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## Accounting Standards Advisory Forum meeting

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| Date     | July 2023                                                                   |
| Project  | <b>Business Combinations under Common Control (BCUCCs)</b>                  |
| Topic    | <b>Cover paper</b>                                                          |
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This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum (ASAF). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Purpose of this session

### Background

- In December 2022 we asked ASAF members' views on particular aspects of selecting the measurement method(s) to apply to BCUCCs. We reported this feedback to the IASB in the [IASB's April 2023 meeting](#).
- At its April 2023 meeting the IASB discussed whether the current project direction is likely to result in the project moving into the standard-setting phase in the future. The IASB did not make decisions on project direction at that meeting.
- Agenda Paper 5A considers the project direction.
- Agenda Paper 5B outlines some areas of diversity in how a book-value method is applied to support the discussion of options for project direction in Agenda Paper 5A.

### Purpose

The purpose of this meeting is to gather more information to help the IASB make an informed decision on project direction.

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## Options for project direction

This slide is included for ease of reference, for details see Agenda Paper 5A.

### I. Recognition, measurement and disclosure requirements

Detailed requirements, as anticipated in the Discussion Paper. Decisions could, for example, include:

- which method(s) to apply in principle;
- exceptions, including exploring possible new exceptions in more detail; and
- how to apply a book-value method.

Considering jurisdictional diversity in user feedback:

- prescribing one approach would not meet all users' information needs; and
- allowing entities a choice might meet user information needs in their jurisdiction but wouldn't reduce diversity or always meet user information needs.

### II. Disclosure-only requirements

The IASB could develop disclosure requirements for BCUCCs:

- regardless of the measurement method applied—for example, the recognised amounts of each class of assets received and liabilities assumed;
- to which the acquisition method is applied—for example, information about acquired goodwill; and
- to which a book-value method is applied—for example, which entity's book values have been used.

### III. No recognition, measurement or disclosure requirements (discontinue the project)

## Due Process Handbook requirements

This slide is included for ease of reference, for details see Agenda Paper 5A.

To decide whether a standard-setting project (options I or II on slide three) would address users' needs, the IASB considers:

|                                          |                                                                                                                                                                                                                                                             |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Deficiency in reporting</b></p>    | <p>The project aims to reduce diversity (for example, which method to apply and how to apply a book-value method) and improve transparency. The extent to which a project would achieve these aims would depend on what requirements the IASB develops.</p> |
| <p><b>Importance to users</b></p>        | <p>Engagement with users has raised questions about the importance of the project to users. There was jurisdictional diversity in user feedback—if the project does not meet user information needs globally, it may reduce its importance.</p>             |
| <p><b>Types of entities affected</b></p> | <p>52% of the 267 BCUCC transactions in our 2019 research were by entities listed in China (including Hong Kong). Research limitations make it difficult to draw definitive conclusions.</p>                                                                |
| <p><b>How pervasive or acute</b></p>     | <p>We are not aware of BCUCCs that affect NCS being common across jurisdictions. We understand that a form of book-value method is typically (but not always) applied to BCUCCs that do not affect NCS.</p>                                                 |
| <p><b>The IASB's resources</b></p>       | <p>The level of resources required would depend on what requirements the IASB develops. We expect option II to require significantly less resources than option I.</p>                                                                                      |

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## Questions for discussion

1. What problems are caused by the gap in IFRS Accounting Standards for reporting BCUCCs?
    - a) Since the project was added to the IASB's agenda in 2007, is practice largely settled or are there significant challenges in accounting for BCUCCs?
  2. Do you have specific examples where the reporting for a BCUCC resulted in financial statements that were misleading or failed to provide useful information about the BCUCC? How common are such examples?
  3. Considering the criteria on slide four, which option from slide three do you think the IASB should choose?
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