to users (paragraphs 31–36);
 - (b) the IASB's resources (paragraphs 37–39);
 - (c) frequency of BCUCCs (paragraphs 40–41);
 - (d) jurisdictional diversity in user feedback (paragraphs 42–46);
 - (e) examples of misleading reporting (paragraphs 47–50);
 - (f) mixed views on which recognition and measurement requirements to develop (paragraphs 51–55); and
 - (g) other arguments (paragraph A3).
30. As paragraph 4 explains, stakeholders who supported changing project direction sometimes also provided counterarguments to the arguments raised in support of Option I. Those counterarguments are presented and analysed as part of the relevant argument for Option I in paragraphs 5—28.

Importance to users

Feedback

31. Many of the stakeholders who supported changing project direction said the project is not a priority for users.⁴
32. In contrast, of the stakeholders who supported Option I:
- (a) some questioned why users do not prioritise the project or said they expected users to prioritise the project—one regulator said that even if users do not prioritise the project, the IASB should 'protect investors from themselves'; and

⁴ This includes some national standard-setters who said the project is not a priority but did not specify whether it is not a priority for users or for their stakeholders overall.

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- (b) a few regulators said users are not misled, and therefore do not prioritise the project, only because regulators incur significant costs and time reviewing BCUCCs and challenging the reporting for a BCUCC before financial statements are published (for example, a BCUCC linked to an initial public offering (IPO) which the regulator reviews)—these costs are analysed in paragraphs 14–16.
33. Considering user feedback specifically:
- (a) most users suggested changing project direction, of which:
- (i) most said the project is not a priority and the IASB should instead allocate resources to other projects;
 - (ii) some said they can work with diversity (analysed in paragraphs 9–12); and
 - (iii) a few expressed preferences on which measurement method entities should apply (for details see paragraph 20(b)) but said, regardless of those preferences, the project is not a priority; and
- (b) some users suggested choosing Option I, suggesting they do prioritise the project, and:
- (i) a few expressed preferences on which measurement method entities should apply (see paragraph 19); and
 - (ii) one said users in their jurisdiction prioritise the project, although they acknowledged that users in other jurisdictions did not appear to prioritise the project.

Staff analysis

34. The fact that most users said to change project direction indicates that they do not prioritise the project.

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35. We think one possible explanation that many other stakeholders, such as regulators, prioritise the project despite most users not prioritising the project is that, as paragraph 41(b) explains, stakeholders' engagement with entities that undertake BCUCCs may differ. For example, regulators engage with entities preparing for an IPO which might commonly undertake BCUCCs but users would typically only consider the entity when it IPOs, after the BCUCC has occurred.
36. Agenda Paper 23C analyses the project's importance to users as part of the Due Process Handbook requirements, including the extent to which jurisdictional diversity in user feedback (analysed separately in paragraphs 44–46) may reduce the importance of the project to users.

The IASB's resources

Feedback

37. Most stakeholders did not provide feedback on whether the benefits of Option I would justify the resources necessary, although:
- (a) some of the stakeholders who supported changing project direction explicitly said the benefits of Option I would not justify the resources; but
 - (b) a few of the stakeholders who supported Option I explicitly said the benefits of Option I would justify the resources necessary.

Staff analysis

38. Although most stakeholders did not explicitly provide feedback on whether the benefits of Option I would justify the resources necessary, by supporting:
- (a) Option I, we assume these stakeholders think the benefits justify the resources; and
 - (b) changing project direction (that is, Option II or Option III), we assume these stakeholders think the benefits of Option I do not justify the resources.

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39. Agenda Paper 23C analyses:
- (a) the resources required if the IASB chooses Option I as part of the Due Process Handbook requirements; and
 - (b) whether the benefits of Option I are likely to justify the resources necessary.

Frequency of BCUCCs

Feedback

40. Some of the stakeholders who supported changing project direction said BCUCCs (particularly BCUCCs that affect NCS) are rare. However, paragraph B3 explains that stakeholders reported split views on how common BCUCCs are, with most national standard-setters saying they are common but most users saying they are rare. Other than for mainland China, feedback was not quantified.

Staff analysis

41. We think possible explanations for the reported split views could include:
- (a) the fact that almost all respondents did not quantify the frequency of BCUCCs so descriptions of BCUCCs as ‘common’ or ‘rare’ may be subjective; and/or
 - (b) stakeholders’ engagement with entities that undertake BCUCCs may differ—for example:
 - (i) users may focus primarily on publicly traded entities (which may be less likely to undertake BCUCCs in most jurisdictions);
 - (ii) national standard-setters cover both publicly traded entities and privately held entities (which may be more likely to undertake BCUCCs); and
 - (iii) all regulators supported Option I and regulators often engage with entities preparing for capital market transactions (such as an IPO or

demerger), suggesting that BCUCCs in preparation for a capital market transaction may be common.

Jurisdictional diversity in user feedback

Feedback

42. Some of the stakeholders who supported changing project direction said jurisdictional diversity in user feedback means prescribing a particular method to apply to a BCUCC would not meet user information needs globally.
43. In contrast, a few of the stakeholders who supported Option I said jurisdictional diversity in user feedback should not prevent continuing with Option I—one national standard-setter noted that although users from China preferred a book-value method, investors from other jurisdictions may also invest in Chinese entities.

Staff analysis

44. As [Agenda Paper 23E](#) of the IASB’s November 2022 meeting explains:
 - (a) almost all users from China said a book-value method should be applied to all BCUCCs; and
 - (b) almost all users from other jurisdictions said the acquisition method should be applied to a BCUCC which affects NCS of a receiving entity with shares traded in a public market—that is, the outcome of applying the preliminary views in the Discussion Paper.^{5 6}
45. Fifty two per cent of the transactions from our 2019 research were by entities listed in China (including Hong Kong), suggesting that BCUCCs by publicly traded entities

⁵ We did not receive feedback from users in every jurisdiction so it is possible that users in some other jurisdictions would prefer a book-value method to be applied to all BCUCCs.

⁶ Almost all users we conducted outreach with were asked about specific scenarios rather than the underlying principle (see [Agenda Paper 23D](#) of the IASB’s December 2021 meeting for the scenarios and more details).

are more prevalent in China than in other jurisdictions.⁷ Although we agree that some users from other jurisdictions will analyse entities listed in China, the prevalence of BCUCCs in China means that users from China are likely to encounter BCUCCs more often than users from other jurisdictions.

46. Jurisdictional diversity in user feedback for BCUCCs that affect NCS means that:
- (a) requiring a single method to be applied would likely not meet the information needs reported by all users so:
 - (i) the benefits of the project may be less than originally anticipated, because it would not meet all users' information needs; and
 - (ii) this may reduce the importance of the project to the users who would not receive the information they prefer;
 - (b) allowing entities to choose which method to apply would allow entities to choose a method which might meet users' information needs in their jurisdiction for some BCUCCs, but would not always fully meet user information needs—for example, if an entity has users that prefer different methods or if an entity applies a method its users do not prefer; and
 - (c) allowing entities to choose which method to apply might not change reporting practice for BCUCCs so a project developing recognition and measurement requirements that allow entities to choose how to report a BCUCC:
 - (i) may provide less benefits than originally anticipated, because it would not meet all users' information needs; and
 - (ii) is unlikely to be important to users.

⁷ Research limitations make it difficult to draw more definitive conclusions, the footnote to paragraph 32 of [Agenda Paper 23A](#) of the IASB's April 2023 meeting provides details.

Examples of misleading reporting***Feedback***

47. We asked stakeholders for specific examples of the reporting for a BCUCC resulting in financial statements that were misleading or failing to provide useful information about the BCUCC. Paragraph B2 provides details. In summary:
- (a) only a few stakeholders provided such examples;
 - (b) some regulators said it is difficult to describe reporting as ‘misleading’ in the absence of any specific requirements for BCUCCs; and
 - (c) some regulators said they identified BCUCCs for which an entity’s reporting did not align with the preliminary views in the Discussion Paper resulting in information that, in their view, could potentially mislead an investor.

Staff analysis

48. We acknowledge it could be difficult to describe reporting for BCUCCs as ‘misleading’ in the absence of any specific requirements to compare with the reporting.
49. As paragraphs 9–10 explain, we understand there is diversity in reporting similar BCUCCs so we would expect the current reporting for BCUCCs to not always align with the preliminary views in the Discussion Paper. This diversity means entities might not always report the most relevant information for users.
50. Although users might not always receive the most relevant information:
- (a) as paragraph 20(a) explains, some users said they could work with diversity, suggesting that diversity is not significantly affecting their decision-making; and
 - (b) the lack of specific examples of reporting for BCUCCs which can be described as ‘misleading’ suggests that significant deficiencies in reporting BCUCCs are rare.

Mixed views on which recognition and measurement requirements to develop

Feedback

51. [Agenda Paper 23](#) of the IASB’s December 2021 meeting summarises feedback on the Discussion Paper and shows that respondents had split views on which recognition and measurement requirements to develop on topics including:
- (a) which measurement method to apply to BCUCCs that affect NCS in principle;
 - (b) which measurement method to apply to BCUCCs that do not affect NCS in principle;
 - (c) exceptions to those principles (for example, the related-party exception);
 - (d) how to apply a book-value method—which book values to use; and
 - (e) how to apply a book-value method—whether to restate pre-combination information.
52. Paragraph B4 explains that, during recent meetings, stakeholders provided feedback on which recognition and measurement requirements the IASB should develop if it continues with the current project direction (mostly focused on which measurement method to apply). Specifically:
- (a) many suggested developing recognition and measurement requirements that are less prescriptive than those suggested in the Discussion Paper; and
 - (b) many others suggested developing prescriptive recognition and measurement requirements.
53. In some cases, stakeholders modified their feedback compared to their feedback on the Discussion Paper. For example, some stakeholders supported the preliminary views in the Discussion Paper but now support the ‘NCS choice principle’ explained

in Appendix A of [Agenda Paper 23A](#) of the IASB's April 2023 meeting to reflect the jurisdictional diversity in user feedback.⁸

Staff analysis

54. As paragraph 46 explains, jurisdictional diversity in user feedback for BCUCCs that affect NCS means that:
- (a) requiring a single method to be applied would likely not meet the information needs reported by all users; and
 - (b) allowing entities to choose which method to apply might not change reporting practice for BCUCCs.
55. Considering recent feedback, we also note that:
- (a) the diversity in feedback on which recognition and measurement requirements to develop means that if the IASB chooses Option I, many of the stakeholders who support Option I might not support the specific recognition and measurement requirements that the IASB would develop; and
 - (b) if the IASB allows entities to choose which method to apply to BCUCCs, diversity may increase because entities could freely choose which method to apply (unless local requirements restrict their choice).

Concluding comments

56. As noted in paragraph 2, this paper does not contain any questions for the IASB. IASB members can raise any comments or questions on the feedback and our analysis when responding to question 1 on page 13 of Agenda Paper 23C.

⁸ Applying the NCS choice principle, in principle, a receiving entity would:

- (a) for BCUCCs that affect NCS, choose to either:
 - (i) apply the acquisition method; or
 - (ii) apply a book-value method and disclose selected fair value information; and
- (b) for BCUCCs that do not affect NCS, apply a book-value method.

Appendix A—Additional stakeholder arguments

- A1. This appendix presents and analyses arguments for supporting Option I / changing project direction which were less common so have not been presented elsewhere in this paper.

Arguments raised in support of Option I

- A2. Of the stakeholders who suggested choosing Option I:

Stakeholder arguments	Staff analysis
<p>(a) a few said the IASB has already invested considerable time and resources into the project so should choose Option I.</p>	<p>This project is currently part of the research programme (explained in paragraphs 4.8–4.19 of the Due Process Handbook). The purpose of the research programme is to analyse possible financial reporting problems to help the IASB decide whether to undertake a standard-setting project—not all research projects will result in a standard-setting project.</p> <p>Agenda Paper 23C analyses the Due Process Handbook requirements and whether the benefits of Option I are likely to justify the resources</p>

	necessary (focusing on the future resources that would be required in future, not time already spent on the project).
(b) one regulator said financial statements don't provide information about the transaction price and whether NCS are treated fairly in a BCUCC.	As paragraphs 25–28 analyse, we think disclosure of fair value information at the transaction date could provide useful information to evaluate a BCUCC's pricing, so both Option I and Option II could result in entities disclosing information about the transaction price.
(c) one preparer said if the IASB accepts diversity it should explicitly allow an accounting policy choice.	If the IASB chooses to change project direction, so does not reduce diversity, that does not mean the IASB 'accepts' diversity. The IASB will decide whether to change project direction considering the Due Process Handbook requirements analysed in Agenda Paper 23C. For example, the IASB might conclude that reducing diversity would improve reporting for BCUCCs but the benefits of Option I (including reducing diversity) do not justify the resources necessary.
(d) one preparer expressed concern that auditors and regulators in some jurisdictions might attempt to enforce the views in the Discussion Paper even if the IASB decides to discontinue the project. The preparer	Paragraph A12 of Agenda Paper 23C explains that if the IASB chooses Option III we could prepare a project summary report explaining why the project was discontinued.

<p>asked whether the IASB will ‘revoke’ the Discussion Paper if it discontinues the project.</p>	
<p>(e) one national standard-setter said they updated their local accounting standards (not IFRS Accounting Standards) in 2022 to incorporate the preliminary views in the Discussion Paper.</p>	<p>Local requirements for reporting BCUCCs exist in various jurisdictions although there is diversity between jurisdictions. Paragraphs 9–12 analyse the diversity in reporting BCUCCs by entities applying IFRS Accounting Standards at a global level.</p>
<p>(f) one user said the acquisition method protects NCS.</p>	<p>Paragraph 2.28 of the Discussion Paper says ‘many jurisdictions have regulations that are designed to protect non-controlling shareholders’. Unlike those regulations, financial reporting requirements cannot ‘protect’ NCS but can aim to meet user information needs (analysed in paragraph 21).</p>

Arguments raised in support of changing project direction

A3. Of the stakeholders who said that the IASB should change project direction:

Stakeholder arguments	Staff analysis
(a) a few national standard-setters said changing project direction would avoid disrupting current practice for recognising and measuring BCUCCs.	Paragraph 3.77 of the Due Process Handbook explains that the costs of implementing proposed requirements are considered as part of assessing the costs and benefits of developing those requirements.
(b) one national standard-setter said that the focus of users, regulators and the market has changed since the project was added to the IASB's agenda.	Paragraph 16 of Agenda Paper 23 summarises trends in feedback on whether to change project direction by stakeholder groups. As that paragraph notes: <ul style="list-style-type: none"> - all regulators said to choose Option I; and - most users said to change project direction.
(c) one auditor said the project is unlikely to establish general principles that could apply to other transactions for which interpretation challenges exist (for example, other common control transactions).	The current project direction aims to fill the gap in IFRS Accounting Standards for reporting BCUCCs and not for other common control transactions because other IFRS Accounting Standards do not exclude common control transactions from their scope.

<p>(d) one auditor said there is no perfect solution for reporting BCUCCs (and structuring opportunities would exist even if the IASB chooses Option I).</p>	<p>Paragraphs 54–55 analyse the mixed views on which recognition and measurement requirements to develop, so we agree that there is no solution that would satisfy all stakeholders. Agenda Paper 23G of the IASB’s November 2022 meeting analyses structuring opportunities that would exist if the IASB chooses Option I.</p>
<p>(e) one national standard-setter said different approaches to applying a book-value method might be more appropriate in different circumstances.</p>	<p>Agenda Paper 23B of the IASB’s April 2023 meeting explains why different approaches to applying a book-value method might be more appropriate in different circumstances. Stakeholders reported mixed views on how to apply a book-value method (paragraph 54) so the IASB may need to invest resources in further research or outreach if it chooses Option I.</p>

Appendix B—Detailed feedback on particular topics

- B1. Paragraphs B2–B4 cover detailed feedback on the following specific topics:
- (a) examples of misleading reporting (paragraphs 47–50);
 - (b) frequency of BCUCCs (paragraphs 40–41); and
 - (c) which recognition and measurement requirements to develop (paragraphs 51–55).

Examples of misleading reporting

- B2. We asked stakeholders for specific examples of the reporting for a BCUCC resulting in financial statements that were misleading or failing to provide useful information about the BCUCC and:
- (a) only a few stakeholders provided such examples.
 - (b) some regulators said it is difficult to describe reporting as ‘misleading’ in the absence of any specific requirements for BCUCCs.
 - (c) some regulators said they identified BCUCCs for which an entity’s reporting did not align with the preliminary views in the Discussion Paper, for example:
 - (i) a book-value method was applied to BCUCCs that affected NCS resulting in potentially misleading information as the acquisition price paid was not fully reflected in the financial statements—the lower asset values may result in less impairment being recognised in future reporting periods; and
 - (ii) the acquisition method was applied to BCUCCs that did not affect NCS, resulting in potentially misleading recognition of a significant amount of intangible assets.
 - (d) a few stakeholders provided specific examples:

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- (i) one regulator said their local accounting standards (not IFRS Accounting Standards) permit applying the purchase method (similar to IFRS 3's acquisition method) only if that method reflects the substance of a BCUCC. An entity applied the purchase method to BCUCC but in a subsequent period restated the reporting for the BCUCC as a prior period error.
 - (ii) one national standard-setter said they were aware of an example where an entity applied a policy that contradicted the local regulator's guidance.
 - (e) one user said they do not ask questions about the reporting for BCUCCs—for example, they do not ask management for additional information about a BCUCC because they do not expect to receive any.

Frequency of BCUCCs

- B3. Many stakeholders provided feedback about how common BCUCCs are, of which:
- (a) many said BCUCCs are common but many others said BCUCCs are rare, of which:
 - (i) most national standard-setters said they are common but most users said they are rare;
 - (ii) most stakeholders from Asia-Oceania and the Americas said they are common but most stakeholders from Europe said they are rare;⁹
 - (b) most did not specify which types of BCUCCs they observe but some said they observe both BCUCCs that affect NCS and BCUCCs that do not affect NCS;

⁹ We did not identify trends by other stakeholder groups or regions.

- (c) a few stakeholders quantified how common BCUCCs are in mainland China—on average 100–200 entities listed in mainland China undertake BCUCCs per year since 2007 (data was unavailable for privately held entities);¹⁰
- (d) one user said BCUCCs by publicly traded entities might become more common if listing rules change; and
- (e) one regulator said BCUCCs are rare because most common control transactions in their jurisdictions are asset securitisations which fail the concentration test to assess whether a transaction is a business combination (see paragraphs B7A–B7C of IFRS 3) so are not accounted for as business combinations.

Which recognition and measurement requirements to develop

- B4. Although we did not specifically ask stakeholders which recognition and measurement requirements the IASB should develop if it chooses Option I, some stakeholders provided such feedback. Of these:
- (a) many suggested developing recognition and measurement requirements that are less prescriptive than those suggested in the Discussion Paper, including:
 - (i) allowing entities a choice of which method to apply to some or all BCUCCs—for example, the ‘NCS choice principle’ explained in Appendix A of [Agenda Paper 23A](#) of the IASB’s April 2023 meeting (some stakeholders);
 - (ii) developing indicators for an entity to assess the substance of a BCUCC to determine which measurement method to apply (some stakeholders); and
 - (iii) allowing entities a choice of whether to restate pre-combination information when applying a book-value method (a few stakeholders);

¹⁰ For context there are approximately 5,200 entities listed in mainland China.

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- (b) many others suggested developing prescriptive recognition and measurement requirements (for example, similar to the preliminary views in the Discussion Paper or requiring an entity to apply a book-value method to all BCUCCs), including:
- (i) most regulators who provided feedback on this topic said prescriptive recognition and measurement requirements would improve enforceability (see paragraph 13(b))—for example, if the IASB allows a policy choice then in some jurisdictions regulators are unable restrict that choice and would have to accept diversity;¹¹
 - (ii) a few stakeholders who said that if recognition and measurement requirements would not be prescriptive, the IASB should change project direction and choose Option II instead; and
 - (iii) one regulator who said different views on the best accounting for BCUCCs should not prevent the IASB from developing recognition and measurement requirements—for example, the IASB developed recognition and measurement requirements for subsequent measurement of goodwill despite stakeholders having different views on that topic;
- (c) some suggested combining prescriptive requirements for some workstreams of the project (for example, how to apply a book-value method) with less prescriptive requirements for other workstreams (for example, selecting the measurement method); and
- (d) a few suggested limiting the scope of any recognition and measurement requirements the IASB develops by:

¹¹ One regulator suggested requiring a book-value method for all BCUCCs but allowing entities to choose how to apply a book-value method. Another regulator suggested requiring entities to apply judgement in determining which measurement method to apply and allowing entities to choose how to apply a book-value method because in their jurisdiction they could restrict that choice.

- (i) reducing the scope of BCUCCs covered by the project (for example, to address only BCUCCs by publicly traded entities); or
- (ii) developing recognition and measurement requirements for only some of the workstreams (for example, selecting the measurement method) but not for other workstreams (for example, how to apply a book-value method).