IFRS Accounting

Staff paper

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IASB® meeting

Date	**September 2023**
Project	**Business Combinations under Common Control**
Topic	**Whether to choose a disclosure-only project**
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Introduction and purpose

1. As Agenda Paper 23 explains:

   (a) Agenda Paper 23A summarises and analyses feedback on whether the International Accounting Standards Board (IASB) should:

      (i) choose Option I (develop recognition, measurement and disclosure requirements); or

      (ii) change project direction—that is, choose Option II (develop disclosure-only requirements) or Option III (discontinue the project);

   (b) this paper 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 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 choose Option II or Option III. A summary of stakeholders' feedback, and our analysis of that feedback, is presented in:
   (a) paragraphs 4–24 including arguments for both Option II and Option III;
   (b) Appendix A—Additional stakeholder arguments—covering arguments which were less common and have therefore not been presented in paragraphs 4–24; and
   (c) Appendix B—Which disclosure requirements to develop—providing additional details on which specific disclosures users would find useful if the IASB chooses Option II.

Feedback and staff analysis

4. Many stakeholders did not express a preference for whether the IASB should choose Option II or Option III if it decides to change project direction (that is, if the IASB decides to not choose Option I).[1]

5. Feedback in this paper includes feedback from stakeholders who prefer Option I but nonetheless provided feedback on whether to choose Option II or Option III if the IASB decides to change project direction.

6. Stakeholders sometimes provided counterarguments, explaining why they disagreed with other stakeholders' arguments for Option II / Option III. Feedback, including any related counterarguments, is presented and analysed together.

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[1] As the footnote to paragraph 11 of Agenda Paper 23 explains, unless otherwise stated, feedback is quantified by reference to the number of stakeholders who provided feedback on each issue.

7. The IASB has not yet discussed what a disclosure-only project would cover if the IASB chooses Option II. Some stakeholders asked whether the objective of a disclosure-only project would be to:

   (a) improve transparency of accounting policies applied to recognise and measure business combinations under common control (BCUCCs)—for example, which measurement method is applied;

   (b) improve transparency about BCUCCs recognised in the financial statements—for example, the recognised amounts of each class of assets received and liabilities assumed; and/or

   (c) provide relevant information in addition to transparency of what is recognised in the financial statements in relation to a BCUCC—for example, requiring entities that apply a book-value method to recognise and measure a BCUCC that affects the entity's non-controlling shareholders (NCS) to disclose selected fair value information.

8. Stakeholders' arguments include:

   (a) whether Option II would improve transparency (paragraphs 9–13);

   (b) fair value information would be useful (paragraph 14–18);

   (c) costs of preparing disclosures (paragraphs 19–21);

   (d) IASB resources (paragraphs 22–24); and

   (e) other arguments (paragraphs A2–A3).

Whether Option II would improve transparency

Feedback

9. Some of the stakeholders who supported Option II said it would improve transparency, enabling users to understand the policies applied to report BCUCCs and the financial effects of a BCUCC. Specifically:

(a) one national standard-setter said current disclosure practice is inconsistent; and

(b) one user provided an example of an entity which undertook a BCUCC and the only disclosure was a sentence explaining that an amount recognised in the statement of changes in equity related to a BCUCC.

10. In contrast, some of the stakeholders who supported Option III said existing disclosure requirements are sufficient to provide transparency, of which:

(a) a few said existing practice of disclosing accounting policies applied to recognise and measure BCUCCs is sufficient;

(b) one auditor said their firm's guidance suggests entities should disclose their accounting policies for BCUCCs, information about significant judgements and consider whether IFRS 3 *Business Combinations*' requirements apply; and

(c) one regulator said there is established disclosure practice in their jurisdiction.

11. A few users who supported Option III said they were not concerned about transparency because:

(a) one said BCUCCs by publicly traded entities are rare and they were not concerned about BCUCCs by entities preparing for an initial public offering (IPO); and

(b) another said regulation to protect NCS in their jurisdiction means independent experts are involved so they don't rely on financial statements to assess the BCUCC.

Staff analysis

12. Agenda Paper 23A of the IASB's February 2020 meeting explains that in our 2019 research we reviewed disclosure for transactions to which entities had applied a book-value method for a sample of 18 financial statements and found:

(a) many entities disclosed how they applied a book-value method, including the following information:

(i) many entities disclosed whether the transferred entities were consolidated from the transaction date or from the beginning of the earliest period presented;

(ii) many entities disclosed that assets received and liabilities assumed were recognised at their predecessor carrying amounts and approximately half of those entities disclosed which entity's predecessor carrying amount was used (for example, the controlling party's or the transferred entity's);

(iii) some entities disclosed how the consideration transferred was measured; and

(iv) many entities disclosed how they recognised any difference between the consideration transferred and the carrying amounts of the assets and liabilities received;

(b) most entities disclosed the names of the entities involved, the transaction date, the form of consideration and the amount of consideration;

(c) many entities disclosed the percentage of interest acquired;

(d) some entities disclosed the purpose of the BCUCC and identified the controlling party;

(e) some entities disclosed particular pre-combination information about the transferred entity and a few entities disclosed a full statement of financial position and a statement of profit or loss for that entity; and

(f) a few entities disclosed that adjustments were made to harmonise the accounting policies of the combining entities.[2]

13. Our 2019 research and stakeholder feedback indicate that entities generally disclose some information about BCUCCs.[3] While the information disclosed appears to be

[2] For our 2019 research see Appendix C of Agenda Paper 23B of the IASB's February 2020 meeting.

[3] 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. In addition, the 2019 research relied on searching for keywords—it is

inconsistent, we are unable to assess whether this is due to the materiality of specific information about each BCUCC, lack of specific disclosure requirements for BCUCCs or for other reasons. Nonetheless, Option II could improve transparency compared to current practice.

Fair value information would be useful

14. The feedback on which specific disclosures users would find useful if the IASB chooses Option II, and therefore our analysis, primarily relates to:

    (a) disclosing fair value information when applying a book-value method to a BCUCC (other suggestions for disclosures are summarised in Appendix B); and

    (b) user information needs of the receiving entity's NCS for BCUCCs that affect NCS.

Feedback

15. Regarding disclosure of selected fair value information if an entity applies a book-value method, stakeholders who supported Option II said:

    (a) some said the information would be sufficient to meet user information needs (see paragraph 24 of Agenda Paper 23A);

    (b) some said the information would be useful to assess the transaction price; and

    (c) a few users said they would find information about the fair value of the consideration transferred useful (other stakeholders referred to 'fair value information' without specifying which fair value information—for example, whether it would include the fair value of each class of assets received and liabilities assumed).

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possible that entities undertook a BCUCC but did not disclose any information about the BCUCC so were not identified by the keyword search.

16. Considering user feedback specifically, some users who supported Option II said fair value information would be useful and:

    (a) one said they would prefer Option I but would accept Option II if a publicly traded entity would be required to disclose fair value information when applying a book value method to a BCUCC;

    (b) a few agreed with changing project direction because disclosure of fair value information would be a good compromise considering the challenges of Option I; and

    (c) however, one user said the fair value information would not be useful because the value of a business continually changes and they have their own valuation method.

Staff analysis

17. Paragraphs 25–28 of Agenda Paper 23A, in the context of whether to change project direction, analyse whether requiring entities to disclose fair value information can meet user information needs when entities apply a book-value method to BCUCCs that affect NCS. For the reasons explained in those paragraphs, we think disclosing such information at the transaction date could partially meet users' information needs, so could be considered as a compromise when considering project direction.

18. As paragraph 7 notes, the IASB has not yet discussed what the objective of a disclosure-only project would be if the IASB chooses Option II. If the IASB chooses to explore Option II, it could consider how useful fair value information would be and the costs of preparing that information before deciding whether to require entities to disclose that information.

Costs of preparing disclosures

Feedback

19. Some of the stakeholders who supported Option III said a disclosure-only project would be costly for preparers, including:
    (a) a few preparers who said disclosing fair value information would be costly (particularly if such disclosures would be required in periods after a BCUCC, which would require entities to keep two sets of accounting records); and
    (b) a few stakeholders who did not specify whether their cost concerns related to disclosing fair value information or only disclosures providing transparency (see paragraph 7).

Staff analysis

20. In deciding whether, and which, requirements to develop the IASB would consider the cost-benefit trade-off and, if required, consult with stakeholders to better understand the costs of preparing disclosures.

21. We think the costs of preparing disclosures would depend on the specific disclosure requirements. For example, we expect the costs of disclosing:
    (a) information providing transparency of the accounting policies applied to recognise and measure a BCUCC (for example, which method was applied and whether pre-combination information was restated) to be relatively low;
    (b) information providing transparency about BCUCCs recognised in the financial statements (for example, the recognised amounts of each class of assets received and liabilities assumed) to be relatively low; and
    (c) information additional to what is recognised in the financial statements to depend on the specific information required—for example, we expect the cost of disclosing:

(i) the fair value of the consideration transferred to be lower than the cost of disclosing the fair value of each class of assets received and liabilities assumed; and

(ii) fair value information in subsequent periods (requiring two sets of accounting records) to be relatively high.

IASB resources

Feedback

22. A few stakeholders who supported Option II said a disclosure-only project would justify the resources required. In contrast, of the stakeholders who supported Option III:

(a) a few said time already spent on the project to date is irrelevant in assessing project direction; and

(b) a few users said the project was low priority.

Staff analysis

23. Although almost all stakeholders did not explicitly provide feedback on whether the benefits of Option II would justify the resources necessary, by supporting:

(a) Option II, we assume these stakeholders think the benefits justify the resources; and

(b) Option III, we assume these stakeholders think the benefits of Option II do not justify the resources.

24. Agenda Paper 23C analyses:

(a) the resources required if the IASB chooses Option II as part of the Due Process Handbook requirements (focusing on the future resources that would be required in future, not time already spent on the project); and

(b) whether the benefits of Option II are likely to justify the resources necessary.

Concluding comments

25. 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.

Appendix A—Additional stakeholder arguments

A1. This appendix presents and analyses arguments for supporting Option II or Option III which were less common so have not been presented elsewhere in this paper.

Arguments raised in support of Option II

A2. Of the stakeholders who said that the IASB should choose Option II:

Stakeholder arguments	Staff analysis
(a) a few said the IASB has already invested considerable time and resources into the project so, if the IASB changes project direction it should choose Option II.	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 result in a standard-setting project. Agenda Paper 23C analyses the Due Process Handbook requirements and whether the benefits of Option II are likely to justify the resources

	necessary (focusing on the future resources that would be required in future, not time already spent on the project).
(b) one preparer said Option II could be a first stage before developing recognition and measurement requirements in the longer-term.	If the IASB chooses Option II, this project would only aim to develop disclosure requirements. After completing this project, the IASB could consider a future project to develop recognition and measurement requirements as part of future agenda consultations.
(c) one regulator said Option II would allow users to better assess management's stewardship.	Agenda Paper 23C analyses whether the benefits of Option II (including providing users with useful information to, among other things, assess management's stewardship of the entity's economic resources) are likely to justify the resources necessary.
(d) one user said requiring entities to disclose some fair value information would provide a level playing field between China (where local stock market require publicly traded entities to disclose some fair value information outside financial statements) and other jurisdictions.	As paragraph 18 notes, the IASB has not yet discussed whether to require disclosure of fair value information if it chooses Option II.

Arguments raised in support of Option III

A3. Of the stakeholders who said that the IASB should choose Option III:

Stakeholder arguments	Staff analysis
(a) a few said Option II will be complex because there is diversity in recognising and measuring BCUCCs and: (i) one auditor suggested starting from the disclosure requirements in IFRS 3; and (ii) one national standard-setter said outreach to understand user information needs would incur additional cost and resources.	(i) As paragraph 32 of Agenda Paper 23C explains, we agree the IASB could leverage existing requirements in IFRS 3; and (ii) we agree outreach would incur additional cost and resources—as paragraph 37 of Agenda Paper 23C explains, in a future meeting we expect to present an overview of what a disclosure-only project could cover including the extent of further consultation and outreach that would be necessary.

Appendix B—Which disclosure requirements to develop

B1. During outreach (particularly with users) we asked whether there are any specific disclosures that users would find useful if the IASB chooses Option II. Paragraphs 15–16 explain suggestions to require entities which apply a book-value method to BCUCCs that affect NCS to disclose fair value information. Other suggestions for disclosures included:

(a) the policies selected—for example, the measurement method selected and which book values were used (a few stakeholders);

(b) the strategic rationale for the acquisition, future plans for the acquired business and expected synergies (one preparer); and

(c) if an entity applies the acquisition method to a BCUCC, disclosure of the book values of each class of assets and liabilities (one user).