
IASB[®] meeting

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Project	Business Combinations under Common Control
Topic	Due Process Handbook assessment
Contacts	Richard Brown (rbrown@ifrs.org) Zicheng Wang (zwang@ifrs.org)

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Introduction and purpose

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to decide the project direction for its project on business combinations under common control (BCUCCs)—specifically:
 - (a) whether to choose Option I (develop recognition, measurement and disclosure requirements) or change project direction;¹ and
 - (b) if the IASB decides to change project direction, whether to choose:
 - (i) Option II (develop disclosure-only requirements); or
 - (ii) Option III (discontinue the project).
2. This paper is based on [Agenda Paper 23C](#) of the IASB's September meeting, which assessed the Due Process Handbook requirements for a standard-setting project (taking into account stakeholders' feedback and our analysis of that feedback). This agenda paper updates our assessment to reflect:
 - (a) IASB members' comments during the IASB's September 2023 meeting;

¹ As paragraph A4 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*.

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- (b) our analysis of what a disclosure-only project could cover (Agenda Paper 23B); and
 - (c) the Consejo Mexicano de Normas de Información Financiera's (CINIF's) targeted post-implementation review of requirements similar to the preliminary views in the Discussion Paper *Business Combinations under Common Control*.²

Summary of staff recommendations

- 3. As a result of our analysis, we recommend:
 - (a) the IASB changes project direction; and
 - (b) if the IASB agrees with our recommendation to change project direction, the IASB chooses Option III (discontinue the project).

Overview and structure

- 4. As paragraph 20 of [Agenda Paper 23A](#) of the IASB's April 2023 meeting explains:
 - (a) paragraphs 5.1–5.7 of the [Due Process Handbook](#) include requirements the IASB assesses when moving a project from the research phase into the standard-setting phase, including:
 - (i) criteria for potential standard-setting projects; and
 - (ii) the IASB's resources; and
 - (b) by assessing those requirements, we can consider whether the project is likely to move into the standard-setting phase in future.

² See [Agenda Paper 6](#) of the Emerging Economies Group's (EEG's) October 2023 meeting, prepared by CINIF (the Mexican financial reporting standard-setter). We understand that local accounting standards in Mexico were updated in 2021 to incorporate requirements similar to the preliminary views in the Discussion Paper.

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5. This paper covers:
- (a) criteria for potential standard-setting projects (paragraphs 7–28);
 - (b) the IASB’s resources (paragraphs 29–36);
 - (c) summary and staff recommendations (paragraphs 37–48);
 - (d) next steps (paragraphs 49–53);
 - (e) questions for the IASB; and
 - (f) Appendix A—Illustration of the options.
6. This paper considers feedback from stakeholders on project direction since the IASB’s April 2023 meeting and our analysis of that feedback. This feedback and analysis can be found in [Agenda Paper 23A](#) of the IASB’s September 2023 meeting (September AP23A) and [Agenda Paper 23B](#) of the IASB’s September 2023 meeting (September AP23B).

Criteria for potential standard-setting projects

7. Paragraph 5.4 of the [Due Process Handbook](#) explains the criteria for potential standard-setting projects:

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. When deciding whether a proposed agenda item will address users’ needs, the [IASB] considers:

- (a) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports;
- (b) the importance of the matter to those who use financial reports;

- (c) the types of entities likely to be affected by any proposals, including whether the matter is more prevalent in some jurisdictions than others; and
- (d) how pervasive or acute a particular financial reporting issue is likely to be for entities.

Deficiency in reporting

What are the deficiencies?

8. The scope of IFRS 3 *Business Combinations* excludes BCUCCs, which is a ‘gap’ in IFRS Accounting Standards. Stakeholders report that this ‘gap’ often leads to:
 - (a) diversity in reporting BCUCCs, so users do not receive comparable information;
 - (b) users being provided little information about BCUCCs; and
 - (c) stakeholders incurring costs to determine how to account for a BCUCC (explained in paragraphs 13–14).
9. These consequences of the ‘gap’ in IFRS Accounting Standards suggest that a project to resolve those deficiencies could aim to develop requirements that would:
 - (a) address user information needs by reducing diversity in reporting BCUCCs and providing users with more relevant information (paragraphs 11–12)—this is covered by the current project objective;³ and/or
 - (b) alleviate stakeholder costs (paragraphs 13–14), which:

³ The current project objective is to develop reporting requirements for a receiving entity that would reduce diversity and improve the transparency of reporting BCUCCs. More specifically, the IASB aims to provide users of a receiving entity's financial statements with better information that is both:

- (a) more relevant—by setting up reporting requirements based on user information needs; and
- (b) more comparable—by requiring similar transactions to be reported in a similar way.

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- (i) is not part of the current project objective because it was only highlighted during outreach about the project direction.
 - (ii) is not a deficiency in the way BCUCCS 'are reported in financial reports' but stakeholder report is a problem caused by the 'gap'. Paragraph 5.4 of the [Due Process Handbook](#) (reproduced in paragraph 7 of this agenda paper) requires the IASB take into account 'costs of preparing the information in financial reports' so we consider stakeholder costs in this agenda paper for a complete analysis of the problems caused by the 'gap'.
10. We are not asking the IASB to consider changing the project objective in this meeting. If the IASB chooses Option I, it could decide in a future meeting whether to update the project objective to include alleviating stakeholder costs (instead of, or in addition to, the current objective of addressing user information needs). These two objectives (addressing user information needs and alleviating stakeholder costs) are not mutually exclusive—for example, specifying which method to apply would reduce diversity and alleviate stakeholder costs. This agenda paper considers the two objectives separately where they affect our analysis of, for example:
- (a) whether the benefits (in addressing that objective) justify the resources, to decide the project direction—see paragraphs 29–36; and
 - (b) which specific requirements to develop—see paragraphs A10–A12.

User information needs

11. We think there is a deficiency in the information provided to users of financial statements about BCUCCs because:
- (a) there is diversity in recognising and measuring BCUCCs (paragraphs 7–12 of [September AP23A](#));
 - (b) there is diversity in disclosure of information about BCUCCs (paragraphs 9–13 of [September AP23B](#)); and

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- (c) users could receive more relevant information than they typically receive today.
12. However, the deficiency in information provided to users may not have significant consequences because:
- (a) diversity in recognising and measuring BCUCCs may not be extensive because, for example:
- (i) of local requirements or practice being largely settled (paragraph 9(a) of [September AP23A](#));⁴ and
- (ii) auditors, preparers and regulators engaging with each other to debate and agree the appropriate reporting for a BCUCC;
- (b) some users said they could work with diversity in recognising and measuring BCUCCs (paragraph 20(a) of [September AP23A](#)), suggesting that such diversity is not significantly affecting their decision-making; and
- (c) the lack of specific examples of reporting for BCUCCs which can be described as ‘misleading’ (paragraphs 47–50 of [September AP23A](#)) suggests that significant deficiencies in reporting BCUCCs are rare.

Stakeholder costs

13. Feedback suggests that stakeholders incur costs as a result of existing IFRS Accounting Standards not containing specific requirements for BCUCCs. As paragraph 13 of [September AP23A](#) explains, 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:

⁴ For example, CINIF’s targeted post-implementation review found that ‘We do not believe the method used was different from that which would have been used without the new requirements’—see page 20 of [Agenda Paper 6](#) of the EEG’s October 2023 meeting.

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- (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;
 - (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 requirements they can enforce.
14. CINIF’s targeted post-implementation review found that the ‘new requirements have eliminated uncertainties about which method to use’ (page 21 of [Agenda Paper 6](#) of the EEG’s October 2023 meeting). We understand that eliminating uncertainties about which method to use, and thereby alleviating stakeholder costs, was a main benefit of the new requirements.

To what extent would the options for project direction address the deficiencies?

15. Depending on the project objective(s), we think:
- (a) Option I is the only option that could alleviate stakeholder costs; and
 - (b) Option I could best meet user information needs (for example, it is the only option that could reduce diversity in recognising and measuring BCUCCs); but
 - (c) Option II could partially satisfy user information needs—for example, as paragraphs 8–15 of Agenda Paper 23B explain, Option II could aim to improve transparency:

- (i) of accounting policies applied to recognise and measure BCUCCs; and
- (ii) about BCUCC transactions.

16. Option III would not address the deficiencies in reporting, because the IASB would not develop any requirements for reporting BCUCCs.

Importance to users

17. As paragraphs 34–36 of [September AP23A](#) explain, we think:
- (a) the fact that most users said to change project direction indicates that recognition and measurement requirements (which Option I would develop) are not important to them; but
 - (b) many other stakeholders preferred Option I which could be explained, for example, by:
 - (i) stakeholders’ engagement with entities that undertake BCUCCs differing; or
 - (ii) those other stakeholders prioritising Option I to alleviate costs they incur to determine how to account for particular BCUCCs.
18. As paragraphs 42–46 of [September AP23A](#) explain, jurisdictional diversity in user feedback for BCUCCs that affect NCS means that Option I may be less important to users than originally anticipated because:
- (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.
19. The fact that most users suggested choosing Option II over Option III indicates that improving disclosure requirements is important to them. However, some users preferred Option III with a few users saying the project is a low priority.

Types of entities likely to be affected

20. The project would affect any receiving entity that enters into a BCUCC. However, a BCUCC can occur only if the reporting entity and other businesses are under common control. A publicly traded entity with disperse ownership and no controlling party cannot be a receiving entity in a BCUCC but entities which are under common control (for example, subsidiaries within a group) can undertake BCUCCs.
21. Paragraphs 40–41 of [September AP23A](#) explain that stakeholders reported split views on the frequency of BCUCCs which we think might suggest:
- (a) BCUCCs by publicly traded entities (which many users often focus on) may be rare;
 - (b) BCUCCs by privately held entities (covered by national standard-setters) may be common; and
 - (c) BCUCCs in preparation for a capital market transaction such as an initial public offering (covered by regulators) may be common.
22. As paragraph 45 of [September AP23A](#) explains, our 2019 research suggests that BCUCCs by publicly traded entities (which typically affect NCS) are more prevalent in China than in other jurisdictions.⁵

How pervasive or acute the issue is likely to be

23. Considering the issue of stakeholder costs, feedback suggests such costs are common, although we have not performed further outreach to determine either the magnitude of those costs or whether the costs differ for different types of BCUCCs.
24. Considering the issue of user information needs, Option I and Option II would both include developing disclosure requirements to provide users with more relevant

⁵ For our 2019 research see Appendix C of [Agenda Paper 23B](#) of the IASB's February 2020 meeting. The footnotes to paragraphs 32 and 34 of [Agenda Paper 23A](#) of the IASB's April 2023 meeting explain research limitations and assumptions.

information—Agenda Paper 23B explains what information we think could be relevant to users. In terms of recognition and measurement, the preliminary views in the Discussion Paper were that in principle, the acquisition method should apply to BCUCCs that affect NCS and a book-value method should apply to BCUCCs that do not affect NCS. We analyse how pervasive or acute the change in the measurement method could be separately for BCUCCs that affect NCS (paragraphs 25–26) and BCUCCs that do not affect NCS (paragraphs 27–28).

BCUCCs that affect NCS

25. We are not aware of BCUCCs that affect NCS being common across jurisdictions, particularly BCUCCs by publicly traded entities (which we expect to typically affect NCS). As paragraph 45 of [September AP23A](#) explains, 52% of these transactions in our 2019 research were by entities listed in a single jurisdiction.
26. Ninety-four per cent of the BCUCCs in our 2019 research were accounted for applying a form of book-value method. If the IASB chooses Option I and requires entities to apply the acquisition method to BCUCCs that affect NCS (in line with the preliminary views in the Discussion Paper, although paragraph A4 explains the IASB could develop requirements which differ from those preliminary views), the measurement method applied for reporting most BCUCCs that affect NCS would change.

BCUCCs that do not affect NCS

27. As paragraph 21 explains, we think BCUCCs by privately held entities or in anticipation of a capital market transaction (which we expect to typically not affect NCS) are more common than BCUCCs that affect NCS.
28. We understand that a form of book-value method is typically (but not always) applied to BCUCCs that do not affect NCS. If the IASB chooses Option I and requires entities

to apply a book-value method to BCUCCs that do not affect NCS (in line with the preliminary views in the Discussion Paper), the IASB would:

- (a) standardise this practice and alleviate stakeholder costs; but
- (b) likely not significantly change practice given our understanding that a book-value method is typically applied today.

The IASB's resources

Overall cost-benefit considerations

29. To reach our recommendation, we considered the likely costs and benefits including:
- (a) resources to develop requirements;
 - (b) costs of implementing requirements;
 - (c) ongoing costs and benefits of applying requirements; and
 - (d) ongoing costs stakeholders incur as a result of existing IFRS Accounting Standards not containing requirements for BCUCCs which could be alleviated (see paragraphs 13–14).
30. Paragraphs 3.76–3.77 of the [Due Process Handbook](#) explain:
- (a) in the research phase (which this project is in) the IASB focuses particularly on the likely benefits of developing new financial reporting requirements;
 - (b) in the standard-setting phase the IASB focuses on assessing the potential costs and benefits of a specific proposal (and any alternatives), including likely costs of implementing the requirements and the ongoing costs and benefits of applying the requirements.
31. Paragraphs 7–28 analyse the likely benefits of a project by assessing the criteria for potential standard-setting projects (for example, the extent to which a project would address user information needs). The analysis in paragraphs 32–36 focuses on the

resources incurred by the IASB and its stakeholders to initially develop requirements because those resources would have to be incurred to develop a specific proposal before we can assess the costs and benefits of that specific proposal. Although we have not analysed implementation and ongoing costs in detail:

- (a) in developing specific requirements, the IASB considers the cost constraint (paragraphs 2.39–2.43 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)*) so we assume the ongoing benefits of any requirements developed under Option I or Option II would justify the ongoing costs of applying those requirements;
- (b) developing recognition and measurement requirements would alleviate the ongoing costs stakeholders incur as a result of existing IFRS Accounting Standards not containing requirements for BCUCCs; and
- (c) the significance of implementation costs will depend on the specific requirements—for example, the IASB could provide transitional reliefs to minimise implementation costs.

Resources to initially develop requirements

- 32. Paragraph 5.7 of the [Due Process Handbook](#) explains that the IASB adds a standard-setting project to the work plan only if it concludes that the benefits of the improvements to financial reporting will outweigh the costs. As well as the IASB expending its own resources, the IASB's stakeholders expend resources, including when, for example:
 - (a) reviewing consultation documents and submitting comment letters; and
 - (b) participating in fieldwork.
- 33. The magnitude of the project (and therefore resources required) to develop an exposure draft and finalise an IFRS Accounting Standard will depend on various factors including what requirements the IASB develops. Appendix A illustrates

potential Due Process milestones and the resources that would be necessary for each of the three options.

Resources required for Option I

34. Option I would require significant resources to develop an exposure draft and finalise an IFRS Accounting Standard. Although the IASB already reached preliminary views in its Discussion Paper, to develop an exposure draft the IASB would need to:
- (a) deliberate the workstreams illustrated in Appendix A, including topics on which respondents to the Discussion Paper had mixed views (see paragraph 51 of [September AP23A](#)) which may require further research or outreach; and
 - (b) develop proposals more detailed than the Discussion Paper—for example, addressing situations such as book values not being readily available.
35. As Appendix A illustrates, Option I would require significantly more resources than Option II or Option III if the IASB proposes requirements broadly in line with its preliminary views in the Discussion Paper. Paragraphs A8–A12 analyse how the IASB could develop recognition and measurement requirements that, while not necessarily being the best solution conceptually, would aim to minimise resources required by:
- (a) not addressing all workstreams or all types of BCUCCs—for example, only developing requirements for BCUCCs that affect NCS; or
 - (b) developing simple requirements which incur less resources (a ‘simple Option I approach’)—for example, requiring entities to apply a book-value method to all BCUCCs or the NCS choice principle.⁶

⁶ Applying the NCS choice principle (explained in Appendix A of [Agenda Paper 23A](#) of the IASB’s April 2023 meeting), 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.

Resources required for Option II

36. As Appendix A and Agenda Paper 23B illustrate, Option II would require significantly less resources than Option I. As Agenda Paper 23B explains, if the IASB chooses Option II:
- (a) we think the project objective should include improving transparency of accounting policies and about BCUCC transactions;
 - (b) we have not reached a view on whether the IASB should invest resources to explore requiring disclosure of some types of fair value information (for some or all BCUCCs); and
 - (c) we think developing specific disclosure requirements would incur a moderate amount of resources, particularly if the IASB undertakes further outreach to explore the costs and benefits of disclosing fair value information for some or all BCUCCs.

Summary and staff recommendations

37. Paragraphs 38–48 summarise the benefits of a standard-setting project and the resources required, considering the Due Process Handbook requirements, to reach our recommendations on whether to:
- (a) choose Option I or change project direction (paragraphs 38–42); and
 - (b) if the IASB decides to change project direction, whether to choose Option II or Option III (paragraphs 43–48).

Whether to change project direction

38. Depending on the objective(s) of the project, we think Option I:
- (a) is the only option that could alleviate stakeholder costs; and

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- (b) could best meet user information needs (for example, it is the only option that could reduce diversity in recognising and measuring BCUCCs) but Option II could partially satisfy user information needs.
39. Comparing the benefits of Option I to what the IASB originally anticipated:
- (a) Option I is likely to achieve less benefits for the objective of user information needs because:
- (i) most users suggested changing project direction, indicating the project is not important to most users;
- (ii) the deficiency in reporting may not have significant consequences; and
- (iii) jurisdictional diversity in user feedback on BCUCCs that affect NCS means, regardless of the specific requirements the IASB develops, the reporting for those BCUCCs will not always fully meet user information needs; but
- (b) Option I would alleviate stakeholder costs, which was not anticipated as part of the original project objective.
40. If the IASB chooses Option I, we think it should follow a simple Option I approach (explained in paragraphs A8–A12, to develop simple requirements that would minimise the resources required while still improving reporting for BCUCCs) because:
- (a) incurring less resources would make it more likely that the resources would be justified by the benefits; and
- (b) such requirements would alleviate stakeholder costs and, while not necessarily being the best solution conceptually, could meet user information needs better than the information they receive today.
41. However, if the IASB chooses a simple Option I approach we think:
- (a) Option I would still incur significantly more resources than Option II;

- (b) the resources necessary to complete Option I would outweigh the benefits; and
- (c) stakeholders might not agree that simple requirements improve the reporting for BCUCCs.

Staff recommendation

42. For the reasons explained in paragraphs 38–41, we recommend the IASB changes project direction. In particular, we think that a simple Option I approach (explained in paragraphs A8–A12) would make it more likely that the resources would be justified by the benefits but, on balance, we think the resources would still outweigh the benefits.

Whether to choose Option II or Option III

43. Most stakeholders (including most users) who expressed a preference between Option II or Option III supported Option II. Depending on the objective(s) of the project, we think:
- (a) neither Option II nor Option III would alleviate stakeholder costs; and
 - (b) Option II could partially meet user information needs whereas Option III would not.
44. Option II would not fully meet user information needs (because it would not reduce diversity in recognising and measuring BCUCCs) but we think it could partially meet user information needs. Agenda Paper 23B explains that if the IASB chooses Option II:
- (a) we think a disclosure-only project should aim to improve transparency:
 - (i) of accounting policies applied to recognise and measure BCUCCs; and
 - (ii) about BCUCC transactions; and

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- (b) we have not reached a view on whether investing resources to explore requiring disclosure of some types of fair value information (for some or all BCUCCs) would be cost-beneficial.
45. Our 2019 research found the information disclosed about BCUCCs appears to be inconsistent, but we do not know why it is inconsistent and therefore we do not know what effect specific disclosure requirements aiming to improve transparency would have. For example, some entities might not disclose particular information about a BCUCC because:
- (a) the lack of specific disclosure requirements results in an entity not identifying information that would be material—in which case, specific disclosure requirements for BCUCCs could result in entities disclosing better information; or
- (b) applying IAS 1 *Presentation of Financial Statements*, the entity concludes that the information is not material—in which case, entities would likely continue to not disclose such information even if the IASB develops specific disclosure requirements for BCUCCs.
46. We think Option II would incur significantly less resources than Option I, particularly if the IASB decides not to invest resources to explore requiring disclosure of some types of fair value information (for some or all BCUCCs). Although Option II would incur significantly less resources than Option I, it would achieve less benefits because it would not alleviate stakeholder costs and we do not know what effect it would have on meeting user information needs. On balance, we think the benefits of Option II would not justify the resources necessary.
47. We think that if the IASB wants to invest resources to improve disclosure about BCUCCs (Option II) then it should invest the additional resources for a simple Option I approach (explained in paragraph 40) which:
- (a) would alleviate stakeholder costs; and

- (b) could meet user information needs better than the information they receive today—for example, by reducing diversity in recognition and measurement.

Staff recommendation

48. For the reasons explained in paragraphs 43–47, if the IASB decides to change project direction, then we recommend the IASB chooses Option III—that is discontinue the project.

Next steps

49. The next steps will depend on the IASB’s decisions on the project direction. Appendix A illustrates potential major decision points and Due Process milestones for the project. Paragraphs 50–53 suggest the more immediate next steps.

If the IASB chooses Option I

50. If the IASB chooses Option I, in future IASB meetings we expect to ask the IASB whether to:
- (a) update the project objective to include alleviating stakeholder costs; and
 - (b) aim to minimise resources in exploring potential requirements (for example, a simple Option I approach explained in paragraphs A8–A12).
51. If the IASB updates the project objective to include alleviating stakeholder costs and decides to minimise resources in exploring potential requirements, we expect to:
- (a) ask the IASB to make key decisions including:
 - (i) selecting the measurement method—for example, requiring entities to apply a book-value method to all BCUCCs or the NCS choice principle; and

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- (ii) how to apply a book-value method—for example, allowing entities to choose particular aspects of how to apply a book-value method;
 - (b) undertake outreach, for example, to confirm whether the resulting requirements would:
 - (i) meet user information needs better than the information they receive today; and
 - (ii) would alleviate stakeholder costs; and
 - (c) depending on the results of that outreach, decide to either:
 - (i) move the project to the standard-setting phase; or
 - (ii) discontinue the project (for example, if feedback suggests that simple requirements would not improve the reporting for BCUCCs).

If the IASB chooses Option II

52. If the IASB chooses Option II, we expect to:
- (a) ask the IASB to decide the project objective—in particular, whether to explore requiring disclosure of other relevant information (for example, fair value information) for some or all BCUCCs;
 - (b) develop specific requirements and undertake outreach, for example, to confirm whether the resulting disclosures:
 - (i) would be useful to users; and
 - (ii) could be disclosed at a reasonable cost by preparers; and
 - (c) depending on the results of that outreach, decide to either:
 - (i) move the project to the standard-setting phase; or
 - (ii) discontinue the project (for example, if user feedback suggests that the disclosures would have limited usefulness).

If the IASB chooses Option III

53. If the IASB chooses Option III, we expect to publish a staff project summary to explain the topics the IASB considered, the evidence that was gathered and the decisions the IASB made together with the rationale for those decisions.

Questions for the IASB

- 1) Does the IASB agree with our recommendation in paragraph 42 to change project direction?
- 2) If the IASB decides to change project direction, does the IASB agree with our recommendation in paragraph 48 to choose Option III—that is, to discontinue the project?
- 3) Depending on which option the IASB chooses when responding to questions 1 and 2, do IASB members have any comments on our next steps for that option suggested in paragraphs 49–53?

Appendix A—Illustration of the options

- A1. This appendix illustrates potential Due Process milestones and resources required if the IASB chooses each of the three options. This illustration is intended to support our assessment of the Due Process Handbook requirements and specifically whether the benefits of choosing Option I or Option II would justify the resources necessary, assessed in paragraphs 32–36.
- A2. For illustration, we assume that Option I and Option II would lead to the issuance of an IFRS Accounting Standard (Accounting Standard)⁷ but:
- (a) the IASB might choose Option I or Option II but later decide that the project should not move into the standard-setting phase; and
 - (b) the IASB might move the project into the standard-setting phase but not issue an Accounting Standard—for example, after considering feedback on an exposure draft the IASB might decide not to proceed with the project.

Option I—develop recognition, measurement and disclosure requirements

- A3. If the IASB chooses Option I, paragraph 10 explains that the IASB could decide whether to update the project objective to address alleviating stakeholder costs (instead of, or in addition to, the current objective addressing user information needs).
- A4. The IASB would continue deliberating recognition, measurement and disclosure requirements. The IASB would consider feedback on the Discussion Paper when developing requirements. These requirements might differ from the preliminary views in the Discussion Paper.
- A5. The resources required will depend on the IASB’s decisions—for example, if the IASB allows entities to choose which measurement method to apply to all BCUCCs then it might not need to deliberate exceptions. For illustration:

⁷ For simplicity, this Appendix refers to issuance of an IFRS Accounting Standard but the IASB could decide to amend an existing IFRS Accounting Standard.

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- (a) paragraph A7 assumes that the IASB proposes requirements broadly in line with its preliminary views in the Discussion Paper; and
 - (b) paragraphs A8–A12 consider how the IASB could develop requirements to minimise the resources needed.

Due Process milestones

- A6. Assuming the project leads to the issuance of an Accounting Standard, the IASB would publish an exposure draft and issue a final Accounting Standard containing recognition, measurement and disclosure requirements.

Resources required to develop requirements in line with the Discussion Paper

- A7. Assuming the IASB proposes requirements broadly in line with its preliminary views in the Discussion Paper (see paragraph A5), the topics we expect to be the most resource-intensive are:
- (a) scope:
 - (i) whether to cover group restructurings and if so how to define them;⁸
and
 - (ii) transitory common control;⁹
 - (b) selecting the measurement method:
 - (i) which method(s) to apply in principle;
 - (ii) exceptions, including exploring possible new exceptions in more detail;
and
 - (iii) clarification requests / application guidance to make the principle and any exceptions workable;

⁸ The preliminary view in the Discussion Paper was to consider group restructurings (transactions that involve a transfer of a business under common control but do not meet the definition of a 'business combination' in Appendix A of IFRS 3).

⁹ In describing BCUCCs, IFRS 3 requires that common control is 'not transitory' but does not provide guidance on that notion. The preliminary view in the Discussion Paper was to develop proposals that cover transactions preceded by an acquisition from an external party or followed by (or conditional on) a sale of the combining companies to an external party.

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- (c) applying the acquisition method:
 - (i) special features for distributions from / contributions to the receiving entity's equity; and
 - (ii) disclosure requirements; and
 - (d) applying a book-value method:
 - (i) whether to:
 - 1. prescribe one standardised book-value method;
 - 2. prescribe different book value-methods for different circumstances; or
 - 3. allow entities a choice of how to apply a book-value method;
 - (ii) which book values to use, addressing situations such as:
 - 1. book values not being readily available;
 - 2. differing accounting policies; and
 - 3. whether a BCUCC results in the initial recognition of assets and liabilities or whether the assets and liabilities would retain any associated history (for example, classification of financial instruments);
 - (iii) whether to restate pre-combination information;
 - (iv) disclosure requirements; and
 - (v) clarification requests / application guidance to make the requirements workable.

Minimising resources required

- A8. To minimise the resources required to develop recognition and measurement requirements, the IASB could, for example:

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- (a) not address all workstreams or all types of BCUCCs—for example, only develop requirements for BCUCCs that affect NCS (paragraph A9); or
 - (b) develop simple requirements which incur less resources (paragraphs A10–A12).

Not addressing all workstreams or all types of BCUCCs

A9. To minimise resources, the IASB could develop requirements which do not address all workstreams (for example, not developing requirements on how to apply a book-value method) or all types of BCUCCs (for example, only addressing BCUCCs that affect NCS). We think this approach would not improve Option I, so do not consider it further in our analysis, because:

- (a) it would not ‘fill the gap’ in IFRS 3, reducing the benefits of the project—for example, it would not alleviate stakeholder costs; and
- (b) if the IASB decides that the resources required to develop prescriptive requirements on a particular topic would outweigh the benefits of such prescriptive requirements, it could instead develop requirements allowing an accounting policy choice (for example, paragraph A11(b) considers allowing entities to choose how to apply a book-value method).

Develop simple requirements which incur less resources

A10. To minimise resources incurred, the IASB could focus on identifying solutions to key issues that would be simple to develop and, while not necessarily being the best solution conceptually, would improve reporting for BCUCCs (a ‘simple Option I approach’). In other words, rather than investing resources to consider all possible reporting requirements for BCUCCs and more complex solutions to those issues, the IASB could develop simple requirements which improve the reporting for BCUCCs and incur a reasonable level of resources.

A11. Examples of simple requirements which could incur less resources include:

- (a) for selecting the measurement method:

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- (i) requiring entities to apply a book-value method to all BCUCCs would avoid incurring resources ‘drawing a line’ between BCUCCs to which each method should apply; or
 - (ii) the NCS choice principle (explained in Appendix A of [Agenda Paper 23A](#) of the IASB’s April 2023 meeting) could avoid incurring resources deliberating exceptions (because entities could choose which method to apply to BCUCCs that affect NCS); and
- (b) allowing entities a choice on particular aspects of how to apply a book-value method (for example, whether to restate pre-combination information) because:
- (i) [Agenda Paper 23B](#) of the IASB’s April 2023 meeting explains that feedback suggests different approaches to applying a book-value method might be more appropriate in different circumstances; and
 - (ii) feedback from users has not indicated significant concerns with diversity in how entities apply a book-value method.
- A12. We think requiring entities to apply a book-value method to all BCUCCs / the NCS choice principle would improve reporting for BCUCCs because such requirements would:
- (a) reduce diversity in selecting the measurement method (requiring entities to apply a book-value method would resolve diversity for all BCUCCs whereas the NCS choice principle would resolve diversity only for BCUCCs that do not affect NCS);
 - (b) compared to the IASB’s preliminary views on selecting the measurement method:
 - (i) differ for BCUCCs that affect NCS but, as paragraph 18 explains, there was jurisdictional diversity in user feedback on which method they would prefer;

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- (ii) be consistent for BCUCCs that do not affect NCS—many stakeholders agreed with this preliminary view and most stakeholders who disagreed said a book-value method should apply except for specific circumstances (most commonly if the receiving entity has publicly traded debt); and
 - (iii) be consistent with the IASB’s preliminary views for most BCUCCs because we think BCUCCs that don’t affect NCS are more common than BCUCCs that affect NCS (paragraph 21);
- (c) alleviate costs stakeholders incur as a result of existing IFRS Accounting Standards not containing requirements for BCUCCs (see paragraphs 13–14); and
 - (d) not be costly to apply in practice because a book-value method (which entities would be required / permitted to apply to all BCUCCs) is typically less costly to apply than the acquisition method (explained in [Agenda Paper 23F](#) of the IASB’s November 2022 meeting).

Option II—develop disclosure-only requirements

- A13. If the IASB chooses Option II, it would need to update the project objective because the project would not reduce diversity in recognising and measuring BCUCCs. Paragraph A16 explains our views (based on analysis in Agenda Paper 23B) of what the project objective should cover.

Due Process milestones

- A14. If the IASB chooses Option II, the IASB would publish an exposure draft and issue a final Accounting Standard containing only disclosure requirements. These requirements would not address how to recognise and measure BCUCCs and would only contain requirements to disclose information about BCUCCs.

Resources required

- A15. Agenda Paper 23B outlines the main decisions the IASB would need to make before a disclosure-only project could move to the standard-setting phase, including:
- (a) setting the project objective; and
 - (b) developing specific requirements.
- A16. Paragraph 36 of Agenda Paper 23B summarises our views (with limitations explained throughout that agenda paper) that if the IASB chooses Option II:
- (a) we think the project objective should include improving transparency of accounting policies and about BCUCC transactions;
 - (b) we have not reached a view on whether the IASB should invest resources to explore requiring disclosure of some types of fair value information (for some or all BCUCCs); and
 - (c) we think developing specific disclosure requirements would incur a moderate amount of resources, particularly if the IASB undertakes further outreach to explore the costs and benefits of disclosing fair value information for some or all BCUCCs.

Option III—develop no recognition, measurement or disclosure requirements*Due Process milestones*

- A17. The IASB could choose to not develop any reporting requirements for BCUCCs so would discontinue the project and not publish any Due Process documents.

Resources required

- A18. If the IASB chooses Option III, it would not require significant additional resources. Some resources may be needed as a consequence of discontinuing the project—for example, to prepare a staff project summary.