Accounting Standards Advisory Forum meeting

Date	**December 2022**
Project	**Business Combinations under Common Control**
Topic	**Initial views—Exceptions**
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Accounting Standards Advisory Forum, December 2022, Agenda paper 4C

This paper will be discussed at the International Accounting Standards Board's (IASB's) November 2022 meeting as Agenda Paper 23C. Agenda papers referred to in this paper are other agenda papers for the IASB's November 2022 meeting, unless otherwise noted.

Introduction and purpose

1. Agenda Paper 23B [ASAF Agenda Paper 4B] explains our initial view on the principle of selecting the measurement method to apply to business combinations under common control (BCUCCs). In our initial view:

   (a) the acquisition method should be applied to BCUCCs that affect non-controlling shareholders of the receiving entity (NCS); and

   (b) a book-value method should be applied to BCUCCs that do not affect NCS.

2. This paper considers whether, as a result of the cost-benefit trade-off and other practical considerations, in some circumstances an entity should be permitted or required to apply a different method (exemptions and exceptions).[1] It also considers whether, in some circumstances, an entity should be prohibited from applying an exception or an exemption.

3. As noted in Agenda Paper 23, this paper does not ask the International Accounting Standards Board (IASB) for decisions.

[1] A few respondents suggested other circumstances in which a different method should be applied which are not included in this agenda paper. We disagreed with those suggestions as explained in other agenda papers including Agenda Paper 23H.

Structure of this paper

4. The paper is structured as follows:

   (a) whether to apply a book-value method to some BCUCCs that affect NCS (paragraphs 5–70);

   (b) whether to apply the acquisition method to some BCUCCs that do not affect NCS (paragraphs 71–80); and

   (c) Appendix A—Illustrative exception for insignificant NCS.

Whether to apply a book-value method to some BCUCCs that affect NCS

5. For entities which do not have publicly traded shares, the IASB's preliminary views included an optional exemption and a related-party exception. We analyse each of these and other possible exceptions and exemptions individually and then give our initial views on how they could be combined into a package.

6. This section is structured as follows:

   (a) overall considerations (paragraphs 7–10);

   (b) optional exemption (paragraphs 11–17);

   (c) related-party exception (paragraphs 18–25);

   (d) publicly traded shares (paragraphs 26–34);

   (e) privately held shares (paragraphs 35–40);

   (f) government-related entities (paragraphs 41–46);

   (g) insignificant NCS (paragraphs 47–54); and

   (h) a package of exceptions (paragraphs 55–70).

Overall considerations

Observations/conclusions in the Discussion Paper

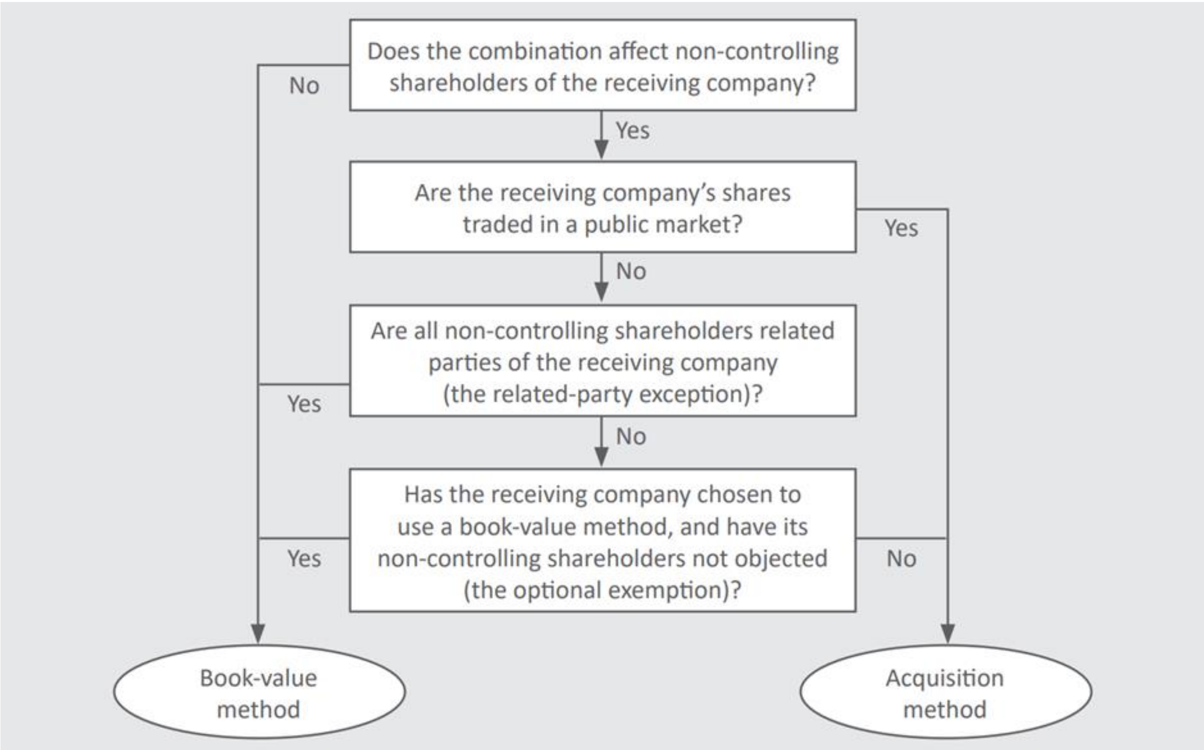
7. The IASB considered whether the acquisition method should apply to all, or only some, BCUCCs that affect NCS. The IASB considered the cost-benefit trade-off and other practical considerations for different BCUCCs that affect NCS.

8. Feedback from some stakeholders in developing the Discussion Paper *Business Combinations under Common Control* (Discussion Paper) suggested a book-value method should apply if NCS do not hold a 'substantive' ownership interest because:

   (a) the costs of applying the acquisition method may outweigh the benefits; and

(b) there may be some opportunities to structure a transaction to qualify for the acquisition method.

9. The IASB rejected requiring a book-value method if NCS's ownership interest is below a quantitative threshold because it would be arbitrary, lack a conceptual basis and may create some structuring opportunities. Instead, the IASB considered qualitative factors. This diagram, extracted from paragraph 2.55 of the Discussion Paper, summarises the IASB's preliminary views.



10. The IASB's preliminary views are based on conditions in IFRS Accounting Standards and should therefore involve less complexity than introducing new conditions.

Optional exemption

Observations/conclusions in the Discussion Paper

11. As paragraphs 2.41–2.44 of the Discussion Paper explain, in the IASB's preliminary view, a receiving entity whose shares are not publicly traded (privately held shares) should be permitted to apply a book-value method if it has informed all NCS that it proposes to use a book-value method and the NCS have not objected (the optional exemption). In the IASB's preliminary view, receiving entities with publicly traded shares should not be permitted to apply the optional exemption—paragraphs 26–34 analyse this separately.

12. The optional exemption permits a receiving entity to apply a book-value method to a BCUCC that affects NCS if NCS have been informed and do not object. NCS could require the use of the

acquisition method if the information it provides is important to them, however they are unlikely to object if they are indifferent about which information they receive. A similar condition is used in IFRS Accounting Standards for exempting entities with only privately held shares from some requirements in specified circumstances.[2] Accordingly, the IASB expected the optional exemption to be workable in practice, especially for entities with concentrated and stable shareholdings.

Feedback

13. Many respondents agreed with the optional exemption. Additionally, some respondents generally agreed with the optional exemption but suggested modifying it such that entities disregard objecting NCS if those NCS are insignificant (for reasons including the cost-benefit trade-off). Some other respondents disagreed with the optional exemption. Agenda Paper 23C of the IASB's December 2021 meeting provides detailed feedback (paragraphs 13–22) and clarification requests (Appendix A)—for example, when and how a receiving entity should communicate its intention to apply a book-value method. Respondents who disagreed said, for example:

(a) they disagreed with the concept of allowing NCS to decide accounting policies;

(b) similar conditions in IFRS Accounting Standards are only used in connection with presentation and disclosure requirements whereas the optional exemption would affect measurement in current and subsequent reporting periods; and

(c) the optional exemption would reduce comparability between entities that apply the optional exemption and those that do not.

Analysis

14. For reasons considered by the IASB in developing the optional exemption, we think the IASB should continue to consider this exemption. We disagree with some comments from respondents, specifically:

(a) the optional exemption allows NCS to decide an accounting policy—NCS would not decide the accounting policy. NCS would only influence the accounting policy by objecting if management request to apply the optional exemption in situations where NCS want information provided by the acquisition method. We also note a similar condition is used in IFRS Accounting Standards.

(b) similar conditions in IFRS Accounting Standards are used only in connection with presentation and disclosure requirements whereas the optional exemption would affect measurement in current and subsequent reporting periods—the exemption in IFRS 10

[2] See paragraph 4 of IFRS 10 *Consolidated Financial Statements* and paragraph 17 of IAS 28 *Investments in Associates and Joint Ventures*.

Consolidated Financial Statements affects recognition and measurement because it determines whether an entity recognises an investment in subsidiary (measured applying IAS 27 *Separate Financial Statements*) or the subsidiary's individual assets and liabilities (measured applying various IFRS Accounting Standards).

15. The optional exemption is based on a condition used in IFRS Accounting Standards. However, a few respondents said similar conditions are not widely used and should therefore not be assumed to be well understood or workable. While this might be the case, the optional exemption would be optional so entities could choose to apply it to some BCUCCs (for example, if shareholdings are concentrated and stable) and not apply it to other BCUCCs (for example, if there were a large number of NCS and the composition of NCS changes regularly, so the optional exemption would be challenging to apply).

16. We acknowledge that:

(a) the optional exemption would not prevent structuring opportunities—for example, BCUCCs could be structured with insignificant NCS only to qualify for the acquisition method and the receiving entity could choose not to apply the optional exemption;

(b) the optional exemption could result in a lack of comparability between BCUCCs by entities with only privately held shares because they could choose whether to apply the optional exemption. However, the optional exemption would allow an entity to apply a book-value method only when NCS do not object, partially reflecting the cost-benefit trade-off; and

(c) if objecting NCS are insignificant, the costs of applying the acquisition method might outweigh the benefits—paragraph 57 analyses respondents' suggestion that entities should disregard objecting NCS if those NCS are insignificant.

Initial view

17. We think the IASB should consider the optional exemption further—paragraphs 56–62 explain how the optional exemption could be used in developing a package of exceptions or exemptions.

Related-party exception

Observations/conclusions in the Discussion Paper

18. As paragraph 2.45 of the Discussion Paper explains, in the IASB's preliminary view, a receiving entity whose shares are not publicly traded should apply a book-value method if all of its NCS are its related parties (the related-party exception). In the IASB's preliminary view, receiving entities with publicly traded shares should not apply the related-party exception—paragraphs 26–34 analyse this separately.

19. The IASB observed that the receiving entity's related parties (as defined in IAS 24 *Related Party Disclosures*) might not need to rely on general purpose financial statements to meet their information

needs, so the costs of applying the acquisition method may outweigh the benefits. Additionally, requiring a book-value method if all NCS are the receiving entity's related parties would prevent opportunities to structure a transaction by issuing shares to related parties only to qualify for the acquisition method.

Feedback

20. Many respondents agreed with the related-party exception and some respondents generally agreed but suggested modifying it—most commonly extending it such that a receiving entity would apply a book-value method if affected unrelated NCS are insignificant. Many other respondents disagreed with the related-party exception because for example, they said some related parties rely on financial statements to meet their information needs. Agenda Paper 23C of the IASB's December 2021 meeting provides detailed feedback (paragraphs 23–27) and clarification requests (Appendix A)—for example, at what date to assess the exception.

Analysis

21. We acknowledge respondents' feedback that, similar to other NCS, some related parties (for example, associates) must rely on financial statements to meet their information needs.

22. The related-party exception prevents opportunities to structure a transaction by issuing shares to related parties only to qualify for the acquisition method. However, it would not prevent other structuring opportunities—for example, issuing shares to an unrelated party only to qualify for the acquisition method.

23. Some respondents said applying this exception could be costly because, for example, an entity would need to identify related parties at the date of a BCUCC. However, we would expect the costs of identifying whether an entity's NCS are all related parties at a particular date to be limited.

24. We disagree with suggestions to extend the related-party exception to require a receiving entity to apply a book-value method if affected unrelated NCS are insignificant. We think it is unnecessary because if there are affected unrelated NCS then other exceptions or exemptions in the package could apply. For example, applying the IASB's preliminary views, if there are affected unrelated NCS then the related-party exception would not apply but the optional exemption could apply.

Initial view

25. We think the IASB could consider whether to include the related-party exception as part of an overall package of which BCUCCs that affect NCS each method should apply to—see paragraphs 59 and 64 for further consideration of how this could be incorporated into a package.

Publicly traded shares

Observations/conclusions in the Discussion Paper

26. As paragraph 2.39 of the Discussion Paper explains, the IASB's preliminary view is that an entity should apply the acquisition method to BCUCCs that affect NCS if the entity's shares are traded in a public market (publicly traded shares). This criterion means that entities with publicly traded shares cannot apply either the optional exemption or the related-party exception.

27. The IASB noted that regulations in many jurisdictions typically prevent the listing of shares when NCS are insignificant. Accordingly, this criterion would apply quantitative considerations indirectly without being arbitrary, would be easy to apply and would not create structuring opportunities. A similar condition is already used in IFRS Accounting Standards to determine which information must be provided in some specified cases.[3]

28. The IASB considered whether the optional exemption (explained in paragraphs 11–12) should apply to entities with publicly traded shares but, for reasons explained in paragraphs 2.49–2.51 of the Discussion Paper, noted it may be more difficult to apply and more difficult to justify on cost-benefit grounds.

29. The IASB considered whether the related-party exception (explained in paragraphs 18–19) should apply to entities with publicly traded shares but noted it would be unusual for all NCS of an entity with publicly traded shares to be its related parties so extending the related-party exception may have little practical effect.

Feedback

30. Most respondents agreed that an entity with publicly traded shares should apply the acquisition method if a BCUCC affects the entity's NCS—that is, the optional exemption and related-party exception should not apply to entities with publicly traded shares. Some respondents disagreed, most of which said that whether an entity has publicly traded shares should not affect the method applied. Agenda Paper 23C of the IASB's December 2021 meeting provides detailed feedback (paragraphs 28–31) and clarification requests (Appendix A)—for example, for consistency with other IFRS Accounting Standards, whether this criterion includes shares that will be traded shortly after a BCUCC and/or publicly traded debt.[4]

[3] See paragraph 4(a)(ii) of IFRS 10 *Consolidated Financial Statements*, paragraph 2(b)(i) of IFRS 8 *Operating Segments* and paragraph 2(b)(i) of IAS 33 *Earnings per Share*.

[4] For example, in paragraph 4(a) of IFRS 10, a similar condition applies to both debt and equity instruments and also to entities in the process of filing financial statements with the relevant regulatory organisation for the purpose of issuing instruments in a public market.

Analysis

31. NCS of entities with publicly traded shares:

    (a) are likely to rely on general purpose financial statements to meet their information needs;

    (b) are unlikely to be insignificant, so the benefits of applying the acquisition method are likely to justify the costs as explained in Agenda Paper 23F; and

    (c) would receive comparable information for all business combinations that affect them—business combinations covered by IFRS 3 *Business Combinations* (IFRS 3 BCs) and BCUCCs that affect NCS—if the publicly traded shares criterion applied.

32. This criterion is based on a condition which already exists in IFRS Accounting Standards. We acknowledge similar conditions in IFRS Accounting Standards apply in combination with conditions of whether the entity has debt traded in a public market (IFRS 10 and IFRS 8 *Operating Segments*) and/or when the entity has filed or is preparing to issue instruments in a public market (IFRS 10, IFRS 8 and IAS 33 *Earnings per Share*). However, we think it is unnecessary to extend the criterion to include those other conditions. In particular, we think information provided by either the acquisition method or a book-value method could meet the information needs of holders of publicly traded debt (see paragraphs 76–78) and potential investors (see paragraphs 52–54 of Agenda Paper 23E).

33. Some respondents said whether an entity has publicly traded shares should not affect the measurement method or that applying the criterion would reduce comparability between entities with only privately held shares and entities with publicly traded shares. However, we think, consistent with similar conditions which already exist in IFRS Accounting Standards, designing exemptions for entities with only privately held shares would reflect the cost-benefit trade-off and provide relief to entities for which the costs of applying the acquisition method may outweigh the benefits.

Initial view

34. We think the IASB could consider whether to include this criterion as part of an overall package of which BCUCCs that affect NCS each method should apply to—see paragraphs 60 and 65 for further consideration of how this could be incorporated into a package.

Privately held shares

Observations/conclusions in the Discussion Paper

35. In the IASB’s preliminary view, receiving entities with only privately held shares should apply a book-value method to BCUCCs that affect NCS only in specific circumstances (see paragraphs 11–12 for the optional exemption and paragraphs 18–19 for the related-party exception).

Feedback

36. Some of the respondents who disagreed with the optional exemption (see paragraph 13) said entities with only privately held shares should apply a book-value method to all BCUCCs. Some others said entities with only privately held shares should have a choice between applying the acquisition method or a book-value method to all BCUCCs. Paragraphs 19–20 of Agenda Paper 23C of the IASB's December 2021 meeting provide detailed feedback.

Analysis

37. For reasons previously considered by the IASB, we continue to think entities with only privately held shares should be required or permitted to apply a book-value method to BCUCCs only in specific situations. Although we agree with respondents that for entities with only privately held shares the costs of applying the acquisition method could outweigh the benefits for some BCUCCs that affect NCS, we think the benefits justify the costs for other such BCUCCs.

38. Similar to allowing a choice of which method to apply to all BCUCCs (see paragraphs 25–28 of Agenda Paper 23B [ASAF Agenda Paper 4B]), if entities with only privately held shares have a choice which method to apply to BCUCCs that affect NCS there would be little comparability between such BCUCCs because entities could choose to apply different methods. Requiring entities with only privately held shares to apply a book-value method to all BCUCCs would result in comparable information about all BCUCCs by entities with only privately held shares but not with BCUCCs that affect NCS by entities with publicly traded shares.

39. If the IASB wishes to use an exception for entities with only privately held shares, using it in conjunction with the publicly traded shares criterion would create a package that would be simple to apply. For BCUCCs that affect NCS:

    (a) entities with publicly traded shares would always apply the acquisition method; and

    (b) entities with only privately held shares would always apply a book-value method / have a choice which method to apply.

Initial view

40. We think the IASB should not require or permit privately held entities to apply a book-value method to all BCUCCs because we think the benefits of such entities applying the acquisition method justify the costs for at least some BCUCCs that affect NCS. We have therefore not considered this possible exception further when designing a package of exceptions.

Government-related entities

41. An exception could be designed such that if the controlling party in a BCUCC that affects NCS is a government, the receiving entity would be required to apply a book-value method to the BCUCC.[5]

Observations/conclusions in the Discussion Paper

42. The IASB's preliminary views did not include an exception for BCUCCs that affect NCS in which the controlling party is a government. Agenda Paper 23A of the IASB's January 2020 meeting analysed whether to extend the related-party exception to entities with publicly traded shares when both the receiving entity and all its NCS are controlled by the government to alleviate the burden on reporting entities in environments where government control is pervasive.

Feedback

43. While feedback did not suggest an exception for BCUCCs affecting NCS in which the controlling party is a government, from subsequent conversations, we understand a few stakeholders say that BCUCCs in which the controlling party is a government might have some characteristics that could affect the applicability of the acquisition method and the usefulness of information provided by the acquisition method for such transactions. For example, given government mandates, BCUCCs in which the controlling party is a government might be undertaken for non-commercial reasons (for example, for societal objectives). Also, while laws in jurisdictions would prevent NCS from being disadvantaged in a BCUCC, a government might sometimes be willing to put NCS at more of an advantage than they would have been in a BCUCC in which the controlling party is not a government.

Analysis

44. This exception was not included in the Discussion Paper. An exception could be designed using conditions or definitions in IFRS Accounting Standards, specifically IAS 24 (for example, using the definition of government in IAS 24).[6]

45. We acknowledge that, as explained in paragraph 43 above, BCUCCs in which the controlling party is a government might have some characteristics which respondents argue should affect the applicability of the acquisition method and the usefulness of information resulting from the acquisition method. However:

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[5] Paragraph 9 of IAS 24 *Related Party Disclosures* says 'Government refers to government, government agencies and similar bodies whether local, national or international.'

[6] Paragraph 25 of IAS 24 provides an exemption for related party transactions and outstanding balances '…with:
(a) a government that has control or joint control of, or significant influence over, the reporting entity; and
(b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.'

(a) such an exception would result in BCUCCs that affect NCS in which the controlling party is a government not being comparable to other BCUCCs that affect NCS or with IFRS 3 BCs; and

(b) whether the controlling party is the government may not affect NCS' information needs or the costs of applying the acquisition method to an individual BCUCC.

Initial view

46. We think the IASB could consider whether to include this exception as part of an overall package of which BCUCCs that affect NCS each method should apply to—see paragraphs 61 and 66 for further consideration of how this could be incorporated into a package. Because this exception was not included in the Discussion Paper, we plan to ask consultative groups whether they have any comments or suggestions on it.

Insignificant NCS

Observations/conclusions in the Discussion Paper

47. As explained in paragraph 9, the IASB rejected requiring a book-value method if NCS's ownership interest is below a quantitative threshold because such a requirement would be arbitrary, lack conceptual basis and may create some structuring opportunities.

Feedback

48. As explained in paragraph 15 of Agenda Paper 23B [ASAF Agenda Paper 4B], some respondents generally agreed the acquisition method should apply to BCUCCs that affect NCS but suggested requiring or permitting an entity to apply a book-value method if there are insignificant NCS. For simplicity, we refer to this as an exception for 'insignificant NCS'.

49. These respondents:

(a) said an insignificant NCS exception would reduce structuring opportunities (for example, Illustrative scenario I in Appendix A of Agenda Paper 23G);

(b) said the costs of applying the acquisition method would outweigh the benefits for BCUCCs that affect insignificant NCS; and

(c) typically did not specify whether such an exception or exemption would apply to all BCUCCs that affect NCS or only, for example, to BCUCCs that affect NCS by entities with only privately held shares.

Analysis

50. This exception was not included in the Discussion Paper and would not be based on a condition that already exists in IFRS Accounting Standards.[7] We think the IASB could consider whether to require entities to apply a book-value method to BCUCCs that affect NCS in situations in which:

    (a) NCS' ownership interest is quantitatively insignificant; and/or

    (b) NCS do not rely on general purpose financial statements to meet their information needs.

51. Similar to allowing a choice of which method to apply to all BCUCCs (see paragraphs 25–28 of Agenda Paper 23B [ASAF Agenda Paper 4B]), if entities have a choice which method to apply to BCUCCs that affect insignificant NCS there would be little comparability between such BCUCCs because entities could choose to apply different methods. Requiring a book-value method to apply to BCUCCs that affect NCS whose ownership interest is quantitatively insignificant would reduce structuring opportunities, for example, of issuing shares to an unrelated party to qualify for the acquisition method. The costs of applying the acquisition method to such BCUCCs may outweigh the benefits of the information it provides.

52. The costs of applying the acquisition method may also outweigh the benefits of the information it provides if the NCS do not rely on general purpose financial statements to meet their information needs (paragraph A4 suggests potential indicators).

53. However, the exception could be difficult to design and judgemental to apply—entities would be required to assess whether NCS' information needs and/or whether NCS are quantitatively insignificant. Appendix A illustrates how the IASB could design such an exception. If the IASB tentatively decides to use this exception (or would like us to explore it further before deciding whether to use it) we will provide more detailed analysis at a future meeting and will consider what application guidance the IASB could provide to help consistent application.

Initial view

54. We think the IASB should consider an exception that requires entities to apply a book-value method to BCUCCs that affect insignificant NCS exception further—paragraphs 63–69 explain how this exception could be used in developing a package of exceptions or exemptions. Because this exception was not included in the Discussion Paper, we plan to ask consultative groups whether they have any comments or suggestions on it.

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[7] IFRS Accounting Standards have conditions relating to significance (for example, IFRS 9 *Financial Instruments* has a condition relating to 'significant increases in credit risk') but do not have conditions relating to the significance of NCS.

A package of exceptions

55. Considering all of the exceptions individually and as a package, in our initial view two potential packages should be considered further:

    (a) Package 1—optional exemption package (paragraphs 56–62); and

    (b) Package 2—insignificant NCS package (paragraphs 63–69).

Package 1—optional exemption package

56. For reasons explained in paragraph 14, we think the IASB should consider the optional exemption further and use it as a starting point in building this package. By directly reflecting user information needs, in our view the optional exemption appropriately reflects the cost-benefit trade-off. The optional exemption could be:

    (a) amended such that an entity disregards insignificant objections (paragraphs 57–58);

    (b) combined with the related-party exception (paragraph 59);

    (c) combined with the criterion for publicly traded shares (paragraph 60); and/or

    (d) combined with an exception for government-related entities (paragraph 61).

Disregarding insignificant objections

57. Some respondents suggested modifying the optional exemption such that entities disregard objecting NCS if those NCS are insignificant when applying the optional exemption. We think ignoring insignificant objections may better reflect the cost-benefit trade-off because the costs of applying the acquisition method may outweigh the benefits if only insignificant NCS object. However, this would not build on existing conditions in IFRS Accounting Standards and would have some of the disadvantages of the insignificant NCS exception (see paragraph 53)—for example, it would be judgemental and could require the IASB to provide application guidance.

58. If the IASB tentatively decides to disregard insignificant objections (or would like us to explore it further before deciding whether to use it) we will provide more detailed analysis at a future meeting and will consider what application guidance the IASB could provide to help consistent application.

Combining with the related-party exception

59. Consistent with the IASB's preliminary views, the IASB could combine the optional exemption with the related-party exception so a receiving entity would be required to apply a book-value method if all NCS are its related parties. This combination would prevent opportunities to structure a transaction by issuing shares to related parties to qualify for the acquisition method (but, as explained in paragraph 22, would not prevent other structuring opportunities). However, this combination might result in

information that might not meet the information needs of some related parties (for example, related parties that rely on financial statements to meet their information needs).

Combining with the criterion for publicly traded shares

60. Consistent with the IASB's preliminary views, the IASB could combine the optional exemption with the criterion for publicly traded shares (that is, restrict the optional exemption to entities with only privately held shares). This combination would:

(a) reflect the cost-benefit trade-off, because, for entities with publicly traded shares, the benefits of the information provided by the acquisition method are likely to justify the costs of applying it;

(b) be consistent with conditions similar to the optional exemption which exist in other IFRS Accounting Standards.[8]

Combining with an exception for government-related entities

61. The IASB could combine the optional exemption with an exception for government-related entities so a receiving entity would be required to apply a book-value method if the controlling party is a government. This combination would, in addition to the benefits provided by the rest of the package, allow entities to not apply the acquisition method to BCUCCs affecting NCS in which the controlling party is the government for the reasons provided by a few stakeholders as noted in paragraph 43.

Initial view

62. We think the IASB should consider this package of exceptions. We plan to obtain feedback from the Accounting Standards Advisory Forum (ASAF) and Emerging Economies Group (EEG) on:

(a) whether to disregard insignificant objections (see paragraph 57); and

(b) how the possible exceptions could be combined into this package.

Package 2—insignificant NCS package

63. For reasons explained in paragraphs 51–52, we think the IASB should consider an insignificant NCS exemption further and use it as a starting point in building this package. In particular, as paragraph 51 explains, we think the exception could reduce structuring opportunities compared to the IASB's preliminary views. To create a package, the optional exemption could be:

(a) combined with the related-party exception (paragraph 64)

[8] As paragraph 32 explains, similar conditions in other IFRS Accounting Standards apply in combination with conditions of whether the entity has filed or is preparing to issue instruments in a public market and/or has debt traded in a public market. However, we think it is unnecessary to extend the criterion to include those other conditions.

(b) combined with the criterion for publicly traded shares (paragraph 65); and/or

(c) combined with an exception for government-related entities (paragraph 66).

Combining with the related-party exception

64. We think whether all NCS are related parties could be incorporated as an indicator of insignificant NCS—that is, as an indicator that NCS might not rely on information provided by financial statements—rather than being a separate exception that would apply regardless of whether the related-party NCS rely on financial statements to meet their information needs.

Combining with the criterion for publicly traded shares

65. Combining an insignificant NCS exemption with the criterion for publicly traded shares—that is, only considering whether there are insignificant NCS for entities with only privately held shares—would reflect the cost-benefit trade-off, because the benefits of the information provided by the acquisition method are likely to justify the costs of applying it for entities with publicly traded shares. Alternatively, whether the receiving entity has publicly traded shares could be incorporated as an indicator of insignificant NCS—that is, as an indicator that NCS of entities with publicly traded shares rely on information provided by financial statements—rather than being a separate exception.

Combining with an exception for government-related entities

66. The IASB could combine an insignificant NCS exemption with an exception for government-related entities, so a receiving entity is required to apply a book-value method if the controlling party is a government. This combination would, in addition to the benefits provided by the rest of the package, allow entities to not apply the acquisition method to BCUCCs affecting NCS in which the controlling party is the government for the reasons provided by a few stakeholders as noted in paragraph 43.

Initial view

67. We think the IASB should consider this package of exceptions. We plan to obtain feedback from the ASAF and EEG on:

(a) what the IASB should consider when designing an insignificant NCS exception, if the IASB decides to explore it further (for more details see Appendix A); and

(b) how the possible exceptions could be combined into this package.

Other consideration

68. The insignificant NCS package discussed above may require an entity to apply the acquisition method in some circumstances where, if the optional exemption applied, no (or only insignificant) NCS would object to a book-value method being applied (for example, because none or only insignificant NCS want the information provided by an acquisition method). If the IASB wishes to allow an entity to use a

book-value method in this situation, the IASB could combine the insignificant NCS exception package with the optional exemption package.

69. Combining the two would allow an entity to choose to apply the optional exemption in situations in which NCS are not insignificant. However, this combination could make reporting requirements more complex, as there would be more exceptions.

Overall initial view

70. We think the IASB should consider which exceptions or exemptions to require as part of an overall package. For BCUCCs that affect NCS, we think two potential packages of exceptions (whereby a book-value method would apply) should be considered further:

(a) package 1—optional exemption package; and

(b) package 2—insignificant NCS package.

Question 1 for the IASB
1. Do IASB members have comments or questions on our analysis of whether to apply a book-value method to some BCUCCs that affect NCS in paragraphs 5–70? Specifically: (a) is there any analysis that is unclear, including analysis in the relevant supporting papers (Agenda Papers 23D–23H)? (b) is there anything IASB members would like us to research or analyse further before the IASB makes tentative decisions on selecting the measurement method to apply to BCUCCs? (c) is there anything IASB members would like us to discuss with ASAF and EEG other than: (i) the possible exceptions/exemptions which were not included in the Discussion Paper (insignificant NCS, government-related entities and disregarding insignificant objections); (ii) how the possible exceptions could be combined into a package; and (iii) if the IASB decides to explore the insignificant NCS exemption further, what the IASB should consider when designing such an exemption? (d) do IASB members have any other questions or comments on our analysis or the staff initial views summarised in paragraph 70?

Whether to apply the acquisition method to some BCUCCs that do not affect NCS

71. The IASB's preliminary view was that a book-value method should apply to all BCUCCs that do not affect NCS. We analyse a suggestion by some respondents to require entities with publicly traded debt to apply the acquisition method. This would effectively mean the acquisition method would apply to all BCUCCs by receiving entities with publicly traded debt, regardless of whether the BCUCC affects NCS.

Observations/conclusions in the Discussion Paper

72. The IASB's preliminary view was that a book-value method should apply to all BCUCCs that do not affect NCS (that is, there would be no exceptions). In reaching this preliminary view, the IASB considered the following arguments:

    (a) there is no change in the ultimate ownership interest in the transferred business;

    (b) similar information would be produced regardless of whether a BCUCC takes place or how any combination is structured;

    (c) applying the acquisition method to a BCUCC involving wholly-owned entities may be difficult; and

    (d) a book-value method is typically less costly to apply and would provide useful information.

73. The IASB's preliminary views did not include an exception for BCUCCs by entities with publicly traded debt. Paragraph 57 of Agenda Paper 23E summarises the IASB's observations about the information needs of lenders and other creditors.

Feedback

74. Most users agreed a book-value method should be applied to a BCUCC by a wholly-owned receiving entity which has bank debt or bonds traded in a public market—that is, the outcome of applying the IASB's preliminary views.[9] Some users said the acquisition method should be applied because, similar to NCS, lenders and other creditors need information provided by the acquisition method. See paragraphs 58–61 of Agenda Paper 23E for more details.

75. Some respondents also said similar information should be provided regardless of whether a publicly traded instrument is classified as debt or equity for accounting purposes.

[9] Almost all users we conducted outreach with were asked about specific scenarios rather than the underlying principle. In Agenda Paper 23D of the IASB's December 2021 meeting, paragraphs 10–11 explain more details and Appendix A reproduces the scenarios.

Analysis

76. An exception for receiving entities with publicly traded debt would be based on a condition which already exists in IFRS Accounting Standards.[10] This exception could be combined with other exceptions—for example, it could be combined with the criterion for publicly traded shares (see paragraphs 26–29) to require receiving entities with any publicly traded instruments to apply the acquisition method to all BCUCCs.[11]

77. This exception would result in comparable information about all BCUCCs and IFRS 3 BCs for holders of publicly traded debt. However, it may result in incomparable information for other users—for example, potential investors would receive different information about BCUCCs that do not affect NCS depending on whether the receiving entity has publicly traded debt.

78. As paragraphs 62–64 of Agenda Paper 23E analyse, in general we think holders of publicly traded debt do not need the information provided by the acquisition method. However:

    (a) we acknowledge some users and some other respondents said they think holders of publicly traded debt need the information provided by the acquisition method, which this exception would deliver; and

    (b) if holders of publicly traded debt need the information provided by the acquisition method, the benefits are likely to justify the costs.

Initial view

79. We think an exception for publicly traded debt should not be considered further because we think debtholders (including holders of publicly traded debt) could work with information provided by either method and applying a book-value method to all BCUCCs that do not affect NCS reflects the cost-benefit trade-off.

80. We have not identified any other exceptions for which we think acquisition method should apply to BCUCCs that do not affect NCS. We therefore continue to agree with the IASB's preliminary view that a book-value method should apply to all BCUCCs that do not affect NCS.

[10] Some of the conditions for publicly traded shares which already exist in IFRS Accounting Standards (see paragraph 32) also apply to publicly traded debt.

[11] The criterion for publicly traded shares discussed in paragraphs 26–29 would apply only to BCUCCs that affect NCS. If the IASB wants to require the acquisition method for all BCUCCs by receiving entities with any publicly traded instruments, the criterion for publicly traded shares could be amended accordingly.

Question 2 for the IASB
2. Do IASB members have comments or questions on the analysis of whether to apply the acquisition method to some BCUCCs that do not affect NCS in paragraphs 71–80? Specifically: (a) is there any analysis that is unclear, including analysis in the relevant supporting papers (Agenda Papers 23D–23H)? (b) is there anything IASB members would like us to research or analyse further before the IASB makes tentative decisions on selecting the measurement method to apply to BCUCCs? (c) do IASB members have any other questions or comments on our analysis or the staff initial views summarised in paragraphs 79–80?

Appendix A—Illustrative exception for insignificant NCS

A1. This appendix illustrates how the IASB could design an exception for insignificant NCS. We are not asking the IASB to decide how to design this exception. If the IASB tentatively decides to use this exception (or would like us to explore it further before deciding whether to use it) we will provide more detailed analysis at a future meeting so the IASB can decide how to design it. For example:

(a) how to determine if there are insignificant NCS (paragraphs A2–A4); and

(b) how to label the exception—we refer to 'insignificant NCS' for simplicity (see paragraph 48).

Determining if there are insignificant NCS

A2. Respondents did not specify how an entity would determine if NCS are insignificant. As paragraph 50 explains, the insignificant NCS exception could be designed to apply if:

(a) NCS's ownership interest is quantitatively insignificant; and/or

(b) NCS do not rely on the general purpose financial statements to meet their information needs.

NCS' ownership interest is quantitatively insignificant

A3. In designing the exception, the IASB could specify a quantitative threshold for the proportion of shares held by NCS or require entities to apply judgement in determining when NCS is quantitatively insignificant. We note, for example, that other IFRS Accounting Standards require entities to assess whether particular items are insignificant and do not provide specific application guidance.

NCS do not rely on the financial statements

A4. In designing the exception, the IASB could provide a list of indicators for an entity to consider in assessing whether a non-controlling shareholder rely on the general purpose financial statements to meet their information needs. These indicators could include, but are not limited to, whether:

(a) the non-controlling shareholder is a related party of the receiving entity[12];

(b) the non-controlling shareholder is a related party of the controlling party;

(c) the non-controlling shareholder has access to information due to their relationship with the receiving entity—for example, a strategic investor with a representative on the receiving entity's board of directors; or

(d) the entity's shares are traded on a public market.

[12] Some potential indicators of insignificant NCS would be similar to criteria/ conditions used to assess other exceptions analysed in this agenda paper—for example, this indicator would be similar to criteria used in the related-party exception (that is, whether NCS are related parties of the receiving entity).