IFRS

STAFF PAPER

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Project	Business Combinations under Common Control
Paper topic	Feedback on selecting the measurement method—the principle
CONTACT(S)	Richard Brown rbrown@ifrs.org

Purpose

1. This paper summarises feedback on the International Accounting Standards Board (IASB)'s preliminary views about the principle for selecting the measurement method to apply to a business combination under common control (BCUCC). Agenda Paper 23C summarises feedback on the cost-benefit trade-off and other practical considerations.

2. As explained in Agenda Paper 23, this paper does not ask for any decisions.

Structure of this paper

3. The paper includes:

   (a) preliminary views (paragraphs 4–5);

   (b) key messages (paragraph 6–13);

   (c) feedback (paragraphs 14–50), including:

      (i) whether to apply only one method (paragraphs 16–25);

      (ii) BCUCCs that affect NCS[1] (paragraphs 26–40); and

      (iii) BCUCCs that do not affect NCS (paragraphs 41–50).

[1] Non-controlling shareholders of the receiving entity

(d) question for the IASB; and

(e) Appendix A—Preliminary views and rationale.

Preliminary views

4. The IASB's preliminary views are:

   (a) neither the acquisition method nor a book-value method should be applied to all BCUCCs;

   (b) in principle, the acquisition method should be applied if a BCUCC affects non-controlling shareholders of the receiving entity, subject to the cost-benefit trade-off and other practical considerations (NCS principle); and

   (c) a book-value method should be applied to other BCUCCs, including combinations between wholly-owned entities.

5. Paragraphs 2.1–2.34 of the Discussion Paper *Business Combinations under Common Control* explain the IASB's reasons for these preliminary views. Appendix A summarises these reasons and includes a visual summary of the preliminary views.

Key messages

Whether to apply one method

6. Most respondents agree with the preliminary view that neither the acquisition method nor a book-value method should be applied to all BCUCCs. Some respondents (including most respondents from China) disagree and say a book-value method should be applied to all BCUCCs. A few respondents report mixed views within their organisation/jurisdiction or do not express a clear view.

BCUCCs that affect NCS

7. Many respondents agree with the preliminary view that, in principle, the acquisition method should be applied if a BCUCC affects non-controlling shareholders of the receiving entity (NCS), subject to the cost-benefit trade-off and other practical

considerations (the NCS principle). Additionally, some respondents agree with the NCS principle overall but suggest modifying it such that a receiving entity would apply a book-value method if affected NCS are insignificant.

8. Many respondents disagree, of which:

   (a) some say a book-value method should be applied to all BCUCCs (as mentioned in paragraph 6);

   (b) some say the receiving entity should apply either the acquisition method or a book-value method to BCUCCs that affect NCS (or to all BCUCCs[2]) depending on the substance of the BCUCC; and

   (c) some say the receiving entity should have a choice between applying the acquisition method or a book-value method to BCUCCs that affect NCS (or to all BCUCCs).

Trends in feedback by type and location of respondent[3]

9. We identified the following trends in feedback on the NCS principle by region:

   (a) all respondents from Africa agree;

   (b) many respondents from Asia-Oceania (including most from Australia) agree and many others (including most from China and Japan) disagree;

   (c) many respondents from Europe (including all from the United Kingdom) agree and many others (including most from Germany) disagree;

   (d) most respondents from Latin America (including all respondents from Brazil) disagree;

   (e) most respondents from the US & Canada agree; and

   (f) most respondents from global organisations agree.

[2] Some respondents say the same approach (for example assessing the substance) should be used for all BCUCCs, regardless of whether they affect NCS. Other respondents say different approaches should be used for BCUCCs that affect NCS and BCUCCs that do not affect NCS. This paper summarises feedback relating to BCUCCs that affect NCS separately from BCUCCs that do not affect NCS.

[3] References in paragraphs 9–10 to respondents who agree with the NCS principle includes respondents described in paragraph 29 of this paper.

10. We identified the following trends in feedback on the NCS principle by stakeholder groups:

    (a) most accountancy bodies, accounting firms and national standard-setters agree;

    (b) many individuals and regulators agree but many other individuals and regulators disagree[4]; and

    (c) most preparers disagree.

11. Almost all users of financial statements (users) we conducted outreach with were asked about specific scenarios rather than the underlying principle (see Agenda Paper 23D paragraphs 10–11 for more details) and are therefore excluded from the regional analysis in paragraph 9. All users—except users from China—agree that the acquisition method should be applied to a BCUCC which affects the NCS of a receiving entity with shares traded in a public market (that is, the outcome of applying the NCS principle). Almost all users from China say a book-value method should be applied to the same scenario.

BCUCCs that do not affect NCS

12. Many respondents agree with the preliminary view that a book-value method should apply to BCUCCs that do not affect NCS, including combinations between wholly owned entities. However, many disagree, of which:

    (a) most say the acquisition method should apply in specific circumstances (most commonly if the receiving entity has publicly traded debt) but otherwise agree with the preliminary view;

    (b) a few say the receiving entity should have a choice between applying the acquisition method or a book-value method to BCUCCs that do not affect NCS (or to all BCUCCs); and

[4] One global organisation representing a large number of regulators says most of its members disagree.

(c) a few say the receiving entity should apply either the acquisition method or a book-value method to BCUCCs that do not affect NCS (or to all BCUCCs) depending on the substance of the BCUCC.

13. We did not identify trends in feedback by region or stakeholder type but note that within any regions or stakeholder group (except for academics[5]) at least a majority of respondents agree with the preliminary view of which method to apply to BCUCCs that do not affect NCS[6].

Feedback

14. Ninety-eight comment letters include feedback on the preliminary views about the principle for selecting the measurement method. We also received feedback through outreach meetings with stakeholders.

15. Many respondents asked the IASB to clarify particular terms and aspects of the preliminary views. Appendix A to Agenda Paper 23C summarises these requests.

Whether to apply only one method

16. Most respondents agree with the preliminary view that neither the acquisition method nor a book-value method should be applied to all BCUCCs for some or all of the reasons considered by the IASB in developing its preliminary view (see paragraphs A2–A6 of Appendix A).

17. Some respondents say a book-value method should be applied to all BCUCCs. The remainder of this section summarises reasons provided by these respondents split into:

    (a) reasons previously considered by the IASB (paragraphs 18–21); and

    (b) other reasons (paragraphs 22–25).

[5] Two comment letters were received from academics—one agrees and one disagrees.

[6] References in paragraph 13 to respondents who agree a book-value method should apply to BCUCCs that do not affect NCS includes respondents described in paragraph 12(a) of this paper.

Reasons previously considered

18. All respondents who say a book-value method should apply to all BCUCCs express some or all of the reasons considered by the IASB in developing its preliminary view including:

    (a) BCUCCs lack economic substance (paragraph 19);

    (b) reasons in favour of a book-value method (paragraph 20); and

    (c) reasons why the acquisition method would not provide the most useful information (paragraph 21).

Lack of economic substance

19. Many of the respondents who say a book-value method should apply to all BCUCCs say BCUCCs lack economic substance from the controlling party's perspective because ultimate control of the transferred business does not change. Most of these respondents say in their experience the controlling party directs the transaction.

Reasons in favour of a book-value method

20. Respondents who say a book-value method should be applied to all BCUCCs agree with the reasons previously considered by the IASB in favour of a book-value method, including the following:

    (a) most say a book-value method would best meet information needs common to all shareholders, lenders and other creditors of the receiving entity, including the controlling party, and provide the following additional feedback:

        (i) most of these say book-value information would meet NCS' information needs, including information for trend analysis;

        (ii) some of these say if NCS need fair value information, they need it only at the transaction date and this could be disclosed in the notes to the financial statements instead of requiring the use of the acquisition method; and

        (iii) many of these say the controlling party's needs, which in their view is better met by book-value information than fair value information, should be considered. In addition:

1. some say regulations may prevent the controlling party from obtaining information it needs from the receiving entity and, in these situations, the controlling party relies on the receiving entity's financial statements;
2. some say the project should address the controlling party's information needs because it is a primary user of the receiving entity's financial statements as explained in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*.
3. one national standard-setter says the *Conceptual Framework* specifies that accounting treatments should be determined from the reporting entity's perspective and not from the perspective of NCS or particular groups of investors; and
4. one national standard-setter says the logic in the Discussion Paper would lead to ignoring the controlling party's information needs in all standard-setting, which they say would be inappropriate.

(b) many say a book-value method would be less costly to apply than the acquisition method, and provide the following additional feedback:

(i) some of these say the controlling party would incur additional costs to reverse fair value adjustments when preparing its own financial statements if the receiving entity applies the acquisition method; and

(ii) some of these say the receiving entity would incur not only the initial costs of the purchase price allocation but also ongoing additional costs for subsequent measurement (for example, impairment tests) if it applies the acquisition method.

(c) many say a book-value method would better align with prevailing practice and with requirements or guidance in many jurisdictions, and provide the following additional feedback:

(i) most of these say a book-value method works well; and

(ii) some express concerns about divergence from US GAAP which requires a book-value method.

Reasons why the acquisition method would not provide the most useful information

21. Respondents who say a book-value method should be applied to all BCUCCs agree with the reasons previously considered by the IASB regarding the acquisition method not providing the most useful information:

    (a) some say the acquisition method would involve significant uncertainty in measuring assets and liabilities received in a related party transaction at fair value, and provide the following additional feedback:

        (i) some of these say fair values may be unreliable; and

        (ii) one user from China says a reliable book-value would be more useful than the potential relevance of fair value in the absence of an external transaction.

    (b) some say the acquisition method would result in measuring goodwill at an amount not evidenced by a transaction price between independent parties, and provide the following additional feedback:

        (i) one national standard-setter says the judgements and estimates involved may negatively affect the quality of accounting information and the stability of the capital market;

    (c) some say the acquisition method would treat any synergies between the combining entities as newly acquired, even though some of those synergies may have already existed before the combination; and

    (d) some say applying the acquisition method to only some BCUCCs would decrease comparability between BCUCCs and create opportunities for accounting arbitrage.

Other reasons

22. Respondents who say a book-value method should apply to all BCUCCs also provide other reasons for their view.

23. Paragraph 1.27 of the Discussion Paper says NCS rely on general purpose financial statements to meet their information needs. In a few jurisdictions, capital markets regulations require listed entities to provide shareholders fair value information and therefore respondents from those jurisdictions say NCS of listed entities do not need to rely on general purpose financial statements to meet their information needs.

24. A few preparers say applying the acquisition method could result in the receiving entity reporting the acquired assets and liabilities at values different from the controlling party's reporting. For example, Volkswagen AG says:

> If the subgroups are required to apply acquisition accounting for acquisitions under common control, we will either present different key performance indicators for the subgroups than the subgroup presents for itself – which in our experience results in significant confusion for both internal management and external investors – or we will have to eliminate such differences on group level, which in turn will increase the complexity of our own financial statements.

25. One individual says IFRS Standards do not generally require transactions under common control to be measured at fair value (regardless of the involvement of NCS) and instead require disclosure applying IAS 24 *Related Party Disclosures*—in the respondent's view, this indicates disclosures can meet NCS' information needs.

BCUCCs that affect NCS

26. The IASB's preliminary view is that, in principle, the acquisition method should apply if a BCUCC affects non-controlling shareholders of the receiving entity, subject to the cost–benefit trade-off and other practical considerations (NCS principle).

27. Many respondents agree with this preliminary view. These respondents express some or all of the reasons for the preliminary view explained in the Discussion Paper (see Appendix A). Additionally:

   (a) some respondents say the NCS principle will reduce diversity; and

   (b) a few respondents agree for practical reasons—for example, the European Financial Reporting Advisory Group (EFRAG) says:

   > EFRAG is of the view that the economic substance should be the key element for selecting the measurement method for BCUCC transactions. Due to practical considerations, EFRAG acknowledges that the IASB's proposed decision tree may offer a proxy to operationalise the decision about which measurement method to apply.

28. Almost all users we conducted outreach with were asked about specific scenarios rather than the underlying principle (see Agenda Paper 23D paragraphs 10–11 for more details). All users—except users from China—agree that the acquisition method should be applied to a BCUCC which affects the NCS of a receiving entity with shares traded in a public market (that is, the outcome of applying the NCS principle). Almost all users from China say a book-value method should be applied to the same scenario.

Suggested modifications

29. Some respondents generally agree with the preliminary view but suggest modifying it[7] as follows:

   (a) most of these respondents suggest applying a book-value method to a BCUCC that affects NCS if the NCS are insignificant[8]. Many of these respondents say doing so would reduce opportunities for accounting arbitrage (for example, introducing insignificant NCS just before a BCUCC in order to be able to apply the acquisition method). Some of these respondents say the costs of applying the acquisition method outweigh the benefits when affected NCS are insignificant.

   (b) a few of these respondents suggest applying a book-value method in the following specific situations even if NCS are affected:

      (i) if the transaction is a group restructuring—that is, it does not meet the definition of a business combination in IFRS 3, see Agenda Paper 23A paragraphs 18–21 (a few respondents);

      (ii) if the consideration paid for the BCUCC was determined by the controlling party (one national standard-setter);

      (iii) if the NCS, for example employees, have greater access to the receiving entity's financial information than would be expected for NCS (one national standard-setter);

[7] In later paragraphs, we refer to these as respondents who mostly agree with the NCS principle.

[8] We use the term 'insignificant' for simplicity—however, these respondents suggest various thresholds, including for example considering only NCS that are 'significant' / 'material' / 'substantive', disregarding NCS that are 'insignificant' / 'immaterial' / 'de minimis' or disregarding NCS 'without significant influence'. Some respondents refer to the NCS whilst others refer to the ownership interests held by NCS.

(iv) if the receiving entity is a new entity and does not constitute a business (one national standard-setter); and

(v) if the BCUCC does not have economic substance—the respondent does not define economic substance but suggests doing so (one national standard-setter).

Disagreements with the NCS principle

30. Many respondents disagree with the NCS principle. Paragraphs 31–32 summarise their reasons and paragraphs 33–40 summarise their suggestions.

Reasons for disagreeing

31. Some of the respondents who disagree with the NCS principle say a book-value method should be applied to all BCUCCs. Paragraphs 17–25 explain these respondents' reasons.

32. The other respondents who disagree with the NCS principle agree that neither the acquisition method nor a book-value method should be applied to all BCUCCs but disagree with the NCS principle. Most raise concerns similar to those expressed by respondents who support using a book-value method in all cases (see paragraphs 17–25). For example, some of these respondents say not all BCUCCs that affect NCS are similar in economic substance to business combinations between unrelated parties. These respondents also say:

(a) NCS should not be the sole determinative factor, although some say NCS should be one of multiple factors considered—see also paragraph 35 (many respondents);

(b) NCS are protected by law (for example jurisdictional regulations or shareholder agreements) and do not need to also be 'protected' by the accounting method (some respondents)—some of these respondents say accounting standards should not give NCS additional rights beyond those agreed in the shareholder agreement;

(c) the NCS principle may not be practicable (a few respondents);

(d) when the controlling party undertakes a transaction such as a spin-off, it may be considering alternative structures and not know whether NCS will be affected—in such cases, being required to change between a book-value method and the acquisition method could jeopardise the transaction timetable (one preparer).

Alternative suggestions

33. Respondents who disagree with the NCS principle suggest the following alternative approaches to determine which accounting method to apply to BCUCCs that affect NCS:

(a) some respondents say a book-value method should be applied to all BCUCCs regardless of the effect on NCS (paragraph 17);

(b) some respondents say the receiving entity should apply either the acquisition method or a book-value method to BCUCCs that affect NCS, or to all BCUCCs, depending on the substance of the BCUCC[9] (paragraphs 34–36);

(c) some respondents say the receiving entity should have a choice between applying the acquisition method or a book-value method to BCUCCs that affect NCS, or to all BCUCCs (paragraphs 37–39); and

(d) a few respondents suggest using alternative criteria to determine which method to apply to BCUCCs that affect NCS, or to all BCUCCs (paragraphs 40).

Assessing substance

34. Some respondents suggest requiring the receiving entity to assess the 'substance' of a BCUCC that affects NCS to determine which method to apply because:

(a) doing so would remove opportunities for accounting arbitrage; and

(b) unlike allowing a free choice, doing so would improve comparability.

35. Some respondents do not suggest how an entity would assess the substance of a BCUCC but most suggest different factors or combination of factors to consider including:

(a) the existence of NCS (many respondents);

[9] Paragraph 35 explains factors respondents suggest are relevant to assess the substance.

(b) the purpose of the combination—for example preparing for an initial public offering (IPO) or only for legal reasons (many respondents);

(c) whether the transaction is priced at arm's length and the degree of measurement uncertainty and judgement required to determine whether the transaction is priced at arm's length (some respondents);

(d) whether the transaction price has been independently reviewed (some respondents);

(e) the materiality of the transferred business (one respondent); and

(f) the substance of the BCUCC from both the receiving entity's and controlling party's perspective (one respondent).

36. One national standard-setter acknowledges the subjectiveness of assessing the substance but nonetheless say it is important to do so. Some respondents suggest requiring disclosure of the factors considered and key judgements applied in determining the substance.

Accounting policy choice

37. Some respondents suggest allowing the receiving entity a choice of applying either the acquisition method or a book-value method to BCUCCs that affects NCS.

38. Some respondents say management of an entity is responsible for selecting accounting policies and a choice would allow the receiving entity's management to apply the most appropriate method based on the facts and circumstances considering users' information needs and cost-benefit trade-offs. One preparer representative group says this choice would give the receiving entity flexibility to avoid unanticipated outcomes, for example asymmetry with the transferring entity's reporting.

39. One preparer representative group says a choice would be consistent with IFRS 1 *First-time Adoption of International Financial Reporting Standards* which allows first-time adopters to choose to use the fair value of particular assets as their deemed cost. This respondent says that without a choice of measurement method, the receiving entity—which could be a new entity—would report a BCUCC differently if it adopts IFRS shortly before or after the combination.

Alternative criteria

40. A few respondents suggest the following alternative criteria to determine which method to apply:

    (a) requiring publicly traded receiving entities to always apply the acquisition method and requiring privately held receiving entities to always apply a book-value method (one preparer representative group)[10];

    (b) requiring a receiving entity to apply the acquisition method if a BCUCC changes the receiving entity's cash flows (which the respondent expects to be the case for most BCUCCs), and a book-value method in other situations (one individual);

    (c) requiring a receiving entity to apply the acquisition method when consideration for a BCUCC is paid in assets or by issuing a liability, and a book-value method in other situations (one regulator); and

    (d) considering whether a receiving entity should be required to apply the acquisition method when a BCUCC changes the controlling party's ownership interest, and a book-value method in other situations (one accountancy body).

BCUCCs that do not affect NCS

41. Many respondents agree with the IASB's preliminary view that a book-value method should be applied to BCUCCs that do not affect NCS, including combinations between wholly-owned entities, for some or all of the reasons explained in the Discussion Paper (see paragraph A9 of Appendix A). However, many respondents disagree.

42. Respondents' views on this question in some cases relate to their views on previous questions—that is, whether one method should apply to all BCUCCs and the NCS principle. Considering views expressed on those previous questions:

[10] Some other respondents also suggest requiring privately held receiving entities to always apply a book-value method as an alternative to the optional exemption—see paragraph 19 of Agenda Paper 23C. Paragraph B7 of Agenda Paper 23C explains the optional exemption.

(a) all respondents who say a book-value method should be applied to all BCUCCs agree with the preliminary view;

(b) many respondents who agree or mostly agree[11] with the NCS principle agree with the preliminary view but many others disagree; and

(c) most respondents who agree that one method should not be applied to all BCUCCs but disagree with the NCS principle (see paragraph 32) disagree with the IASB's preliminary view.

Disagreements and alternative suggestions

43. Many respondents disagree with the IASB's preliminary view that a book-value method should be applied to BCUCCs that do not affect NCS, including combinations between wholly-owned entities. Paragraphs 44–50 summarise their suggestions and reasons. These respondents suggest:

(a) most say the acquisition method should apply in specific circumstances (most commonly if the receiving entity has publicly traded debt) but otherwise agree with the preliminary view;

(b) a few say the receiving entity should have a choice between applying the acquisition method or a book-value method to BCUCCs that do not affect NCS (or to all BCUCCs); and

(c) a few say the receiving entity should apply either the acquisition method or a book-value method to BCUCCs that do not affect NCS (or to all BCUCCs) depending on the substance of the BCUCC.

Publicly-traded instruments other than shares

44. Many respondents who disagree say the receiving entity should apply the acquisition method if it has debt and/or other instruments that are publicly traded. These respondents say:

[11] See paragraph 29.

(a) the holders of such instruments need information provided by the acquisition method (for more detailed feedback from users see paragraphs 31–33 of Agenda Paper 23D); and

(b) similar information should be provided regardless of whether a publicly traded instrument is classified as debt or equity for accounting purposes.

45. Almost all of these respondents otherwise agree with the preliminary view.

Allowing a policy choice

46. A few respondents who disagree with the preliminary view say receiving entities should have a choice of which method to apply to BCUCCs that do not affect NCS. These respondents' suggestions in this respect were similar to those discussed in paragraphs 37–39. Of these respondents:

(a) a few say receiving entities should have a choice of which method to apply to all BCUCCs (regardless of whether the BCUCC affects NCS); and

(b) a few agree or mostly agree with the NCS principle but say the receiving entities should have a choice of which method to apply to BCUCCs that do not affect NCS. These respondents say:

(i) users other than NCS may need fair value information (one accountancy body);

(ii) the costs of determining the fair values may have already been incurred, for example if required by local law (one preparer); and

(iii) the receiving entity should disclose justification if it applies acquisition accounting to a BCUCC that does not affect NCS (one accounting firm).

Assessing substance of a BCUCC

47. A few respondents who disagree with the preliminary view say receiving entities should assess the substance of all BCUCCs (regardless of whether the BCUCC affects NCS) to determine the appropriate accounting for the BCUCC. These respondents' suggestions in this respect were similar to those discussed in paragraphs 34–36.

Alternative criteria

48. A few respondents who disagree with the preliminary view say receiving entities should apply alternative criteria to determine which method to apply to BCUCCs that do not affect NCS. These respondents' suggestions in this respect were similar to those discussed in paragraph 40. Of these respondents:

    (a) a few say receiving entities should apply alternative criteria to determine which method to apply to all BCUCCs (regardless of whether the BCUCC affects NCS); and.

    (b) a few agree or mostly agree with the NCS principle but say receiving entities should apply the following alternative criteria to determine which method to apply to BCUCCs that do not affect NCS:

        (i) one academic representative group says receiving entities should have a choice of which method to apply if the BCUCC has economic significance and the fair value of the acquired business has been reliably determined, otherwise a book-value method should be applied; and

        (ii) one individual says a book-value method should:

            1. be permitted only if consideration is paid in own shares; and

            2. be required if applying the acquisition method would be impracticable.

Specific situations

49. Some respondents say the receiving entity should apply the acquisition method to BCUCCs that do not affect NCS if:

    (a) the receiving entity has lenders or other creditors, for example, a material BCUCC in which the receiving entity has external financing (a few respondents);

    (b) a BCUCC is undertaken before an IPO or external sale (a few respondents—one of which suggested providing a choice of which method to apply in this situation);

(c) the transferring entity has non-controlling shareholders (one national standard-setter) or the receiving entity's parent entity has non-controlling shareholders (another national standard-setter);

(d) the transaction is priced at fair value (one national standard-setter); and

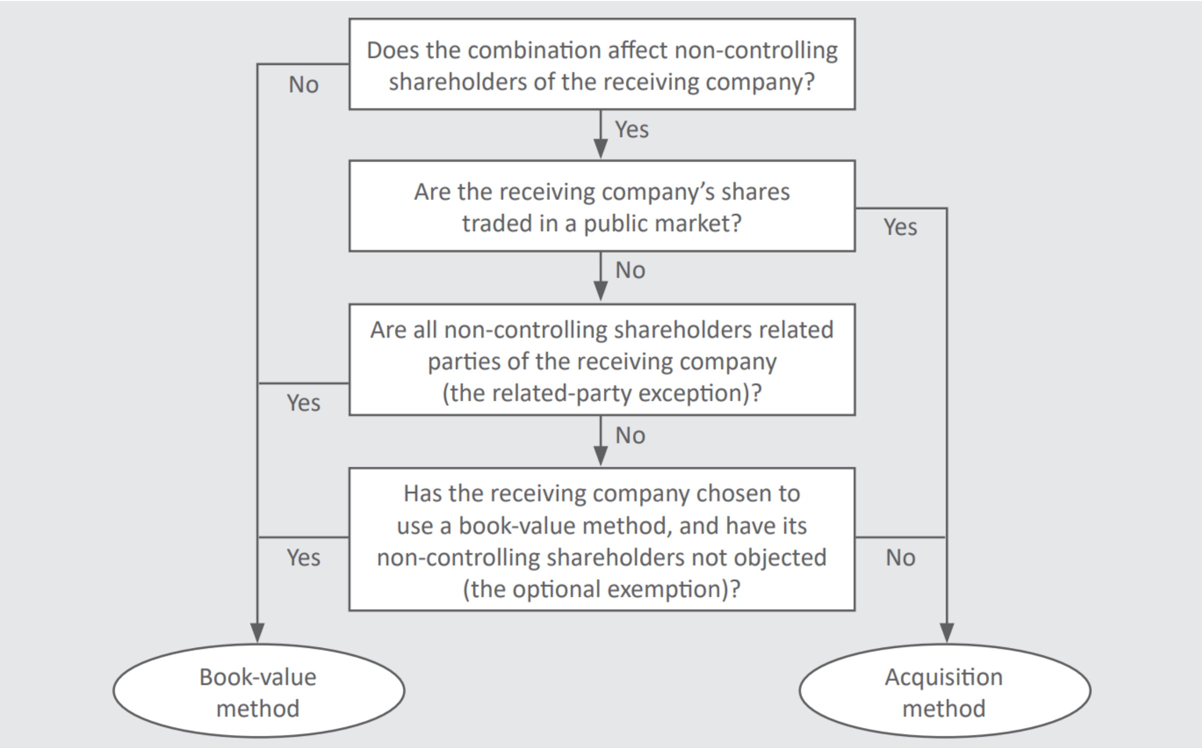
(e) the receiving entity should be allowed to apply the acquisition method in rare and specific circumstances if that would better reflect the substance of the transaction (one preparer representative group).

50. All of these respondents agree or mostly agree with the NCS principle and almost all agree that a book-value method should apply to all BCUCCs that do not affect NCS except in these specific situations.

Question for the IASB
Does the IASB have any questions or comments on the feedback discussed in this paper? Specifically: (a) is there any feedback that is unclear? (b) are there any points you think the IASB did not consider in developing the Discussion Paper but should consider in the re-deliberations? (c) are there any points you would like staff to research further for the re-deliberations?

Appendix A—Preliminary views and rationale

A1. This diagram, extracted from paragraph 2.55 of the Discussion Paper, summarises the IASB's preliminary views on which method to apply to a BCUCC.



Neither the acquisition method nor a book-value method should be applied to all BCUCCs

A2. In developing the Discussion Paper, the IASB considered views from different stakeholders which can be summarised as follows:

(a) View A—BCUCCs are different from business combinations covered by IFRS 3. Accordingly, the acquisition method should not be applied to any BCUCCs. Instead, a book-value method should be applied to all BCUCCs;

(b) View B—BCUCCs are similar to business combinations covered by IFRS 3 in most, if not all, cases. Accordingly, the acquisition method should normally be applied to BCUCCs, except perhaps in some cases when the benefits of information produced by that method do not justify the costs of applying it. In those cases, a book-value method should be applied; and

(c) View C—some BCUCCs are similar to business combinations covered by IFRS 3 and others are not similar. Accordingly, neither the acquisition method nor a book-value method should be applied to all BCUCCs. Instead, the acquisition method should be applied in some cases and a book-value method should be applied in other cases.

A3. The IASB did not agree with view A—that is that all BCUCCs are different from business combinations covered by IFRS 3 and should be accounted for differently. In the IASB's view, although ultimate control of the combining entities does not change in a BCUCC, that does not mean that such combinations are simply reallocations of economic resources within the group. Instead, such combinations always have economic substance for the receiving entity because the receiving entity gains control of a business that it did not control before the combination, just as occurs in a business combination covered by IFRS 3.

A4. In the IASB's preliminary view, the acquisition method should be applied in some cases (see paragraphs A7–A8) and a book-value method should be applied in other cases (see paragraph A9).

A5. The IASB considered whether to require entities to evaluate how similar a BCUCC is to business combinations covered by IFRS 3 in order to determine what method to apply. In the IASB's view, it would be difficult to provide a workable set of indicators for entities to use in making such an evaluation. Also, the IASB's view was that such an evaluation would be subjective and that requiring entities to make such an evaluation may not help reduce diversity in practice. Thus, the IASB reached the view that it should not base the selection of the measurement method on such an evaluation by the receiving entity.

A6. The IASB considered that some of the indicators suggested by stakeholders—for example, the purpose of the combination or the process for deciding the terms of the combination—would not change the conclusion about what information would be most useful to users of the receiving entity's financial statements.

Combinations that affect NCS

A7. In the IASB's view, when NCS acquire an ownership interest in the economic resources transferred in a BCUCC, the combination has a substantive effect not only on the receiving entity itself but also on its shareholders and therefore the combination is similar to business combinations covered by IFRS 3. Furthermore, the composition of users who rely on that entity's financial statements to meet their information needs about the combination is also similar to the composition of users in a business combination covered by IFRS 3. Because both the BCUCC itself is similar to a business combination covered by IFRS 3 and the composition of users is also similar, the common information needs of those users in such combinations are also similar.

A8. Accordingly, the IASB's preliminary view is that in principle the acquisition method should apply if the BCUCC affects NCS, subject to the cost–benefit trade-off and other practical considerations (see Agenda Paper 23C for the cost-benefit trade-off and other practical considerations).

Combinations that do not affect NCS

A9. The IASB's preliminary view was that a book-value method should be applied to BCUCCs that do not affect NCS, including combinations between wholly-owned entities. In reaching this preliminary view, the IASB considered the following arguments:

(a) if the receiving entity does not have NCS, there is no change in the ultimate ownership interest in the economic resources transferred in the BCUCC;

(b) similar information would be produced regardless of whether a combination takes place and how the controlling party structures any combination;

(c) applying the acquisition method to a BCUCC involving wholly-owned entities may be difficult and, if consideration paid for a BCUCC differs from consideration that would have been paid to an unrelated party, the receiving entity might measure goodwill at an arbitrary amount that does not provide useful information; and

(d) a book-value method is typically less costly to apply and would provide useful information to users of the receiving entity's financial statements.