
Accounting Standards Advisory Forum meeting

Date	July 2023
Project	Business Combinations under Common Control
Topic	Project direction
Contacts	Richard Brown (rbrown@ifrs.org) Zicheng Wang (zwang@ifrs.org)

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Accounting Standards Advisory Forum meeting, July 2023, Agenda paper 5A

This paper was discussed at the International Accounting Standards Board's (IASB's) April 2023 meeting as [Agenda Paper 23A](#). Agenda papers referred to in this paper are other agenda papers for the IASB's April 2023 meeting, unless otherwise noted.

Introduction and purpose

1. As Agenda Paper 23 explains, this paper considers the project direction for the project on business combinations under common control (BCUCCs). This paper does not ask the International Accounting Standards Board (IASB) for decisions.

Overview and structure

2. This paper covers:
 - (a) background (paragraphs 3–17);
 - (b) why we are considering project direction (paragraphs 18–19);
 - (c) Due Process Handbook requirements (paragraphs 20–40);

- (d) options for project direction (paragraphs 41–49);
- (e) next steps (paragraphs 50–51);
- (f) questions for the IASB; and
- (g) Appendix A—the NCS choice principle.

Background

History of the BCUCC scope exclusion

3. IFRS 3 *Business Combinations* excludes ‘a combination of entities or businesses under common control’ from its scope (paragraph 2(c) of IFRS 3). The Basis for Conclusions on IFRS 3 does not explain why these transactions are excluded. Appendix B of [Agenda Paper 23D](#) of the IASB’s November 2022 meeting explains our research on the history of this scope exclusion. We found similar exclusions dating back to IAS 22 *Accounting for Business Combinations* issued by the International Accounting Standards Committee (IASC) in 1983—there was no Basis for Conclusions on IAS 22 to explain the rationale for this scope exclusion.

Project history

2007—Added to the research agenda

4. [Agenda Paper 5C](#) of the IASB’s December 2007 meeting explains why the project was added to the IASB’s agenda including:
 - (a) the European Commission submitted a formal agenda request in October 2006 in response to discussions at the European Roundtable on Consistent Application of IFRSs;
 - (b) many standard-setters from other jurisdictions supported this request; and

- (c) the IASB did not receive requests from user groups to add this project to its agenda but the staff thought users would benefit from the IASB developing requirements for BCUCCs.
5. However, the BCUCC project was deferred pending completion of other projects.

2011 Agenda Consultation

6. Based on feedback from the [2011 Agenda Consultation](#), the IASB identified the BCUCC project as a priority research project. Paragraph 16 of [Agenda Paper 5C](#) of the IASB's January 2012 meeting said:

The majority of respondents who cited this project as a high priority believe that guidance is needed to clarify the accounting for common control transactions and reconcile the different characteristics of mergers and restructures around the world, because there is diversity in practice at present. While some believe that this could be resolved in a narrow-scope project, others believe a comprehensive project might be necessary, depending upon how the [IASB] chooses to proceed with the project. There is, at present, a lack of authoritative guidance.

7. In reaching its decision, the IASB considered feedback from users who participated in a survey (see Appendix 2 of [Agenda Paper 5B](#) of the IASB's January 2012 meeting). Specifically:
- (a) many users rated the project as important ('important and urgent' or 'important but not urgent');
 - (b) some users rated the project as not important; and
 - (c) some users said they were indifferent or they didn't know.
8. The IASB started discussing the research project in September 2013.

2015 Agenda Consultation

9. Based on feedback from the 2015 Agenda Consultation, the IASB decided to retain the BCUCC project on the research programme and develop it actively as a priority. Page 27 of the [Feedback Statement on the 2015 Agenda Consultation](#) says the project was ‘Highly ranked by comment-letter respondents from a wide range of countries and in emerging market outreach. Important to regulators and to members of the Advisory Council.’ In reaching its decision, the IASB considered feedback (see [Agenda Paper 23](#) of the IASB’s April 2016 meeting) including:
- (a) all securities regulators and most standard-setters, accounting firms and accounting bodies who commented on the 2015 Agenda Consultation said the project was important and/or urgent; and
 - (b) many users who participated in a survey ranked the project of high or medium importance, some of low importance and some did not provide a ranking.
10. The IASB continued research on the project and published a Discussion Paper in November 2020.

2021—Third Agenda Consultation

11. The [Request for Information—Third Agenda Consultation](#) did not ask stakeholders to prioritise projects already on the IASB’s work plan (including the BCUCC project) because the IASB intended to continue prioritising completion of those projects. Paragraph 8 of [Agenda Paper 24A](#) of the IASB’s December 2021 meeting says a few respondents commented on the BCUCC project and expressed views in favour of continuing this project.

Project’s current stage

12. The project is in the research phase. The IASB:
- (a) published the Discussion Paper in November 2020;

- (b) considered feedback on the Discussion Paper at its December 2021 and January 2022 meetings;
- (c) tentatively decided in March 2022 to not expand the scope of the project; and
- (d) deliberated selecting the measurement method in its June 2022 and November 2022 meetings but has not made any decisions on this workstream.

IASB's November 2022 meeting

13. At its November 2022 meeting, the IASB discussed our initial views that the IASB should confirm its preliminary views in the Discussion Paper to require a receiving entity, in principle, to apply:
 - (a) the acquisition method to BCUCCs that affect non-controlling shareholders of the receiving entity (NCS); and
 - (b) a book-value method to BCUCCs that do not affect NCS.
14. The IASB also discussed our initial views on whether a different method should or could be applied in some circumstances (exceptions). We analysed the exceptions in the Discussion Paper (the optional exemption, the related-party exception and a criterion for publicly traded shares) and other possible exceptions (including exceptions for government-related entities or insignificant NCS). We also analysed how individual exceptions could be combined into a package. We did not provide an initial view of which package should apply or which specific exceptions/exemptions to include within a package.
15. IASB members discussed what problem the project aims to address and whether:
 - (a) the project should concentrate on BCUCCs that affect NCS and/or BCUCCs that do not affect NCS; and
 - (b) the diversity in practice causes problems which need to be addressed.

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16. IASB members also identified four areas for us to research further before making decisions on selecting the measurement method:
- (a) what proportion of BCUCCs affect NCS compared with BCUCCs that do not affect NCS;
 - (b) whether a receiving entity should have an option to apply the acquisition method to BCUCCs that do not affect NCS;
 - (c) more details on a possible exception for insignificant NCS; and
 - (d) in the context of the related party exception, whether related parties which are not part of the common control group (for example, associates) rely on general purpose financial statements to meet their information needs.¹

Consultative group feedback

17. We consulted the Emerging Economies Group (EEG) and the Accounting Standards Advisory Forum (ASAF) at their December 2022 meetings to discuss our initial views explained in paragraphs 13–14. EEG and ASAF members expressed different views on both the principle for selecting the measurement method and exceptions. EEG and ASAF members also suggested clarifications to make our initial views more operational. The [Report of the EEG](#) and the [ASAF meeting summary](#) include more details.

Why we are considering project direction

18. There are natural points within a project’s lifecycle at which the IASB considers the project’s future direction—for example, when considering whether to move a research project to standard-setting.²

¹ The papers for this meeting do not address these four areas because we are considering the project direction first. After the IASB decides the project direction, we will address these areas in future meetings if relevant.

² See paragraph 9 of [Agenda Paper 24A](#) (Projects on the current work plan—proposed response to feedback) of the IASB’s February 2022 meeting.

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19. This project is currently in the research phase. As paragraph 15 notes, some IASB members questioned the project direction at the IASB's November 2022 meeting. Considering those questions and the current stage of the project, we think this is a natural point in the project's lifecycle to consider the project direction.

Due Process Handbook requirements

20. Paragraphs 5.1–5.7 of the [Due Process Handbook](#) includes requirements the IASB assesses when moving a project from the research phase into the standard-setting phase. Although we are not asking the IASB to move this project to the standard-setting phase at this stage, we think assessing those requirements now would be helpful to consider whether continuing with the current project direction is likely to result in the project moving into the standard-setting phase in future or if the IASB should reconsider the project direction.
21. Paragraphs 5.1–5.7 of the Due Process Handbook require the IASB to assess:
- (a) criteria for potential standard-setting projects (paragraphs 23–36); and
 - (b) the IASB's resources (paragraphs 37–40).
22. 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.

Criteria for potential standard-setting projects

23. Paragraph 5.4 of the Due Process Handbook explains:

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.

24. Paragraphs 25–36 include our assessment of these criteria in the context of the BCUCC project.

Deficiency in reporting

25. The scope of IFRS 3 excludes BCUCCs (see paragraph 3). Feedback in developing the Discussion Paper indicated that the lack of a specifically applicable IFRS Accounting Standard has resulted in diversity in reporting BCUCCs including:
- (a) whether the acquisition method or a book-value method is applied; and
 - (b) a variety of book-value methods being applied.
26. Local requirements exist in some jurisdictions, which typically require entities to apply some form of book-value method to most or all BCUCCs, although there is diversity between jurisdictions in which method is applied and what information is disclosed.
27. The 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.
28. The extent to which a standard-setting project on BCUCCs would reduce diversity and improve transparency would depend on what requirements the IASB develops. For example, it would depend on:
- (a) whether the IASB develops recognition and measurement requirements (paragraphs 43–46) or only disclosure requirements (paragraphs 47–48); and
 - (b) which specific requirements the IASB develops—for example, developing recognition and measurement requirements which allow an accounting policy choice of which method to apply would likely not reduce diversity in the methods entities apply in reporting BCUCCs.

Importance to users

29. As paragraph 4 explains, the IASB did not receive requests from user groups to originally add this project to the IASB's agenda. However, users generally supported the project in the 2011 Agenda Consultation (paragraph 7) and 2015 Agenda Consultation (paragraph 9). Engagement with users on the Discussion Paper has raised questions about the extent of the importance of the project to users.
30. Jurisdictional diversity in user feedback raises questions about whether the project can meet user information needs globally—if the project does not meet user information needs globally, it may reduce the importance of the project to some investors. Paragraph 2.22 of the Discussion Paper explains the IASB's view in developing the Discussion Paper that users' common information needs for BCUCCs that affect NCS

would be similar to an IFRS 3 BC. However, as [Agenda Paper 23E](#) of the IASB's November 2022 meeting explains:

- (a) almost all users from China said a book-value method should be applied to all BCUCCs; and
- (b) almost all users from other jurisdictions said the acquisition method should be applied to a BCUCC which affects NCS of a receiving entity with shares traded in a public market—that is, the outcome of applying the IASB's preliminary views.^{3 4}

Types of entities likely to be affected

- 31. For a BCUCC to occur, the reporting entity and other businesses must be under common control—for example, a listed entity with disperse ownership and no controlling party cannot be a receiving entity in a BCUCC. However, subsidiaries within a group can undertake BCUCCs—for example, for tax reasons or in preparation for an initial public offering (IPO).
- 32. Feedback in paragraph 37 of [Agenda Paper 5C](#) of the IASB's December 2007 meeting explains that BCUCCs occur frequently in many jurisdictions. From our 2019 research (see Appendix C of [Agenda Paper 23B](#) of the IASB's February 2020 meeting), 52% of the 267 BCUCC transactions we identified were by entities listed in China (including Hong Kong). That suggests BCUCCs by listed entities are more prevalent in China than in other jurisdictions; however, the research limitations make it difficult to draw more definitive conclusions.⁵

³ We did not receive feedback from users in every jurisdiction so it is possible that users in some other jurisdictions would prefer a book-value method to be applied to all BCUCCs.

⁴ Almost all users we conducted outreach with were asked about specific scenarios rather than the underlying principle (see [Agenda Paper 23D](#) of the IASB's December 2021 meeting for the scenarios and more details).

⁵ Appendix C of [Agenda Paper 23B](#) of the IASB's February 2020 meeting explains the research performed and limitations—for example, the search was limited to annual reports published in English so it is possible that BCUCCs are prevalent in other jurisdictions where annual reports are published in other languages.

How pervasive or acute the issue is likely to be

33. As paragraph 32 notes, feedback explains that BCUCCs occur frequently in many jurisdictions. In the IASB's November 2022 meeting, IASB members asked what proportion of BCUCCs affect NCS compared with BCUCCs that do not affect NCS. A few IASB members said it can be difficult to quantify BCUCCs, in part because there are no specific reporting or disclosure requirements. Late agenda papers for the EEG's and ASAF's December 2022 meetings asked members this question but members did not provide feedback.

BCUCCs that affect NCS

34. We are not aware of BCUCCs that affect NCS being common across jurisdictions, particularly among listed entities. The BCUCCs disclosed by listed entities in the 2019 research (see paragraph 32) could be an approximation for BCUCCs that affect NCS—listed entities typically have NCS so we would expect these BCUCCs to affect NCS.⁶ As paragraph 32 notes, 52% of the transactions in the 2019 research were by entities listed in a single jurisdiction.
35. Ninety-four per cent of the transactions in the 2019 research were accounted for applying a form of book-value method. This suggests that developing reporting requirements in line with the IASB's preliminary views (see paragraph 13) would change the measurement method applied for reporting most BCUCCs that affect NCS.

BCUCCs that do not affect NCS

36. Although we cannot quantify how many BCUCCs occur that do not affect NCS, we understand that a form of book-value method is typically (but not always) applied when reporting such BCUCCs. Requiring entities to apply a book-value method to BCUCCs that do not affect NCS would standardise the method applied for such BCUCCs in jurisdictions without local requirements (see paragraph 26).

⁶ In addition to the limitations mentioned in footnote 1, the IASB has not deliberated the meaning of the word 'affects' and whether NCS are 'affected' whenever a receiving entity has NCS.

Standardising this practice would provide clarity to stakeholders (such as preparers, auditors and regulators) but would likely not significantly change practice given our understanding that a book-value method is typically applied today.

The IASB's resources

37. When considering whether to move a project from the research phase to the standard-setting phase (see paragraph 20), the IASB assesses the extent of resources required for the project. Paragraph 5.2 of the Due Process Handbook states:

The primary objective of a project proposal is to help the [IASB] to manage its resources effectively and to prioritise its standard-setting work. The [IASB] distinguishes between major and narrow-scope projects in its planning to help reduce the risk of committing resources to a project when other projects should have a higher priority.

38. 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.
39. 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 (analysed further in paragraphs 41–49). For illustration, if the IASB develops recognition and measurement requirements in line with its preliminary views we expect that developing an exposure draft would entail:

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- (a) workstream I—project scope—the remaining aspects of project scope include considering, for example, whether group restructurings should be in the scope of the project.⁷ This would likely be a small workstream.
 - (b) workstream II—selecting the measurement method—developing reporting requirements in line with the IASB’s preliminary views (see paragraph 13) would require developing exceptions and clarifying various aspects to make the requirements workable. This would likely be a medium-sized workstream.
 - (c) workstream III—applying the measurement methods (including disclosure):
 - (i) the acquisition method would be based on IFRS 3’s requirements so this workstream would consider whether there should be special features for BCUCCs. This would likely be a small workstream.
 - (ii) applying a book-value method would likely be a relatively large workstream because IFRS Accounting Standards do not specify how to apply a book-value method and some aspects of this workstream might require significant resources (Agenda Paper 23B provides details).
 - (d) workstream IV—other topics (for example, transition) would likely be a small workstream.
40. Although the IASB is currently deliberating selecting the measurement method, Agenda Paper 23B provides initial analysis of some aspects of the workstream on applying a book-value method for reference in the context of considering the project direction because:
- (a) we expect selecting the measurement method and applying a book-value method to be the two largest workstreams; and
 - (b) these two workstreams are inter-related—for example, if the IASB develops requirements specifying when to apply a book-value method then it likely would also need to develop requirements specifying how to apply that method.

⁷ The IASB already made some tentative decisions in March 2022 to not expand the project’s scope.

Options for project direction

41. This section sets out three options for the project direction. For simplicity we assume the same option is selected for all workstreams. However, it would be possible to choose different options for different workstreams—for example, the IASB could choose to only require disclosure of which measurement method an entity applies but develop recognition and measurement requirements for how to apply the measurement methods.
42. The three options are:
- (a) option I—develop recognition, measurement and disclosure requirements (paragraphs 43–46);
 - (b) option II—develop disclosure-only requirements (paragraphs 47–48); and
 - (c) option III—develop no recognition, measurement or disclosure requirements (paragraph 49).

Option I—develop recognition, measurement and disclosure requirements

43. To develop recognition, measurement and disclosure requirements on selecting the measurement method, we would complete our analysis after considering feedback from the IASB’s November 2022 discussion and the EEG and ASAF’s December 2022 discussions. We would ask the IASB to make decisions, for example, including:
- (a) which method(s) to apply in principle;
 - (b) exceptions, including exploring possible new exceptions in more detail; and
 - (c) clarification requests / application guidance to make the principle and any exceptions workable in practice.
44. The extent to which option I would achieve the project objective of resolving diversity in practice and improving the transparency of reporting for BCUCCs would depend

on what requirements the IASB develops. For example, developing reporting requirements on selecting the measurement method in line with the IASB's preliminary views (see paragraph 13) would not result in one method applying to all BCUCCs but would reduce diversity in practice by specifying which method should apply in which circumstances.

45. As paragraph 30 explains, there was jurisdictional diversity in user feedback for BCUCCs that affect NCS. For such BCUCCs:
- (a) requiring a single method to be applied would reduce diversity in practice but would likely not meet the information needs reported by all users;
 - (b) allowing entities to choose which method to apply would allow entities to choose a method which might meet users' information needs in their jurisdiction, but:
 - (i) might not fully meet user information needs—for example, if an entity has users that prefer different methods or if an entity applies a method its users do not prefer; and
 - (ii) would not reduce diversity of which measurement method entities apply; and
 - (c) since the IASB's November 2022 discussion, we have identified a new potential principle for which method to apply (the 'NCS choice' principle) which Appendix A explains.
46. Agenda Paper 23B outlines some areas of diversity in how a book-value method is applied which the IASB would need to consider if it develops recognition and measurement requirements for a single, standardised book-value method. Questions arise about:
- (a) the extent of resources required to develop recognition and measurement requirements for a single book-value method; and

- (b) the merits of developing recognition and measurement requirements for a single book-value method.

Option II—develop disclosure-only requirements

47. The IASB could choose to develop only disclosure requirements for BCUCCs. Such a project could aim to develop disclosure requirements which improve transparency of reporting for BCUCCs and provide relevant information to users. For example, the IASB could develop disclosure requirements for BCUCCs:
- (a) regardless of the measurement method applied—for example, requiring entities to disclose the recognised amounts of each class of assets received and liabilities assumed;
 - (b) to which the acquisition method is applied—for example, requiring entities to disclose information about acquired goodwill; and
 - (c) to which a book-value method is applied—for example, requiring entities to disclose which entity’s book values have been used.
48. Developing disclosure-only requirements would:
- (a) allow entities to develop an accounting policy for recognition and measurement which might meet users’ preferences in their jurisdiction, but:
 - (i) might not fully meet user information needs—for example, if an entity has users that prefer different methods or if an entity applies a method its users do not prefer; and
 - (ii) would not reduce diversity of which measurement method entities apply or how they apply a book-value method;
 - (b) improve transparency of reporting for BCUCCs; and
 - (c) require significantly less resources than option I (developing recognition, measurement and disclosure requirements).

Option III—develop no recognition, measurement or disclosure requirements

49. The IASB could choose to not develop any reporting requirements for BCUCCs and discontinue the project. This option would:
- (a) not improve diversity of reporting for BCUCCs;
 - (b) not improve transparency of reporting for BCUCCs; and
 - (c) not require significant additional resources.⁸

Next steps

50. To gather more information to help the IASB make an informed decision on project direction, we plan to consult the EEG, the ASAF, the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF) at their upcoming meetings. The questions we ask would be tailored to each consultative group but, for example, could include how prevalent BCUCCs are in members' jurisdictions, including the proportion that affect / do not affect NCS.
51. At a future IASB meeting we will present:
- (a) feedback from the consultative groups; and
 - (b) our updated analysis and recommendation for project direction.

Questions for the IASB

1. Do IASB members have comments or questions on the agenda papers for this meeting—for example, on the options for project direction presented (paragraphs 41–49) and whether there are other options we should consider?

⁸ Some resources may be needed as a consequence of discontinuing the project—for example, to prepare a project summary report.

Questions for the IASB

2. Is there anything IASB members would like us to analyse or research further (for example, by discussing with consultative groups) before the IASB decides on project direction?

Appendix A—the NCS choice principle

- A1. As paragraph 45 explains, we identified an additional potential principle for selecting the measurement method, referred to for simplicity as the ‘NCS choice’ principle. In particular, the NCS choice principle could address jurisdictional diversity in user feedback (paragraph 30). The NCS choice principle was not included in [Agenda Paper 23B](#) of the IASB’s November 2022 meeting and we have therefore analysed it in this appendix.
- A2. Applying the NCS choice principle, 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.
- A3. If the IASB decides to develop recognition, measurement and disclosure requirements (see Option I—paragraphs 43–46) and would like us to explore this principle, we will analyse in a future meeting:
- (a) whether entities should choose which method to apply to BCUCCs that affect NCS consistently or on a transaction-by-transaction basis;
 - (b) what fair value information an entity that chooses to apply a book-value method to a BCUCC that affects NCS should disclose; and
 - (c) possible exceptions and clarifications / application guidance (see paragraph 43) to the extent relevant.

Observations/conclusions in the Discussion Paper

- A4. The Discussion Paper did not discuss this principle. This principle is similar to the IASB’s preliminary view (see paragraph 13) except it would allow an entity a choice

of which method to apply to BCUCCs that affect NCS rather than requiring an entity to apply the acquisition method.

Feedback

- A5. Some of the respondents who disagreed with the IASB's preliminary view suggested the NCS choice principle. Paragraphs 37–39 of [Agenda Paper 23B](#) of the IASB's December 2021 meeting provide detailed feedback.
- A6. Users provided limited feedback about whether applying a book-value method and disclosing selected fair value information would meet their information needs. Although in the context of BCUCCs that do not affect NCS, of two users who requested fair value information about a BCUCC by a wholly-owned entity with traded debt (see Scenario 3 in [Agenda Paper 23D](#) of the IASB's December 2021 meeting):
- (a) one said disclosure of fair value information would be sufficient; and
 - (b) the other said applying the acquisition method would provide better information to evaluate future performance than disclosing fair value information.

Analysis

- A7. Although this approach was not suggested by any users, it could partially address jurisdictional diversity in user feedback.
- A8. Compared to the IASB's preliminary views (explained in paragraphs 12–19 of [Agenda Paper 23B](#) of the IASB's November 2022 meeting), this approach:
- (a) would result in a smaller reduction of diversity (part of the project objective)—a consistent method would be applied to all BCUCCs that do not affect NCS but not to all BCUCCs that affect NCS;
 - (b) would allow entities to choose a method which might meet users' preferences in their jurisdiction, but might not fully meet user information needs—for

example, if an entity has users that prefer different methods or if an entity applies a method its users do not prefer (although when a book-value method is applied the fair value disclosures might partially address needs of users who would prefer the acquisition method); and

- (c) could allow some standard-setters to develop supplemental requirements in their jurisdictions if desired—for example, to require applying a book-value method / the acquisition method to BCUCCs that affect NCS to provide the information that users in that jurisdiction prefer (see paragraph 30).