IFRS Accounting

Staff paper

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IASB® meeting

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Project	**Business Combinations under Common Control**
Topic	**What a disclosure-only project could cover**
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Introduction and purpose

1. Agenda Paper 23A asks 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; 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 provides an overview of what a disclosure-only project could cover and outlines the main decisions the IASB would need to make before a disclosure-only project could move to the standard-setting phase. This paper supports our assessment in Agenda Paper 23A of whether the benefits of choosing Option II could justify the resources necessary.

3. This paper does not ask the IASB for decisions—Agenda Paper 23A asks the IASB to decide the project direction.

Overview and structure

4. This paper covers:

   (a) project objective (paragraphs 5–26);

   (b) developing specific requirements (paragraphs 27–35);

   (c) summary of staff views (paragraph 36); and

   (d) Appendix A—Fair value disclosure requirements in China.

Project objective

5. The current project objective assumes the IASB will develop recognition, measurement and disclosure requirements (Option I).[1] If the IASB chooses to develop disclosure-only requirements (Option II), it will need to update the project objective because, for example, the project will no longer aim to reduce diversity in recognition and measurement of BCUCCs.

6. We think the project objective could potentially cover three improvements to financial reporting for BCUCCs:

   (a) improving transparency of accounting policies applied to recognise and measure BCUCCs (paragraphs 8–11);

   (b) improving transparency about BCUCC transactions (paragraphs 12–15); and/or

   (c) providing other relevant information (paragraphs 16–24).

7. Paragraphs 25–26 explain our views on what the project objective should include.

[1] The footnote to paragraph 9(a) of Agenda Paper 23A explains the current project objective.

Transparency of accounting policies

8. If the IASB chooses Option II, it will not develop recognition and measurement requirements, so it is likely that entities will apply differing accounting policies to recognise and measure BCUCCs. The project could aim to improve the transparency of those accounting policies—for example:

    (a) which measurement method is applied; and

    (b) if a book-value method is applied:[2]

        (i) which entity's book values are used to measure the assets and liabilities received; and

        (ii) whether pre-combination information is restated.

9. Although we have not done further outreach since the IASB's September meeting, considering evidence we have so far:

    (a) stakeholders expressed split views on this matter:

        (i) some of the stakeholders who supported Option II said Option II would improve transparency; but

        (ii) some of the stakeholders who supported Option III said existing disclosure requirements are sufficient to provide transparency.[3]

    (b) although there are no specific disclosure requirements for BCUCCs, existing IFRS Accounting Standards—for example, IAS 1 *Presentation of Financial Statements*—contain general disclosure requirements for accounting policies that an entity would consider when reporting BCUCCs.

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[2] For simplicity, the agenda papers for this meeting refer to 'a book-value method' but various forms of book-value method are applied to BCUCCs.

[3] As paragraph 13(a) explains, stakeholders typically referred to 'transparency' overall and did not specify whether they meant:

(a) transparency of accounting policies applied to recognise and measure BCUCCs; or

(b) transparency about BCUCC transactions.

(c) our 2019 research[4] found the information disclosed appears to be inconsistent (although we are unable to assess whether this inconsistency is due to the materiality of specific information about each BCUCC, lack of specific disclosure requirements for BCUCCs or for other reasons). For example, for a sample of transactions to which entities applied a book-value method:

(i) many entities disclosed whether the transferred entities were consolidated from the transaction date or from the beginning of the earliest period presented, but many entities did not; and

(ii) many entities disclosed that assets received and liabilities assumed were recognised at their predecessor carrying amounts (but many entities did not) 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).

(d) since our 2019 research, in February 2021 the IASB issued amendments to IAS 1 (applicable for annual reporting periods beginning on or after 1 January 2023) and IFRS Practice Statement 2 *Making Materiality Judgements*. The objective of the amendments is to help entities make more effective accounting policy disclosures, which therefore might help to improve the information entities disclose about their accounting policies for recognising and measuring BCUCCs.

10. From initial analysis, without further outreach, we think a disclosure-only project with an objective to improve transparency of accounting policies could:

(a) improve transparency because specifying which accounting policy information is required for BCUCCs would provide clarity to preparers and could result in more consistent practice;

(b) provide useful information to users;

[4] 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.

(c) be unlikely to be costly for preparers; and

(d) incur limited resources to decide which specific policies to require entities to disclose—we think it would not require significant resources as the IASB already identified the most common policies applied to report BCUCCs when developing the Discussion Paper *Business Combinations under Common Control* (Discussion Paper).

Staff view

11. If the IASB chooses Option II, we think the project objective should include improving transparency of accounting policies because it could benefit users, is unlikely to be costly for preparers and would require limited resources for the IASB to develop. However:

(a) as paragraph 45 of Agenda Paper 23A explains, we do not know what effect specific disclosure requirements aiming to improve transparency would have; and

(b) as paragraph 52 of Agenda Paper 23A explains, if the IASB chooses to explore Option II we suggest outreach to confirm whether users would find the information useful / the costs for preparers would be reasonable.

Transparency about BCUCC transactions

12. The project could aim to improve transparency about BCUCC transactions—for example:

(a) the name and a description of the acquiree;

(b) the recognised amounts of each class of assets received and liabilities assumed; and

(c) the percentage of voting equity interests acquired.

13. Although we have not done further outreach since the IASB's September meeting, considering evidence we have so far:

    (a) as paragraph 9(a) explains, stakeholders expressed split views on existing practice. These stakeholders typically referred to 'transparency' which we assume includes transparency about BCUCC transactions.

    (b) although there are no specific disclosure requirements for BCUCCs, existing IFRS Accounting Standards—for example, IAS 24 *Related Party Disclosures*—contain disclosure requirements for related party transactions that an entity would consider when reporting BCUCC transactions.

    (c) similar to paragraph 9(c), our 2019 research found the information disclosed about BCUCC transactions appears to be inconsistent (although 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). For example, for a sample of transactions to which entities had applied a book-value method:

        (i) most entities disclosed the names of the entities involved, the transaction date, the form of consideration and the amount of consideration, but some entities did not;

        (ii) many entities disclosed the percentage of interest acquired, but many entities did not; and

        (iii) some entities disclosed the purpose of the BCUCC and identified the controlling party, but most entities did not.

14. From initial analysis, without further outreach, we think a disclosure-only project with an objective to improve transparency about BCUCC transactions could:

    (a) improve transparency because specifying what information is required for BCUCCs would provide clarity to preparers and could result in more consistent practice;

    (b) provide useful information to users;

(c) be unlikely to be costly for preparers; and

(d) incur limited resources to decide which information to require entities to disclose—paragraph 32 considers the resources that would be incurred to develop requirements which can apply to diverse recognition and measurement requirements.

Staff view

15. If the IASB chooses Option II, we think the project objective should include improving transparency about BCUCC transactions because it could benefit users, is unlikely to be costly for preparers and would require limited resources for the IASB to develop. However:

(a) as paragraph 45 of Agenda Paper 23A explains, we do not know what effect specific disclosure requirements aiming to improve transparency would have; and

(b) as paragraph 52 of Agenda Paper 23A explains, if the IASB chooses to explore Option II we suggest outreach to confirm whether users would find the information useful / the costs for preparers would be reasonable.

Other relevant information

16. The project could aim to provide other relevant information about BCUCCs, in addition to what is recognised in the primary financial statements. The only type of other relevant information that stakeholders identified to date that could be relevant is fair value information if an entity applies a book-value method to a BCUCC. If the IASB chooses Option II, it could consider whether any other information could be relevant to disclose but our analysis in the agenda papers for this meeting only considers different types of fair value information.

Feedback

17. Of the stakeholders who supported Option II:

    (a) some said fair value information would be sufficient to meet user information needs (although paragraph 23 of Agenda Paper 23A of the IASB's September 2023 meeting explain that some stakeholders who supported Option I said it would be insufficient);

    (b) some said fair value 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).

18. 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 fair value information would not be useful because the value of a business continually changes and they have their own valuation method.

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 future periods, 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 of accounting policies and/or BCUCC transactions.

Analysis

20. As paragraphs 25–28 of Agenda Paper 23A of the IASB's September 2023 meeting explain, we think disclosing fair value information at the transaction date could partially meet users' information needs about BCUCCs that affect the receiving entity's non-controlling shareholders (NCS).

21. We acknowledge that disclosing fair value information could be costly but the costs would depend on what specific fair value information the IASB requires. For example:

(a) disclosing fair value of each class of identifiable assets received and liabilities assumed at the transaction date only—we think that:

(i) the cost of estimating those fair values would be comparable to the cost of estimating fair values to apply IFRS 3 *Business Combinations* at the transaction date; but

(ii) in future periods the cost of applying a book-value method would be less than the cost of applying IFRS 3's acquisition method because, for example, entities would not need to test goodwill resulting from the BCUCC for impairment; and

(b) disclosing subsequent measurement in future periods based on the fair value of each class of identifiable assets received and liabilities assumed at the transaction date—we think the costs of requiring this information would outweigh the benefits because entities would be required to keep two sets of accounting records; and

(c) disclosing fair value of the consideration transferred—we think that the cost could be limited to moderate because entities would only incur additional costs to the extent that the consideration transferred is not measured at fair value (for example, if consideration paid in own shares is measured at nominal value).

22. If the IASB chooses Option II, the IASB could also consider requiring entities to disclose more fair value information than the fair value of consideration transferred but less than the fair value of each class of identifiable assets received and liabilities assumed. For example, in China some entities disclose the fair value of total assets or of net assets acquired (see Appendix A for details).

Staff view

23. If the IASB chooses Option II, we have not reached a view on whether the project objective should include providing other relevant information for some or all BCUCCs. We think:

(a) disclosing the fair value of the consideration transferred could benefit users and could impose limited to moderate costs on preparers so could be required for at least some BCUCCs but:

(i) paragraph 52 of Agenda Paper 23A explains that if the IASB chooses to explore Option II we suggest outreach, in particular because most users did not specify which fair value information they would find useful; and

(ii) we think the costs may outweigh the benefits for some BCUCCs[5], so the IASB could consider not requiring this information for all BCUCCs (considered in paragraph 33);

[5] Paragraph 5.20 of the Discussion Paper *Business Combinations under Common Control* said that in the IASB's view the costs of disclosing the fair value of the consideration transferred would outweigh the benefits for those BCUCCs to which a book-value method would apply in line with its preliminary views on selecting the measurement method (for example, BCUCCs that do not affect NCS).

(b) further outreach would be necessary to determine whether the benefits of disclosing other types of fair value information at the transaction date (for example, the fair value of each class of identifiable assets received and liabilities assumed) would justify the costs (for some or all BCUCCs—see paragraph 33); and

(c) disclosing information in future periods based on the fair values at the transaction date would impose costs that outweigh the benefits, so should not be required.

24. Although disclosing some types of fair value information for some or all BCUCCs could meet the cost-benefit trade-off, the IASB might decide to exclude exploring such disclosures from the project objective to minimise resources invested in the project because:

(a) further outreach would be necessary because of the limitations in our initial analysis, in particular the fact that most users who already provided feedback did not specify which fair value information they would find useful; and

(b) we think the costs may outweigh the benefits for some BCUCCs, in which case the IASB may have to invest some resources deliberating where to 'draw the line'.

Staff views

25. If the IASB chooses Option II, we think the project objective should include:

(a) improving transparency of accounting policies applied to recognise and measure BCUCCs (paragraph 11); and

(b) improving transparency about BCUCC transactions (paragraph 15).

26. 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 worthwhile.

Developing specific requirements

27. Paragraphs 27–33 explain how the IASB could develop specific disclosure requirements after setting the project objective. Paragraphs 34–35 explain our views on the extent of resources that would likely be incurred to develop specific disclosure requirements.

28. If the IASB chooses Option II, the IASB could initially focus deliberations on BCUCCs to which a book-value method is applied. After developing disclosure requirements for BCUCCs to which a book-value method is applied, the IASB could decide:

    (a) to require those disclosure requirements for all BCUCCs (including those to which the acquisition method is applied); or

    (b) to require entities applying the acquisition method to a BCUCC to apply IFRS 3's disclosure requirements.[6]

29. When developing specific requirements, the IASB can consider the *Guidance for developing and drafting disclosure requirements in IFRS Accounting Standards* and the *Conceptual Framework for Financial Reporting*, for example, by considering user information needs and the cost-benefit trade-off. To make it more likely that the benefits of Option II would justify the resources, we think the IASB should also consider the resources needed to develop any requirements. That is, if exploring a potential disclosure requirement would incur significant resources (for example, to perform outreach) the IASB might decide not to explore that potential disclosure requirement at all. In summary, we think when developing specific requirements the IASB could consider:

    (a) user information needs;

    (b) the cost-benefit trade-off; and

[6] For simplicity, references in this paper to 'IFRS 3's disclosure requirements' include any improvements to those requirements resulting from the IASB's forthcoming Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment.*

(c) the resources required to deliberate a requirement.

30. To leverage work already performed, the IASB could:

(a) start with its preliminary views in the Discussion Paper (paragraph 31); and

(b) consider what changes are necessary as a result of not developing recognition and measurement requirements (paragraphs 32–33).

31. The IASB's preliminary views in the Discussion Paper were that:

(a) for BCUCCs to which the acquisition method applies, entities should be required to apply IFRS 3's disclosure requirements;[7] and

(b) for BCUCCs to which a book-value method applies, entities should be required to apply some, but not all, of IFRS 3's disclosure requirements.

32. The IASB's preliminary views in the Discussion Paper on disclosure requirements for BCUCCs to which a book-value method applies were designed to accompany specific recognition and measurement requirements. If the IASB chooses Option II, so does not develop recognition and measurement requirements, it will need to consider:

(a) requiring entities to disclose how they recognise and measure a BCUCC (see paragraphs 8–11);

(b) whether some of the disclosures that were not required in its preliminary views—for example, because the costs would typically outweigh the benefits for BCUCCs that do not affect NCS—should be required for some or all BCUCCs (considered further in paragraph 33); and

(c) whether to adapt the wording because a book-value method would not be defined.

33. The IASB could decide that certain disclosure requirements should only apply to some BCUCCs—for example, to reflect the cost-benefit trade-off. Although this

[7] Paragraphs 5.10–5.11 of the Discussion Paper explain the IASB's preliminary view to also provide application guidance on how to apply those requirements together with the requirements in IAS 24 *Related Party Disclosures* when providing information about BCUCCs.

would necessitate 'drawing a line', we do not expect this to incur significant resources because:

(a) most disclosure requirements, for example to improve transparency, can be prepared at a reasonable cost so could be required for all BCUCCs;

(b) the possible disclosure requirements that we expect to be most costly, and therefore the costs may outweigh the benefits for some BCUCCs, are for fair value information—as paragraph 24 explains, the IASB might decide to not deliberate such requirements to minimise resources incurred; and

(c) if the IASB decides some disclosure requirements should apply only to specified BCUCCs, it could leverage conditions already used in existing IFRS Accounting Standards to 'draw the line'—for example, entities with public accountability or entities traded in a public market.

Staff views

34. If the IASB chooses Option II, we think the IASB:

(a) could start with its preliminary views in the Discussion Paper; and

(b) would need to consider what changes are necessary as a result of not developing recognition and measurement requirements.

35. This approach would incur a moderate amount of resources, particularly if the IASB undertakes further outreach to explore the costs and benefits of disclosing some types of fair value information for some or all BCUCCs.

Summary of staff views

36. From our analysis in this paper, 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 some types of fair value information for some or all BCUCCs.

Appendix A—Fair value disclosure requirements in China

A1. We understand local regulation in China require entities in China to disclose certain fair value information:

(a) if the entity is listed in China;

(b) for various asset-acquisition transactions including BCUCCs;

(c) only for significant transactions (considering both quantitative and qualitative thresholds); and

(d) outside the financial statements at the announcement date (that is, before shareholders vote whether to approve the BCUCC).

A2. We understand the information disclosed includes:

(a) the transferred business's carrying amount and fair value;

(b) the valuation approach(es) used—an income approach, a market approach and/or an asset-based approach; and

(c) information about consideration paid in shares.

A3. We understand the regulations do not specify at which level fair value information about the transferred business should be disclosed—for example, net assets, total assets or each class of assets and liabilities. The level at which information is disclosed may differ, for example, depending on the valuation approach(es) used.