

NZASB Public Session Supporting Papers 23 June 2021

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March 2021

International Accounting Standards Board

Request for Information
Third Agenda Consultation

Comments to be received by 27 September 2021

IASB[®]

 IFRS[®]

Request for Information

Third Agenda Consultation

Comments to be received by 27 September 2021

Request for Information *Third Agenda Consultation* is published by the International Accounting Standards Board (Board) for comment only. Comments need to be received by **27 September 2021** and should be submitted by email to commentletters@ifrs.org or online at <https://www.ifrs.org/projects/open-for-comment/>.

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Foreword by Hans Hoogervorst, Chairman of the IASB®

Help us shape financial reporting for the future

The covid-19 pandemic is affecting us all. Yet, the financial reporting community continues to work together to bring transparency, accountability and efficiency to financial markets. An important part of our work is understanding how to best serve our stakeholders and the public interest, so we are seeking your views on what we should prioritise from 2022 to 2026.

The last two agenda consultations provided valuable input that helped improve financial reporting globally. Over the past decade, we completed projects that our stakeholders identified as priorities—we introduced new major IFRS® Standards on financial instruments, revenue, leases and insurance contracts and we revised the *Conceptual Framework for Financial Reporting*. We also made progress on our Better Communication in Financial Reporting projects, increased our work to support consistent application of the Standards and responded swiftly to urgent issues.

So, after two decades of work, what next?

Some of the IASB's capacity until 2026 will be filled by completing its current projects and undertaking the required post-implementation reviews of the new financial instruments, revenue and leases Standards.

Given the trend towards digitalisation of financial reports and the growth in private equity investments, we have been asked to increase our efforts to develop the IFRS Taxonomy and the *IFRS for SMEs*® Standard. We have also been asked to improve financial reporting requirements on intangibles and climate-related risks, to take on projects that comprehensively address application questions and to make our Standards easier to understand. However, this agenda consultation provides an opportunity for everybody to share their views on the priorities of our activities and new projects for our work plan.

In parallel with this agenda consultation, the Trustees of the IFRS Foundation are considering a potential expansion of the Foundation's role through the possible creation of a new board to set sustainability reporting standards. I encourage you to follow and engage with their work.

While it will be for my successor Andreas Barckow to lead the delivery of the IASB's next five-year plan, I urge you to share your views as you have done before. Your feedback is important input to the IASB and will help shape the future of financial reporting.

We look forward to receiving your comments.



A handwritten signature in black ink, appearing to read 'Hans Hoogervorst', written over a light blue horizontal line.

Hans Hoogervorst
IASB Chairman

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Request for Information Third Agenda Consultation

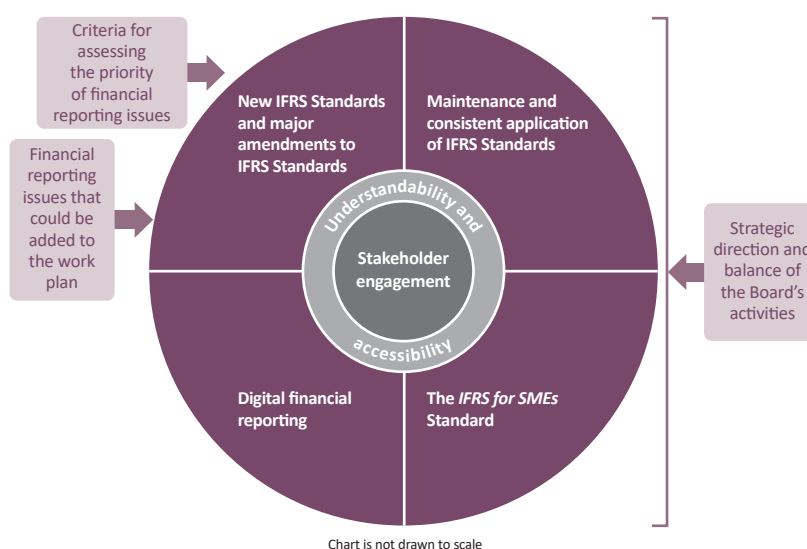
March 2021

Introduction

Objective of this Request for Information

- 1 The International Accounting Standards Board (Board) undertakes a public consultation on its activities and its work plan every five years (agenda consultation). The objective of this agenda consultation is to gather views on:
- (a) the strategic direction and balance of the Board’s activities;
 - (b) the criteria for assessing the priority of financial reporting issues that could be added to the work plan; and
 - (c) new financial reporting issues that could be given priority in the Board’s work plan.

Diagram 1—An overview of this agenda consultation



How will responses to this Request for Information help the Board?

- 2 Responses to this Request for Information will help shape the Board’s thinking when determining how to prioritise its activities and new projects in its work plan for 2022 to 2026. This agenda consultation focuses on activities within the current scope of the Board’s work—financial statements and management commentary for profit-oriented companies.

This agenda consultation focuses on the current scope of the Board’s work—financial statements and management commentary for profit-oriented companies

Separate review of structure and effectiveness

- 3 The Trustees of the IFRS Foundation (Trustees) are assessing the future strategy for the Foundation through their five-yearly review of structure and effectiveness. As part of that review, the Trustees are considering whether to establish a new board to set sustainability reporting standards. The Trustees intend to make a final determination in advance of the November 2021 United Nations COP26 conference.¹
- 4 The Trustees’ review is different from this agenda consultation. This agenda consultation is about the priority of each activity in the current scope of the Board’s work, whereas the Trustees’ review is exploring a potential expansion of the Foundation’s role into setting sustainability reporting standards. Therefore, this agenda consultation does not seek feedback on issues related to sustainability reporting, except to the extent that those issues relate to the current scope of the Board’s work.
- 5 To the extent applicable to the Board, the decisions of the Trustees on their review of the Foundation’s strategy will be considered in finalising the Board’s activities and work plan for 2022 to 2026. For example, if decisions from the Trustees’ review identify the need for capacity from the Board to support any interaction between the work of the Board and any new sustainability standards board, such a need will be considered in finalising the Board’s priorities for 2022 to 2026.

Structure of this Request for Information

- 6 This Request for Information provides an overview of:
- (a) the Board’s activities;
 - (b) the criteria for assessing the priority of financial reporting issues that could be added to the work plan; and
 - (c) financial reporting issues that could be added to the Board’s work plan.
- 7 Further information to help you respond to this Request for Information is provided in:
- (a) Appendix A, which summarises the Board’s work plan as of March 2021;

¹ To stay up to date with the latest developments on the Trustees’ review, see: <https://www.ifrs.org/projects/work-plan/sustainability-reporting/>.

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- (b) Appendix B, which describes frequently suggested financial reporting issues; and
- (c) Appendix C, which lists other financial reporting issues suggested to the Board.

Questions for respondents

- 8 The Board has discussed the matters in this Request for Information.² The Board has not, however, reached a view on its activities and work plan for 2022 to 2026.

Your feedback will help shape the Board's thinking when determining how to prioritise its activities and new projects in its work plan for 2022 to 2026

- 9 The Board invites comments on all matters in this Request for Information. You need not comment on all of the questions and you are encouraged to comment on any other matters relevant to this consultation.
- 10 The Board will consider all comments received in writing by 27 September 2021.

² To access agenda papers and summaries from discussions by the International Accounting Standards Board (Board) and to stay up to date with the latest developments on this agenda consultation, see: <https://www.ifrs.org/projects/work-plan/2020-agenda-consultation/>.

Question 1—Strategic direction and balance of the Board's activities

The Board's main activities include:

- developing new IFRS Standards and major amendments to IFRS Standards;
- maintaining IFRS Standards and supporting their consistent application;
- developing and maintaining the *IFRS for SMEs* Standard;
- supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
- improving the understandability and accessibility of the Standards; and
- engaging with stakeholders.

Paragraphs 14–18 and Table 1 provide an overview of the Board's main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.

- (a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.
- (b) Should the Board undertake any other activities within the current scope of its work?

Question 2—Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan

Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.

- (a) Do you think the Board has identified the right criteria to use? Why or why not?
- (b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

Question 3—Financial reporting issues that could be added to the Board's work plan

Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board's work plan.

- (a) What priority would you give each of the potential projects described in Appendix B – high, medium or low – considering the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.
- (b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28). To help the Board analyse the feedback, when possible, please explain:
 - (i) the nature of the issue; and
 - (ii) why you think the issue is important.

Question 4—Other comments

Do you have any other comments on the Board's activities and work plan? Appendix A provides a summary of the Board's current work plan.

How to comment

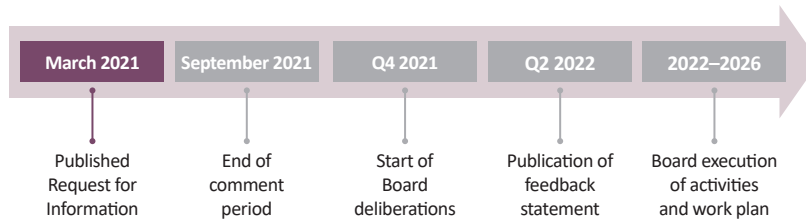
- 11 Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org
- 12 Your comments will be on public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

Next steps

- 13 The Board expects to start discussing feedback on this Request for Information at public meetings in the final quarter of 2021. In the second quarter of 2022, the Board expects to publish a feedback statement summarising that feedback and its 2022 to 2026 activities and work plan.

Diagram 2—Project timeline



Strategic direction and balance of the Board’s activities

- 14 The Board’s main activities are:³
- developing new IFRS Standards and major amendments to IFRS Standards;
 - maintaining IFRS Standards and supporting their consistent application;
 - developing and maintaining the *IFRS for SMEs* Standard;
 - supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
 - improving the understandability and accessibility of the Standards; and
 - engaging with stakeholders.
- 15 All of the Board’s activities are integrated to some degree; however, the activities relating to the understandability and accessibility of the Standards and to stakeholder engagement affect all aspects of the Board’s work. Diagram 3 illustrates the Board’s main activities—please note that this diagram is not drawn to scale.

³ Throughout this Request for Information, references to the Board’s activities or capacity relate to the technical resources of the IFRS Foundation, including the Board and technical staff.

Diagram 3—An illustration of the Board’s activities

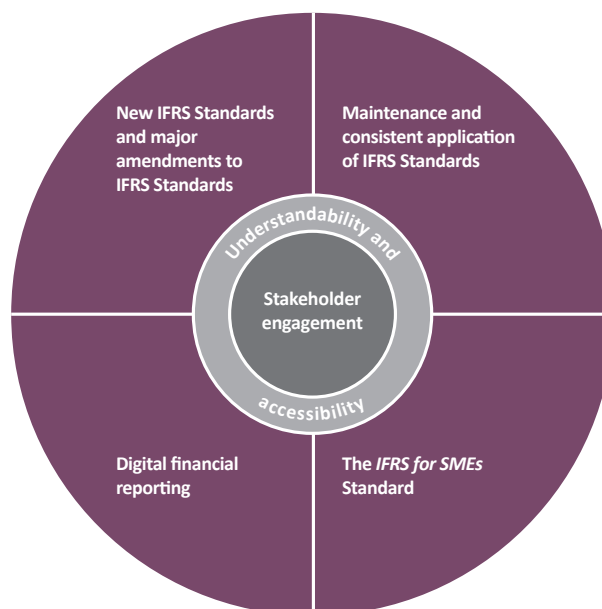


Chart is not drawn to scale

16 This Request for Information seeks your feedback on the overall balance of our main activities—that is, whether the Board should increase, leave unchanged or decrease its current level of focus on each activity. To help you provide feedback, Table 1 includes:

- (a) a summary of each main activity, including an indication of the Board’s current level of focus on the activity. The level of focus has been determined using estimates of the resources allocated to each main activity over the past three years.
- (b) descriptions of what the Board believes it could do if it were to increase its level of focus on each main activity. The descriptions of what the Board could do are examples and therefore do not constitute an exhaustive list. An increased level of focus on an activity does not necessarily mean that the Board will pursue all of the listed work.

17 The Board is of the view that its current level of resources will remain substantially unchanged from 2022 to 2026. In the Board’s view, the current level of resources is appropriate and sufficient to deliver timely improvements to financial reporting. If the Board were to significantly increase its resources and therefore its activities, stakeholders might have insufficient capacity to engage with the Board, provide high-quality feedback on proposals or implement changes that result from those proposals.

- 18 Therefore, an increase in the allocation of resources to one activity would mean that fewer resources would be available for other activities. For example, an increase in the resources allocated to activities that support the maintenance and consistent application of IFRS Standards might lead to a reduction in the number of new research and standard-setting projects the Board can take on.

Increasing the resources allocated to one activity will mean that fewer resources are available for other activities

Table 1—The Board’s main activities

New IFRS Standards and major amendments to IFRS Standards	
Objective: Research issues and, if appropriate, develop major new financial reporting requirements	
Current level of focus: 40%–45%	
What the Board currently does	Examples of what more the Board could do
<p>The Board develops new IFRS Standards and major amendments to IFRS Standards through research and standard-setting projects (see Appendix A for the current projects).</p> <p>The Board also undertakes post-implementation reviews of new IFRS Standards and major amendments to IFRS Standards. The objective of a post-implementation review is to assess the effects of a new Standard or major amendment to a Standard on investors, companies and auditors after the requirements have been widely applied for some time.⁴ The Board has started the required post-implementation review of (a) the classification and measurement requirements in IFRS 9 <i>Financial Instruments</i>, and (b) IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i>. Between 2022 and 2026, the Board intends to conduct the required post-implementation reviews of the impairment and hedge accounting requirements in IFRS 9, and the requirements in IFRS 15 <i>Revenue from Contracts with Customers</i> and IFRS 16 <i>Leases</i>.</p>	<p>The Board could take on new projects to address financial reporting issues (see paragraphs 24–28).</p>

⁴ Throughout this Request for Information, the term ‘investors’ refers to primary users of financial statements, defined in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* as existing and potential investors, lenders and other creditors, while the term ‘companies’ refers to entities that report applying IFRS Standards or the *IFRS for SMEs* Standard.

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Maintenance and consistent application of IFRS Standards	
Objective: Help stakeholders obtain a common understanding of financial reporting requirements	
Current level of focus: 15%–20%	
What the Board currently does	Examples of what more the Board could do
<p>Together with the Interpretations Committee (Committee), the Board maintains and supports the consistent application of IFRS Standards as a single set of high-quality global Standards by:</p> <ul style="list-style-type: none"> • monitoring the consistent application of IFRS Standards; • developing narrow-scope amendments to, and interpretations of, IFRS Standards; • publishing agenda decisions that improve consistency in the application of IFRS Standards; • using transition resource groups to support the implementation of new IFRS Standards; • providing educational materials such as webinars, webcasts and articles; and • supporting regulators and national standard-setters in their role to support consistent application of IFRS Standards. 	<p>Within the context of addressing application questions with widespread effect, and considering the Board's role as standard-setter in supporting consistent application of IFRS Standards, the Board could:</p> <ul style="list-style-type: none"> • work more with investors, companies, auditors, regulators and others to identify challenges in applying the Standards. • address those application challenges by: <ul style="list-style-type: none"> ○ providing more support for consistent application of IFRS Standards through agenda decisions published by the Committee, narrow-scope amendments to, and interpretations of, IFRS Standards. ○ providing more educational materials and initiatives on the application of IFRS Standards to support high-quality and consistent application of those Standards by companies, auditors, regulators and national standard-setters. Such materials and initiatives could relate to increased capacity-building efforts to support emerging economies, jurisdictions that have recently adopted IFRS Standards or jurisdictions that are planning to adopt IFRS Standards.

The <i>IFRS for SMEs</i> Standard	
<p>Objective: Provide financial reporting requirements tailored for companies that do not have public accountability (SMEs)</p> <p>Current level of focus: 5%</p>	
What the Board currently does	Examples of what more the Board could do
<p>Together with the SME Implementation Group (SMEIG), the Board:</p> <ul style="list-style-type: none"> • develops and maintains the <i>IFRS for SMEs</i> Standard by undertaking a comprehensive review of the Standard no sooner than two years after the effective date of amendments from the previous review. Such a review may result in amendments to requirements in the <i>IFRS for SMEs</i> Standard. • publishes educational materials, such as SMEIG Q&As that respond to application questions on the <i>IFRS for SMEs</i> Standard, and modules—with explanations, self-assessment questions and case studies—on each section of the Standard to support understanding and use of the Standard. 	<p>The Board could:</p> <ul style="list-style-type: none"> • work with auditors, national standard-setters and regulators to support consistent application of the <i>IFRS for SMEs</i> Standard. • provide more educational materials and programmes to support the understanding and use of the <i>IFRS for SMEs</i> Standard, including for micro-sized entities that are not publicly accountable. • work more with national standard-setters and other bodies to increase global adoption of the <i>IFRS for SMEs</i> Standard.

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Digital financial reporting	
Objective: Facilitate the digital consumption of financial information	
Current level of focus: 5%	
What the Board currently does	Examples of what more the Board could do
<p>The Board develops and maintains the IFRS Taxonomy, which facilitates the effective and efficient electronic communication and analysis of financial reports prepared applying the Standards (IFRS Standards and the <i>IFRS for SMEs</i> Standard) and IFRS Practice Statement 1 <i>Management Commentary</i>. These activities include:</p> <ul style="list-style-type: none"> • updating the IFRS Taxonomy to reflect new or amended requirements in IFRS Standards, the <i>IFRS for SMEs</i> Standard and IFRS Practice Statement 1; • updating the IFRS Taxonomy to reflect common reporting practice that is consistent with the requirements of IFRS Standards; and • publishing educational materials to support companies, regulators and others who use the IFRS Taxonomy. 	<p>The Board could:</p> <ul style="list-style-type: none"> • explore how advances in technology are changing the way investors consume information and assess the extent to which improvements are needed to the IFRS Taxonomy and the way in which the Board writes the Standards. • work more with regulators and other bodies to increase global adoption of the IFRS Taxonomy. This work would support the transparency, accountability and efficiency of financial markets given the trend towards digital financial reporting. • work more with companies, regulators, auditors, investors, data aggregators and others to improve the quality of electronic data and consistency in application of the IFRS Taxonomy. • provide more educational materials and programmes to support the understanding and use of the IFRS Taxonomy.

Understandability and accessibility of the Standards	
Objective: Improve the understandability and accessibility of our financial reporting requirements	
Current level of focus: 5%	
What the Board currently does	Examples of what more the Board could do
Understandability	
<p>In undertaking its activities, the Board focuses on understandability by:</p> <ul style="list-style-type: none"> • reducing unnecessary complexity so the Standards are less onerous and costly for companies to apply, while improving the quality of information provided to investors. • drafting clear Standards. The Board does this through the involvement of editorial and translation teams and external reviewers. • developing supporting materials such as snapshots, project summaries, feedback statements and Board member articles. 	<p>A 2017 survey report on the reputation of the IFRS Foundation identified stakeholders' need for simple, practical and workable Standards.⁵ To respond comprehensively to such needs, the Board could:</p> <ul style="list-style-type: none"> • create an inventory of possible areas of unnecessary complexity in applying financial reporting requirements, and assess whether improvements can be made to those areas. • improve the understandability of the Standards in those areas by undertaking projects that: <ul style="list-style-type: none"> ○ amend existing requirements to reduce unnecessary complexity. ○ make changes to the way in which Standards are drafted so that Standards are more clearly articulated and consistent terminology and structure are used. This approach could be applied to amend existing Standards or to develop new Standards.
Accessibility	
<p>The Board also strives to make the Standards and related materials accessible. The Board does so, for example, by:</p> <ul style="list-style-type: none"> • publishing Annotated IFRS Standards (IFRS Standards with annotations and cross-references to other materials); • publishing semi-annual compilations of Committee agenda decisions; and • providing tools to make IFRS Standards and other materials easier to navigate. 	<p>The Board could further improve accessibility by using technology and other tools to help stakeholders find materials that are most relevant to them, and understand how those materials relate to each other.</p>

⁵ See *Perceptions of the IFRS Foundation – Reputation Research Findings*, published in July 2017, at: <https://www.ifrs.org/-/media/feature/groups/trustees/ifrs-reputation-research-report-jul-2017.pdf?la=en>.

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Stakeholder engagement	
<p>Objective: Obtain views to support the development of high-quality financial reporting requirements and promote acceptance of the Standards</p> <p>Current level of focus: 20%–25%</p>	
What the Board currently does	Examples of what more the Board could do
<p>The Board engages with stakeholders affected by the Standards through:</p> <ul style="list-style-type: none"> • general and project-specific meetings with stakeholders from various backgrounds and regions. These engagements include meetings with the Board’s advisory bodies and consultative groups, external events and conferences, project outreach, the IFRS Foundation annual conference and the World Standard-setters conference.⁶ • materials that support meetings with stakeholders and dedicated stakeholder content on the IFRS website. • comments letters received from stakeholders in response to formal consultation documents. 	<p>The Board could:</p> <ul style="list-style-type: none"> • increase engagement with a broader range of stakeholders through standing consultative groups, informal dialogue and events. • increase engagement on formal consultations by further exploring, and using, digital-friendly approaches, such as surveys to supplement the comment letter process. • arrange more investor-focused educational materials and initiatives to increase investor engagement across the Board’s activities.

⁶ For more information on the Board’s advisory bodies and consultative groups, see: <https://www.ifrs.org/about-us/consultative-bodies/>.

Questions for respondents

Question 1

The Board's main activities include:

- developing new IFRS Standards and major amendments to IFRS Standards;
- maintaining IFRS Standards and supporting their consistent application;
- developing and maintaining the *IFRS for SMEs* Standard;
- supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
- improving the understandability and accessibility of the Standards; and
- engaging with stakeholders.

Paragraphs 14–18 and Table 1 provide an overview of the Board's main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.

- (a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.
- (b) Should the Board undertake any other activities within the current scope of its work?

Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan

- 19 The Board adds new projects to its work plan when projects already on the work plan are near completion. The Board intends to continue prioritising the completion of projects on its current work plan because:
 - (a) stakeholders have previously identified these projects as priorities;
 - (b) re-prioritising projects could lead to inefficient starts and stops; and
 - (c) some projects, such as post-implementation reviews, are required by the Board's due process.⁷
- 20 Appendix A summarises the Board's current projects as of March 2021.

We developed our current work plan by listening to stakeholders' priorities, so we will continue to prioritise those projects

⁷ The Board's due process is outlined in the *Due Process Handbook*, available here: <https://cdn.ifrs.org/-/media/feature/about-us/legal-and-governance/constitution-docs/due-process-handbook-2020.pdf?la=en>.

- 21 The Board evaluates a potential project for inclusion in its work plan primarily by assessing whether the project will meet investors’ needs, while taking into account the costs of producing the information. Table 2 lists the criteria the Board currently considers when deciding whether to add a potential project to its work plan.

Table 2—The Board’s proposed criteria

The Board considers seven criteria in deciding whether to add a potential project to its work plan	
1	The importance of the matter to investors
2	Whether there is any deficiency in the way companies report the type of transaction or activity in financial reports
3	The type of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others
4	How pervasive or acute the matter is likely to be for companies
5	The potential project’s interaction with other projects on the work plan
6	The complexity and feasibility of the potential project and its solutions
7	The capacity of the Board and its stakeholders to make timely progress on the potential project

- 22 Determining the priority of potential projects that could be added to the work plan requires judgement. The relative importance of a criterion is likely to vary depending on the circumstances surrounding the potential project.
- 23 The criteria in Table 2 are the primary consideration for determining the priority of projects to be added to the Board’s work plan, but the Board also considers the work streams of other major standard-setters.

Questions for respondents

Question 2	
Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.	
(a)	Do you think the Board has identified the right criteria to use? Why or why not?
(b)	Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

Financial reporting issues that could be added to the Board’s work plan

- 24 This Request for Information seeks your feedback on which financial reporting issues the Board could add to its work plan for 2022 to 2026 that would result in new IFRS Standards or major amendments to IFRS Standards.

Potential projects

- 25 In preparing for this agenda consultation, the Board conducted outreach (mainly with its advisory bodies and standing consultative groups) to identify potential projects to describe in this Request for Information. The Board's objective in describing potential projects is to provide a common understanding of the financial reporting issues that could be addressed in a potential project to elicit more focused feedback. Descriptions of these potential projects are included in Appendix B. Appendix C lists financial reporting issues suggested by only a few stakeholders—these issues are not described in detail in this Request for Information. The list of potential projects is not intended to be exhaustive and does not represent a draft work plan for the Board. You are welcome to suggest other financial reporting issues for the Board to explore.

The list of potential projects is not exhaustive and does not represent a draft work plan for the Board. You are welcome to suggest other financial reporting issues for the Board to explore.

Remaining research pipeline projects

- 26 Table 3 lists the remaining research pipeline projects that arose from the 2015 Agenda Consultation. These projects are also described in Appendix B. The Board would like your feedback on whether these projects are still a priority. These projects were not started because of the need to devote resources to other projects, including:
- (a) projects not originally on the work plan for 2016 to 2021, such as:
 - (i) time-sensitive projects on amendments to IFRS 17 *Insurance Contracts* and amendments resulting from IBOR Reform and its Effects on Financial Reporting; and
 - (ii) a revised IFRS Practice Statement 1;
 - (b) amending IFRS 16 in response to urgent issues arising from the covid-19 pandemic; and
 - (c) maintaining momentum on other major projects.

Table 3—Research pipeline projects

Research pipeline projects	
1	Discontinued operations and disposal groups (Post-implementation Review of IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>)
2	Inflation (High Inflation: Scope of IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>)
3	Pollutant pricing mechanisms
4	Variable and contingent consideration

Capacity indicators

- 27 Information about the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 may help you in responding to this Request for Information. If the current level of focus on activities related to new IFRS Standards and major amendments to IFRS Standards remains unchanged (see paragraphs 14–18), the Board expects to be able to start two to three large projects, or four to five medium-sized projects, or seven to eight small projects (or an equivalent combination of large, medium and small projects), after setting aside capacity to:⁸
- (a) continue projects already on its work plan as described in Appendix A, assuming that all the research and standard-setting projects will result in new IFRS Standards or major amendments to IFRS Standards. If the Board decides to expand the scope of any current project—for example, by undertaking a wider-scope Equity Method research project that fundamentally reviews the equity method of accounting, or a comprehensive review of disclosure requirements in IFRS Standards applying the proposed new approach to developing and drafting disclosure requirements being explored and tested in the Disclosure Initiative—Targeted Standards-level Review of Disclosures project—less capacity would be available to add potential new projects to the work plan.
 - (b) conduct the required post-implementation reviews of IFRS 9, IFRS 15 and IFRS 16.
 - (c) undertake some time-sensitive projects that may arise after this agenda consultation—for example, possible follow-on projects from the required post-implementation reviews, if those projects are determined to be priorities.
- 28 Projects focusing on the financial reporting issues described in Appendix B could vary in size. To help you provide feedback, each project described in Appendix B that would result in new IFRS Standards or major amendments to IFRS Standards includes an estimate of its size.

⁸ See paragraphs 3–5 for information about capacity in relation to any new sustainability standards board.

Questions for respondents

Question 3

Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board’s work plan.

- (a) What priority would you give each of the potential projects described in Appendix B – high, medium or low – considering the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.
- (b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28). To help the Board analyse the feedback, when possible, please explain:
 - (i) the nature of the issue; and
 - (ii) why you think the issue is important.

Question 4

Do you have any other comments on the Board’s activities and work plan? Appendix A provides a summary of the Board’s current work plan.

Appendix A—The Board’s work plan as of March 2021

- A1 This appendix summarises the active projects on the Board’s work plan as of March 2021. The work plan includes:
- (a) projects that could result in new IFRS Standards or major amendments to IFRS Standards. These are:
 - (i) research projects that gather evidence about the problem to be solved and assess whether a feasible solution can be found before the Board starts a standard-setting or maintenance project; and
 - (ii) standard-setting projects that develop a new Standard or substantially amend an existing Standard.
 - (b) projects on the maintenance and consistent application of IFRS Standards. These projects address application questions about IFRS Standards. Such projects involve the Board or the Committee developing narrow-scope amendments to, and interpretations of, IFRS Standards.
- A2 As described in paragraph 19, the Board intends to continue prioritising the completion of projects on its work plan.
- A3 Further information on the Board’s work plan is available at <https://www.ifrs.org/projects/work-plan/>.

Table 4—Work plan projects as of March 2021

Project	Description
Research projects	
Business Combinations under Common Control	<p>Business combinations under common control are mergers and acquisitions involving companies within the same group. No IFRS Standard specifically applies to how the company that receives the transferred business (the receiving company) should account for the combination. This lack of guidance has resulted in diversity in practice. In addition, companies often provide insufficient information about these combinations. The objective of this project is to explore whether the Board can develop requirements that would improve the comparability and transparency of reporting by the receiving company in a business combination under common control.</p> <p>The Board published a Discussion Paper setting out its preliminary views in November 2020 with a comment deadline of 1 September 2021.</p>

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Project	Description
Dynamic Risk Management	<p>Many companies use hedging to manage exposure to financial risks such as changes in foreign exchange rates, interest rates or commodity prices. However, companies manage those risks ‘dynamically’—for example, the hedged position frequently changes as new financial assets and liabilities are added and others mature over time. Companies sometimes struggle to reflect their risk management adequately in their financial statements, so investors cannot easily understand the effects of hedging on a company’s financial position and future cash flows. The objective of this project is to explore whether the Board can develop an approach that would enable investors to understand a bank’s dynamic management of interest rate risk and evaluate the effectiveness of those activities.</p> <p>The Board has developed a core accounting model which it is discussing with stakeholders before determining how to proceed.</p>
Equity Method	<p>IFRS Standards require investors with significant influence over an investee, or joint control of a joint venture, to apply the equity method. Stakeholders have reported problems in applying the equity method of accounting set out in IAS 28 <i>Investments in Associates and Joint Ventures</i> in investors’ financial statements. The objective of this project is to assess whether these application problems can be addressed by identifying and explaining the principles of IAS 28.</p> <p>The Board is conducting outreach on the equity method concurrently with its consultation activities on the post-implementation review of IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i>.</p>
Extractive Activities	<p>Extractive activities consist of exploring for, evaluating, developing and producing natural resources such as minerals, oil and gas. Companies use various accounting models to report the resources and expenditures associated with these activities. IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>, an interim Standard, allows companies adopting IFRS Standards to continue to apply some aspects of their previous accounting policies for exploration and evaluation expenditures until the Board reviews the accounting practices of companies engaged in extractive activities. The objective of this project is to gather evidence for the Board to decide whether to amend or replace IFRS 6, and the scope of such a project.</p>

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THIRD AGENDA CONSULTATION

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Project	Description
<p>Goodwill and Impairment</p>	<p>As part of the post-implementation review of IFRS 3 <i>Business Combinations</i>, stakeholders raised concerns about the accounting for acquisitions, including that investors receive insufficient information about acquisitions and their subsequent performance. The objective of this project is to improve the information companies provide to investors, at a reasonable cost, about the acquisitions those companies make. To achieve this objective, the Board is exploring whether improvements can be made to the disclosures companies provide about the performance of acquisitions and whether to change how a company accounts for goodwill subsequent to acquisition, including whether to reintroduce amortisation of goodwill.</p> <p>The Board published a Discussion Paper setting out its preliminary views in March 2020, and is considering the feedback on that document.</p>
<p>Pension Benefits that Depend on Asset Returns</p>	<p>The objective of this project is to explore whether the Board could feasibly develop targeted amendments to how companies determine the ultimate cost of pension benefits that vary with the returns of a defined pool of assets, applying IAS 19 <i>Employee Benefits</i>.</p>
<p>Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12</p>	<p>The Board developed IFRS 10, IFRS 11 and IFRS 12 to provide a single basis for consolidation and robust requirements for a company applying that basis to assess control, improve the accounting for joint arrangements and provide enhanced disclosure requirements for consolidated and unconsolidated structured companies. The objective of this post-implementation review is to assess the effects of these Standards on investors, companies and auditors after the requirements have been widely applied for some time.</p> <p>The Board published a Request for Information in December 2020 with a comment deadline of 10 May 2021.</p>

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Project	Description
Post-implementation Review of IFRS 9—Classification and Measurement	IFRS 9 <i>Financial Instruments</i> includes requirements for classifying and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. When developing IFRS 9, the Board divided the project into three phases—classification and measurement, impairment and hedge accounting. The Board also decided to divide the post-implementation review of the Standard into phases, starting with the review of the classification and measurement requirements. The objective of this post-implementation review is to assess the effects of this aspect of IFRS 9 on investors, companies and auditors after the requirements have been widely applied for some time.
Second Comprehensive Review of the IFRS for SMEs Standard	<p>The Board is carrying out its periodic comprehensive review of the <i>IFRS for SMEs</i> Standard. As a first step, the Board published a Request for Information in January 2020 to seek views on whether and how aligning the <i>IFRS for SMEs</i> Standard with IFRS Standards would benefit investors, without causing undue cost for companies applying the <i>IFRS for SMEs</i> Standard.</p> <p>The Board is considering feedback on that document. If the Board were to identify possible amendments to the <i>IFRS for SMEs</i> Standard, it would publish an Exposure Draft inviting comments on proposed changes to the Standard.</p>
Standards-setting projects	
Disclosure Initiative—Subsidiaries that are SMEs	<p>When a parent company applies IFRS Standards in preparing its consolidated financial statements, its subsidiaries also apply IFRS Standards when reporting to the parent for consolidation purposes. However, for their own financial statements, those subsidiaries may find it costly to apply all the disclosure requirements in IFRS Standards, which are designed for publicly accountable companies. The objective of this project is to develop an IFRS Standard that permits subsidiaries that do not have public accountability to apply IFRS Standards with reduced disclosure requirements.</p> <p>The Board expects to publish an Exposure Draft in the third quarter of 2021.</p>

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Project	Description
Disclosure Initiative— Targeted Standards- level Review of Disclosures	<p>Stakeholders have expressed concerns about the usefulness of disclosures provided in financial statements. The objective of this project is to improve the usefulness of disclosures for investors by improving the way the Board develops and drafts disclosure requirements in IFRS Standards. The Board has developed draft guidance for itself to use when developing and drafting disclosure requirements in future (proposed approach) and is testing that approach by applying it to the disclosure sections of IFRS 13 <i>Fair Value Measurement</i> and IAS 19. After testing on IFRS 13 and IAS 19, the Board will decide whether, and how, to use the proposed approach in its future standard-setting activities—that is, activities to amend the disclosure sections of other IFRS Standards or to develop a disclosure section for a new IFRS Standard.</p> <p>The Board published an Exposure Draft in March 2021 with a comment deadline of 21 October 2021.</p>
Financial Instruments with Characteristics of Equity	<p>IAS 32 <i>Financial Instruments: Presentation</i> does not always provide a clear rationale for its classification requirements and presents challenges in determining whether to classify some complex financial instruments as financial liabilities or equities. These challenges have resulted in diversity in practice. The objective of this project is to address those challenges by clarifying some underlying principles in IAS 32 and adding application guidance to facilitate consistent application of those principles. The Board is also exploring whether to develop additional presentation and disclosure requirements to help investors understand the effects that financial instruments have on a company's financial position and financial performance.</p>
Management Commentary	<p>Since the Board issued IFRS Practice Statement 1 <i>Management Commentary</i> (Practice Statement) in 2010, narrative reporting has evolved. Demand has increased for information about intangible resources, environmental, social and governance matters, and matters affecting a company's long-term prospects. The objective of this project is to revise the Practice Statement to help companies prepare management commentary that better meets the information needs of investors. The Practice Statement would remain principle-based so a company could meet some of those investor information needs by applying industry- or topic-specific guidance published by other bodies.</p> <p>The Board expects to publish an Exposure Draft in April 2021.</p>

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Project	Description
Primary Financial Statements	<p>Investors have expressed concerns about the comparability and transparency of performance reporting. The objective of this project is to improve the way information is communicated in the financial statements, with a focus on information included in the statement of profit or loss. The Board has developed proposals that would require companies to present new defined subtotals in the statement of profit or loss, disaggregate information in a better way and disclose information about some management-defined performance measures.</p> <p>The Board published an Exposure Draft in December 2019 and is considering the feedback on that document.</p>
Rate-regulated Activities	<p>Some companies are subject to rate regulation that determines the amount of compensation to which a company is entitled for goods or services supplied in a period. Such rate regulation can cause differences in timing when part of that compensation is included in the regulated rates charged to customers, and hence in revenue, in a period other than the period in which the company supplies the goods or services. The objective of this project is to develop requirements for companies to provide information about the effects of those differences in timing on their financial position and financial performance. That information would supplement the information companies currently provide by applying IFRS 15 <i>Revenue from Contracts with Customers</i> and other IFRS Standards, and provide investors with a clearer and more complete picture of the relationship between the revenue and expenses of those companies.</p> <p>The Board published an Exposure Draft in January 2021 with a comment deadline of 30 July 2021.</p>
Maintenance projects	
Availability of a Refund	<p>The objective of this project is to clarify how a company determines the economic benefits available in the form of a refund when other parties, such as trustees have rights to make particular decisions about the company's defined benefit plan.</p> <p>The Board published an Exposure Draft in June 2015 setting out its proposals to amend IFRIC 14 <i>IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>. The Board has decided not to finalise those proposed amendments to IFRIC 14 and is considering whether to develop new proposals to address the matter.</p>

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THIRD AGENDA CONSULTATION

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Project	Description
Deferred Tax related to Assets and Liabilities arising from a Single Transaction	<p>The objective of this project is to amend the requirements in IAS 12 <i>Income Taxes</i> to clarify how a company accounts for deferred tax on transactions such as leases and decommissioning obligations—transactions for which companies recognise both an asset and a liability.</p> <p>The Board expects to issue final amendments in May 2021.</p>
Lack of Exchangeability	<p>IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> specifies the exchange rate to use in reporting foreign currency transactions when exchangeability is temporarily lacking. However, there are no specific requirements on the exchange rate to use in other situations in which exchangeability is lacking, which has resulted in diversity in reporting practices. The objective of this project is to specify requirements for companies to determine whether a currency is exchangeable and if it is not exchangeable, the exchange rate to use.</p> <p>The Board expects to publish an Exposure Draft in April 2021.</p>
Lease Liability in a Sale and Leaseback	<p>Sale and leaseback transactions occur when a company sells an asset and leases that same asset back from the new owner. IFRS 16 <i>Leases</i> includes requirements for accounting for sale and leaseback transactions at the time those transactions take place; however, the Standard does not specify how to measure the lease liability when reporting after that date. The objective of this project is to improve the sale and leaseback requirements in IFRS 16 by providing greater clarity for the company selling and leasing back an asset both at the date of the transaction and subsequently.</p> <p>The Board published an Exposure Draft in November 2020, and is considering the feedback on that document.</p>
Provisions—Targeted Improvements	<p>The objective of this project is to develop proposals for three targeted improvements to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. These improvements would align the requirements for identifying liabilities in IAS 37 with the <i>Conceptual Framework for Financial Reporting</i>, clarify which costs to include in measuring a provision and specify whether the discount rates a company uses should reflect that company's own credit risk.</p>

Appendix B—Descriptions of frequently suggested financial reporting issues

- B1 As discussed in paragraphs 24–28, this appendix describes financial reporting issues (potential projects) that were suggested to the Board during outreach conducted to help prepare this Request for Information.
- B2 Feedback from this outreach generally indicates that few gaps remain in IFRS Standards. However, stakeholders have identified opportunities to comprehensively address application questions in some areas.
- B3 This appendix:
- (a) does not provide an exhaustive list of potential projects. You are welcome to suggest other financial reporting issues for the Board to explore.
 - (b) is not a draft work plan for the Board. The Board has limited capacity to take on new projects, so it can add only a small number of projects to its work plan (see paragraphs 27–28).
 - (c) does not filter out suggested projects for which a standard-setting solution may be unnecessary or unworkable. For example, it does not filter out projects suggested because of non-compliance with requirements or inappropriate exercise of judgement, or projects for which the solution may undermine the principle-based nature of IFRS Standards.
- B4 The scope of any project that would be added to the Board’s work plan could differ from the scope of the potential projects described in this appendix.
- B5 This appendix describes 22 potential projects, arranged in alphabetical order. Projects marked with an asterisk (*) are currently research pipeline projects (see paragraph 26).

Table 5—Financial reporting issues that could be addressed in a potential project

Potential project title	
1	Borrowing costs
2	Climate-related risks
3	Commodity transactions
4	Cryptocurrencies and related transactions
5	Discontinued operations and disposal groups*
6	Discount rates
7	Employee benefits
8	Expenses—Inventory and cost of sales
9	Foreign currencies
10	Going concern
11	Government grants
12	Income taxes
13	Inflation*
14	Intangible assets
15	Interim financial reporting
16	Negative interest rates
17	Operating segments
18	Other comprehensive income
19	Pollutant pricing mechanisms*
20	Separate financial statements
21	Statement of cash flows and related matters
22	Variable and contingent consideration*

Borrowing costs

B6 Some stakeholders perceive problems with the application of IAS 23 *Borrowing Costs*. These stakeholders said:

- (a) the definition of borrowing costs may be outdated and incomplete. For example, interest expense on lease liabilities is explicitly mentioned, but other costs that may be considered borrowing costs are not. Stakeholders also said they do not understand which exchange differences arising from foreign currency borrowings should be included in capitalised borrowing costs.
- (b) the definition of a qualifying asset in paragraph 5 of IAS 23 may be too restrictive—for example, in excluding borrowing costs incurred to construct goods for sale to customers, as discussed in the agenda decision published in March 2019.⁹
- (c) challenges may arise in applying the Standard when a qualifying asset is funded from a pool of general borrowings because it may be difficult to determine the amount of the borrowing costs eligible for capitalisation and the appropriate capitalisation rate.
- (d) borrowing costs capitalised by a subsidiary that borrows from its parent are required to be eliminated on consolidation. Eliminating such borrowing costs may be costly for preparers.

⁹ For this agenda decision, see: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-23-over-time-transfer-of-constructed-good-mar-19.pdf>.

- (e) the capitalisation of borrowing costs results in assets measured at different amounts depending on whether the company financed the construction of the asset using surplus funds or borrowed funds. Such variations may reduce comparability among companies.

Indicative size of the project

- B7 To address these concerns, the Board could undertake:
- (a) a targeted project to improve, clarify or simplify aspects of IAS 23 (likely to be a *small* project); or
 - (b) a comprehensive review of IAS 23 (likely to be a *medium-sized* project).

Climate-related risks

- B8 The Trustees are considering whether to establish a new board to set sustainability reporting standards (see paragraphs 3–5). The Trustees' consideration of sustainability reporting is outside the scope of this agenda consultation.
- B9 However, during outreach to develop this Request for Information, investors commented on information about climate-related risks that could result in a project within the current scope of the Board's work (see paragraph 2). These investors said:
- (a) they need better qualitative and quantitative information about the effect of climate-related risks on the carrying amounts of assets and liabilities reported in the financial statements. The disclosures and information should be comparable and consistent.
 - (b) climate-related risks are often perceived as remote, long-term risks and may not be fully considered in areas of financial statements that require estimates of the future (for example, in testing assets for impairment).
- B10 In November 2020, the IFRS Foundation published educational material on the effects of climate-related matters on financial statements.¹⁰ This document explained how IFRS Standards require companies to consider climate-related matters when those matters have a material effect on the financial statements. The educational material complements a November 2019 article, *IFRS Standards and climate-related disclosures*.¹¹

¹⁰ For Educational Material—*Effects of climate-related matters on financial statements prepared applying IFRS Standards*, see: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf?la=en>.

¹¹ For this article, see: <https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en>.

Indicative size of the project

- B11 To address the concerns raised, the Board could:
- (a) lower the threshold for disclosing information about sources of estimation uncertainty in paragraph 125 of IAS 1 *Presentation of Financial Statements*. Paragraph 125 of IAS 1 requires a company to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. A lower threshold for disclosing information about sources of estimation uncertainty—such as elimination of the reference to ‘the next financial year’—could result in the disclosure of more information about climate-related risks than companies currently disclose and improve the information available to investors. Such a change would have a pervasive effect on the requirements in IFRS Standards beyond just climate-related risks (likely to be a *medium-sized* project).
 - (b) broaden the requirements in IAS 36 *Impairment of Assets* for cash flow projections to be used in measuring value in use when testing assets for impairment. Paragraph 33(b) of IAS 36 requires cash flow projections to cover a maximum period of five years, unless a longer period can be justified. This requirement may be misinterpreted as restricting the consideration of material, long-term climate-related effects on the value in use measurement (likely to be a *small* project).
 - (c) consider combining the projects described in (a) and (b) to create a single project (likely to be a *large* project).
 - (d) develop accounting requirements for various types of pollutant pricing mechanisms, as described in paragraphs B68–B71 (likely to be a *large* project).

Commodity transactions

- B12 Commodities are held or used for various purposes and take a variety of forms (such as gold and other precious metals, oil, natural gas and agricultural produce). Stakeholders identified a range of transactions involving commodities and various reasons why companies enter into those transactions. Some stakeholders said:
- (a) IFRS Standards lack or provide only limited specific requirements for some types of commodity transactions—for example, commodity loans discussed in the agenda decision published in March 2017.¹²

¹² For this agenda decision, see: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-ias-2-ias-8-ias-39-ifrs-9-commodity-loans-march-2017.pdf>.

- (b) in the absence of a Standard that applies specifically to a transaction involving commodities, companies apply paragraphs 10 and 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing an accounting policy for that transaction. These policies vary between companies, sometimes reflecting the differing circumstances of the companies. For example, to account for commodity loan transactions that involve gold, companies have developed accounting policies based on:
- (i) the requirements of IFRS 9 *Financial Instruments*;
 - (ii) the requirements of IAS 2 *Inventories* and IFRS 15 *Revenue from Contracts with Customers*; or
 - (iii) the *Conceptual Framework for Financial Reporting (Conceptual Framework)* to determine whether to recognise assets and liabilities.

Indicative size of the project

- B13 To address these concerns, the Board could:
- (a) develop requirements for some of the most common types of transactions involving commodities—for example, commodity loans (likely to be a *medium-sized* project).
 - (b) undertake a broader project on commodity transactions (likely to be a *large* project).
 - (c) develop a Standard to cover a range of non-financial tangible or intangible assets held solely for investment purposes (including some cryptocurrencies, commodities and emission allowances).^{13,14} This project is likely to be a *large* project.

Cryptocurrencies and related transactions

- B14 Stakeholders said cryptocurrencies are becoming more prevalent. In June 2019, the Committee published Agenda Decision *Holdings of Cryptocurrencies*.¹⁵ However, many stakeholders raised further concerns, saying:
- (a) the accounting required by IAS 38 *Intangible Assets* for cryptocurrencies may not provide useful information, because the economic characteristics of cryptocurrencies are similar to cash or other financial instruments, rather than to intangible assets.

¹³ Cryptocurrencies and related transactions are described in paragraphs B14–B16 and emission allowances are described in paragraphs B68–B71 (pollutant pricing mechanisms).

¹⁴ IAS 40 *Investment Property* applies in the recognition, measurement and disclosure of investment property.

¹⁵ The Committee concluded that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, a company applies IAS 38 *Intangible Assets* to holdings of cryptocurrencies.

- (b) cryptocurrencies should be measured at fair value, but IAS 38 only permits fair value measurement in an active market and changes in fair value are recognised in other comprehensive income without subsequent recycling.
- (c) the agenda decision may be too narrow in scope. Some stakeholders suggested that the Board develop educational materials or amend IFRS Standards to provide specific requirements for direct holdings of cryptocurrencies as well as other related transactions—for example, indirect holdings of cryptocurrencies or initial coin offerings.

Indicative size of the project

- B15 To address these concerns, the Board could:
- (a) develop educational materials, as part of its maintenance and consistent application activities.¹⁶
 - (b) make targeted amendments to IAS 38—for example:
 - (i) develop additional disclosure requirements in IAS 38 about the fair value of cryptocurrencies (likely to be a *small* project); or
 - (ii) permit more intangible assets (including cryptocurrencies) to be measured at fair value and consider whether recognising changes in fair value in the statement of profit or loss is appropriate in some circumstances (likely to be a *medium-sized* project).
 - (c) consider amending the scope of the Standards for financial instruments to include cryptocurrencies (likely to be a *medium-sized* project).
 - (d) develop a Standard to cover a range of non-financial tangible or intangible assets held solely for investment purposes (including some cryptocurrencies, commodities and emission allowances).^{17,18} This project is likely to be a *large* project.
- B16 Some national standard-setters and other professional bodies have already conducted work on cryptocurrencies and related transactions, which could inform the Board's work.

Discontinued operations and disposal groups

- B17 Many stakeholders—most of them investors and accounting firms—expressed concerns about the application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and the usefulness of information provided by companies applying that Standard. The Committee has discussed several

¹⁶ Educational materials are part of the Board's activities on maintenance and consistent application; therefore, we have not provided a project size estimation (see paragraph 27).

¹⁷ Commodity transactions are described in paragraphs B12–B13 and emission allowances are described in paragraphs B68–B71 (pollutant pricing mechanisms).

¹⁸ IAS 40 applies to the recognition, measurement and disclosure of investment property.

issues relating to the application of the Standard. In January 2016, the Committee published an agenda decision on issues related to IFRS 5 and concluded that the number and variety of unresolved issues might warrant a broad project on IFRS 5.¹⁹ Some stakeholders said:

- (a) they do not understand whether the Standard applies to:
 - (i) particular types of planned loss-of-control events, besides loss of control through sale or distribution—for example, loss of control of a subsidiary because of dilution of the shares held by the parent;
 - (ii) a disposal group that consists mainly, or entirely, of financial instruments; or
 - (iii) some sales that require regulatory approvals.
- (b) they do not understand some of the measurement requirements, including:
 - (i) paragraph 15 of IFRS 5, which sets out measurement requirements for a disposal group, and paragraph 23 of IFRS 5, which requires the impairment loss recognised for a disposal group to be allocated to non-current assets in the disposal group; and
 - (ii) whether an impairment loss previously allocated to goodwill in a disposal group can be reversed (paragraph 22 of IFRS 5).
- (c) they do not understand some of the presentation requirements, including:
 - (i) how to present intra-group transactions between continuing and discontinued operations;
 - (ii) how to apply the presentation requirements in paragraph 28 of IFRS 5 when a disposal group—consisting of a subsidiary, and other non-current assets—ceases to be classified as held for sale; and
 - (iii) how to apply the notion of ‘separate major line of business or geographical area of operations’ in the definition of ‘discontinued operation’ (see paragraph 32 of IFRS 5).
- (d) the single line-item presentation of disposal groups or discontinued operations in the primary financial statements may not provide useful information. Investors said they needed more detailed information in the primary financial statements and better disclosures.²⁰

¹⁹ This agenda decision is available at: [https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-5-january-2016-\(2\).pdf](https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-5-january-2016-(2).pdf).

²⁰ Statement of cash flows and related matters are described in paragraphs B76–B79.

- B18 Many of these concerns were raised in the 2015 Agenda Consultation at which time the Board decided that a post-implementation review of IFRS 5 would be the most effective way to address them. However, the Board has not yet started that project (see paragraph 26).

Indicative size of the project

- B19 To address these concerns, the Board could:
- (a) reconsider the single line-item presentation and develop more effective disclosures (likely to be a *medium-sized* project); or
 - (b) undertake a comprehensive review to address all concerns (likely to be a *medium-sized* project).

Discount rates

- B20 The time value of money is a core concept in finance. Present value measurement techniques apply this concept to link future amounts to a present amount using a discount rate. Present value measurement techniques require two main sets of inputs: an estimate of the amount, timing and uncertainty of future cash flows, and discount rates to translate those cash flows to an equivalent amount of cash held at the measurement date. However, IFRS Standards developed over the years have required that various inputs be reflected in such present values. Variations in inputs required by IFRS Standards mean that the permitted or required discount rates also vary. Comments received in previous agenda consultations and subsequently suggest that stakeholders often fail to understand the reasons why these discount rates vary.
- B21 The Board has conducted research on discount rates in IFRS Standards and found that some of the variations in discount-rate requirements arise because measurement bases differ between IFRS Standards (for example, historical cost, fair value, value in use).²¹ Other variations arise because IFRS Standards were developed at different times and focused on different areas. The Board uses the discount rate research findings in considering whether and how to resolve some differences as they arise on projects. For example, in the Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*, the Board proposed to allow the use of post-tax discount rates and post-tax cash flows to estimate value in use.²²

Indicative size of the project

- B22 A project to reconsider requirements in all IFRS Standards and, when appropriate, eliminate variations in present value measurement techniques is likely to be a *large* project.

²¹ See: <https://cdn.ifrs.org/-/media/project/discount-rates/project-summary.pdf>.

²² IAS 36 *Impairment of Assets* requires companies to estimate value in use on a pre-tax basis. Stakeholders have said that pre-tax discount rates are unobservable, so the test is usually performed on a post-tax basis.

Employee benefits

- B23 Some stakeholders raised concerns about the accounting for employee benefits. These stakeholders said:
- (a) they do not understand how to apply paragraph 83 of IAS 19 *Employee Benefits* to determine the rate used to discount post-employment benefit obligations in the absence of a deep market in high-quality corporate bonds. In the absence of a deep market in such bonds, IAS 19 requires companies to use market yields on government bonds instead.
 - (b) the requirements of IAS 19 do not deal effectively with post-employment benefit plans (for example, pension plans) with characteristics of both defined contribution and defined benefit plans (hybrid pension plans). Some stakeholders said that such plans are becoming prevalent in several jurisdictions, and accounting requirements need to reduce diversity in the classification and measurement of such plans.
- B24 The Board has three projects relating to employee benefits on its work plan, as described in Appendix A:
- (a) Disclosure Initiative—Targeted Standards-level Review of Disclosures;
 - (b) Pension Benefits that Depend on Asset Returns; and
 - (c) Availability of a Refund.

Indicative size of the project

- B25 To address these concerns, the Board could:
- (a) review the requirements in IAS 19 on the discount rates an entity uses in the absence of a deep market in high-quality corporate bonds (likely to be a *medium-sized* project);
 - (b) develop accounting requirements for hybrid pension plans (likely to be a *large* project); or
 - (c) undertake a comprehensive review of IAS 19 (likely to be a *large* project).
- B26 Some national standard-setters and other professional bodies have already conducted research in this area, which could inform the Board's work. The Board could also build on its previous work in which it researched solutions to these problems.

Expenses—Inventory and cost of sales

- B27 Some stakeholders, most of them standard-setters, raised concerns about aspects of the accounting for inventory and cost of sales.

- B28 Some standard-setters said that after the implementation of IFRS 15, the Board should consider developing requirements on the other component of gross profit, that is, cost of sales (including cost of goods sold and the cost of providing services). These stakeholders suggested that, as part of this potential project, the Board should seek to improve the accounting for inventory and consider developing accounting requirements for areas for which they believe requirements are absent or insufficient, including:
- (a) the recognition of variable consideration;²³
 - (b) the timing of recognition of cost of sales (including cost of goods sold and the cost of providing services);
 - (c) the existence of a significant financing component;
 - (d) the definition of functional line items, including cost of sales;
 - (e) cost capitalisation, including industry-specific cost capitalisation requirements; and
 - (f) impairment of inventory.
- B29 These stakeholders said that such a project would harmonise practices among industries and provide a common understanding of the components of cost of sales. However, other stakeholders questioned the feasibility of such a project and whether the benefits would justify the costs needed to implement any new requirements.

Indicative size of the project

- B30 To address these concerns, the Board could undertake a comprehensive review of the accounting for inventory and cost of sales (likely to be a *large* project).²⁴

Foreign currencies

- B31 A few stakeholders called for a review of the requirements in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and suggested that the Board consider:
- (a) reviewing the factors used to determine a company's functional currency;
 - (b) clarifying the accounting for foreign currency derivatives within the scope of IAS 21;
 - (c) deciding whether the accounting requirements for long-term payables and receivables denominated in a foreign currency are appropriate when the currency is volatile and thinly traded;²⁵ and
 - (d) developing enhanced disclosures about the effect of changes in foreign exchange rates on the financial statements.

²³ Variable and contingent consideration is described in paragraphs B80–B83.

²⁴ IAS 2 prescribes the accounting treatment for inventories.

²⁵ Paragraph 32 of IAS 21.

- B32 The Board has one maintenance project to amend IAS 21 on its work plan—Lack of Exchangeability—as described in Appendix A.²⁶

Indicative size of the project

- B33 To address these concerns, the Board could undertake:
- (a) a targeted project to improve aspects of IAS 21 (likely to be a *medium-sized* project); or
 - (b) a comprehensive review of IAS 21 (likely to be a *large* project).
- B34 A national standard-setter has already conducted research in this area, which could inform the Board’s work. The Board could also build on its previous work in which it had researched solutions to some of these issues.

Going concern

- B35 Financial statements should be prepared on a going-concern basis unless management either intends to liquidate the company or to cease trading, or has no realistic alternative but to do so.²⁷ In adverse economic conditions or when a company is in financial distress, investors want to understand management’s going-concern assessment. Some stakeholders said:
- (a) current requirements on how management should assess the going-concern basis of preparation are insufficient. Some stakeholders suggested that more prescriptive requirements may improve application and enforcement.
 - (b) management’s disclosures about going concern can sometimes be inadequate, boilerplate or not provided on a timely basis. For example:
 - (i) the threshold for providing information on material uncertainties about a company’s ability to continue as a going concern may be too high;
 - (ii) requirements on the nature and extent of information that should be provided about material uncertainties may be insufficient; or
 - (iii) disclosures about the underlying risks and the expected mitigations of financial distress are sometimes insufficient to meet investor needs, particularly when management has plans to mitigate events or conditions that would otherwise cast significant doubt about a company’s ability to continue as a going concern.
 - (c) IFRS Standards are silent about the basis on which financial statements should be prepared when the going-concern assumption is inappropriate.

²⁶ For more information on the Lack of Exchangeability project, see: <https://www.ifrs.org/projects/work-plan/lack-of-exchangeability-research/>.

²⁷ Paragraph 25 of IAS 1.

- B36 The Committee and the Board discussed some of these matters. The Committee also published agenda decisions relating to disclosure requirements in July 2010 and July 2014.^{28,29} In the July 2014 Agenda Decision, the Committee highlighted the interaction between the overarching disclosure principles in IAS 1 and the specific requirements relating to going concern. This agenda decision, in particular, is intended to help with concerns described in paragraph B35(b).
- B37 In January 2021, the IFRS Foundation published educational material on disclosures relating to going concern, which explains the requirements in IFRS Standards relevant for going-concern assessments.³⁰

Indicative size of the project

- B38 To address these concerns, the Board could:
- (a) develop enhanced requirements on how management should assess whether the going-concern basis of preparation is appropriate (likely to be a *medium-sized* project);
 - (b) develop enhanced specific disclosure requirements about the going concern assumption (likely to be a *medium-sized* project);
 - (c) develop requirements to specify the basis of accounting that applies when an entity is no longer a going concern (likely to be a *large* project); or
 - (d) address the issues collectively in a single project (likely to be a *large* project).
- B39 Some national standard-setters have already worked on or are working on questions relating to going concern and such work could inform the Board's work.

Government grants

- B40 Some stakeholders, most of them standard-setters, questioned aspects of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* relating to:
- (a) the recognition criteria for government grants in the statement of profit or loss, including the timing of recognition of income from government grants. Stakeholders noted that IAS 20 is based on reasonable assurance and matching of costs with income rather than satisfaction of performance obligations identified in a grant. They also

²⁸ See *IAS 1 Presentation of Financial Statements—Going concern disclosure*, published in July 2010: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-going-concern-disclosure-july-2010.pdf>.

²⁹ See *Disclosure requirements relating to assessment of going concern (IAS 1 Presentation of Financial Statements)*: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-disclosure-requirements-relating-to-assessment-of-going-concern-jul-14.pdf>.

³⁰ See *Going concern—a focus on disclosure*: <https://cdn.ifrs.org/-/media/feature/news/2021/going-concern-jan2021.pdf?la=en>.

said that matching of costs with income is not an objective of the *Conceptual Framework*.

- (b) the diversity in the recognition and measurement of particular types of government grants that are in the form of non-monetary assets.
- (c) the accounting policy choice permitted when grants are related to assets. The Standard says that such grants should be recognised as deferred income or by deducting the grant to arrive at the carrying amount of the asset. The existence of an accounting policy choice reduces comparability.
- (d) the accounting policy choice permitted when grants are related to income. The Standard says such grants should be presented as income (either separately or within other income) or deducted from the related expense. The existence of an accounting policy choice reduces comparability.
- (e) the deduction of a government grant from the cost of an asset, which is inconsistent with some other IFRS Standards. For example, IAS 7 *Statement of Cash Flows* requires companies to present the purchase of assets and the receipt of related grants on a gross basis. Stakeholders noted that in May 2020 the Board issued amendments to IAS 16 *Property, Plant and Equipment*. These amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use.

Indicative size of the project

- B41 A project with the objective of addressing all the concerns raised is likely to be a *medium-sized* project.
- B42 Some national standard-setters have already conducted work on government grants, which could inform the Board’s work.

Income taxes

- B43 Some stakeholders, most of them preparers and investors, questioned the usefulness of information when a company applies IAS 12 *Income Taxes*. These stakeholders said:
 - (a) the Standard includes several exceptions, which may undermine the principles on which the Standard is based.
 - (b) the balance-sheet approach to deferred taxes used in IAS 12 might not provide useful information and deferred tax liabilities might not meet the revised definition of a liability in the *Conceptual Framework*.
 - (c) the Standard lacks specific requirements about how to account for emerging types of taxes.

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- (d) the Board should enhance disclosures to help investors better understand a company's income tax charge and potential effects on future cash flows. Investors said the Board should develop better disclosures to facilitate the reconciliation of deferred, current and paid tax. Investors also suggested that the Board develop more effective disclosures about a company's tax optimisation structures to help investors understand the nature of such tax structures, which countries may be involved, what risks exist and the sustainability of such tax structures.
- (e) views vary about how consistent the assumptions used in the assessment of the recoverability of deferred tax assets should be with those used for impairment testing or going-concern assessments.

Indicative size of the project

- B44 To address these concerns, the Board could:
- (a) develop educational materials, as part of its maintenance and consistent application activities;³¹
 - (b) develop accounting requirements for emerging types of taxes (likely to be a *small* project);
 - (c) develop enhanced disclosures about income taxes (likely to be a *medium-sized* project); or
 - (d) undertake a comprehensive review of income tax accounting (likely to be a *large* project).
- B45 Some national standard-setters and other professional bodies have already conducted research in this area, which could inform the Board's work. The Board could also build on its previous research into the causes of problems that arise in applying IAS 12.

Inflation

- B46 Some stakeholders said that information prepared in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies* could be more useful. Specifically, they said:
- (a) the scope of IAS 29 should be extended to include economies experiencing high inflation, because long periods of high inflation can affect the relevance of the information included in the financial statements;
 - (b) the Standard relies on a general price index, which may not be reliable or available; and
 - (c) restated financial statements of a foreign operation in a hyperinflationary environment are difficult to understand.

³¹ See footnote 16 to paragraph B15.

Indicative size of the project

- B47 To address these concerns, the Board could:
- (a) assess whether, without amending other requirements of IAS 29, it could extend the scope of IAS 29 to include economies subject to high inflation (likely to be a *small* project).
 - (b) undertake a comprehensive review of IAS 29 (likely to be a *large* project). Some stakeholders suggested that the Board could reduce the size of this project by basing any new requirements on the US GAAP requirements. US GAAP requires prospective use of the group presentation currency as the functional currency of the foreign operation that is operating in a hyperinflationary economy, rather than the retrospective indexation required by IAS 29 to reflect purchasing power.
- B48 Some national standard-setters have conducted research in this area, which could inform the Board's work.

Intangible assets

- B49 Many stakeholders noted that IAS 38 covers a variety of transactions and assets, many of which were not envisaged when the Standard was developed. These stakeholders said:
- (a) IAS 38 may not provide useful information about some new types of transactions and assets, including intangible assets that are held for investment purposes or traded—for example, cryptocurrencies discussed in paragraphs B14–B16 or emission rights discussed in paragraphs B68–B71. Stakeholders said the scope of IAS 38 captures assets that would be better addressed within the scope of another IFRS Standard.
 - (b) the Standard may be too restrictive about when internally generated intangible assets can be recognised and when subsequent measurement of intangible assets at fair value is permitted. With economies becoming knowledge based, resources such as brands, efficient business processes and big data are playing a greater role than before in creating value. Therefore, stakeholders said that these restrictions result in financial statements that may omit relevant information.
 - (c) the difference in how internally generated intangible assets and some intangible assets recognised as part of an acquisition are treated makes comparisons between companies that grow organically and those that grow through acquisitions more difficult. However, some stakeholders said that recognising more internally generated intangible assets would give rise to operational difficulties and uncertainties associated with measurement. They said the benefits of reporting that information may not justify the subjectivity involved and costs incurred to provide such information.

- (d) disclosures about expenditures on intangible resources that are not recognised as assets may provide insufficient useful information.³²
- B50 One possible solution to the difference in accounting between acquired and internally generated intangible assets could be to reconsider the requirements in IFRS 3 *Business Combinations* on the recognition of some acquired intangible assets separately from goodwill. The Board began exploring this solution as part of its project on Goodwill and Impairment. However, feedback led the Board to tentatively decide not to develop these proposals as part of that project.³³
- B51 As part of its project to revise IFRS Practice Statement 1 *Management Commentary*, the Board is proposing that management commentary provide information about key resources, including intangibles not recognised as assets in the company's financial statements.³⁴ However, a company that prepares its financial statements in accordance with IFRS Standards is not required to comply with the Practice Statement.

Indicative size of the project

- B52 To address the concerns raised, the Board could:
- (a) require improved disclosures about intangibles not recognised as assets (likely to be a *medium-sized* project);
 - (b) require disclosures about the fair value of some intangible assets, especially those held for investment (likely to be a *medium-sized* project); or
 - (c) undertake a comprehensive review of the Standard, including the definition of intangible assets (likely to be a *large* project).
- B53 National standard-setters and other professional bodies have already conducted research in this area, which could inform the Board's work.

Interim financial reporting

- B54 IAS 34 *Interim Financial Reporting* sets out the reporting requirements in interim financial statements. Some stakeholders said:
- (a) IAS 34 states that the principles for recognising assets, liabilities, income and expenses for interim periods are the same as in annual financial statements. However, IAS 34 also states that the frequency of reporting should not affect the measurement of a company's annual results – to achieve that objective, measurements for interim reporting

³² The Trustees of the IFRS Foundation are considering separately whether to establish a new board to set sustainability reporting standards (see paragraphs 3–5). A potential project on intangible assets may involve coordination with the sustainability standards board if established by the Trustees.

³³ See paragraph 5.24 of the Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*: <https://cdn.ifrs.org/-/media/project/goodwill-and-impairment/goodwill-and-impairment-dp-march-2020.pdf#page=99>.

³⁴ For more information on the Management Commentary project, see: <https://www.ifrs.org/projects/work-plan/management-commentary/>.

purposes are required to be made on a year-to-date basis. These requirements have created tensions with the requirements in other Standards—for example, stakeholders are unclear whether the defined benefit obligation of a defined benefit pension plan is required to be remeasured at each interim date.

- (b) the interim financial report is intended to provide an update on the latest complete set of annual financial statements. However, stakeholders said they do not know what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendment. For example, some stakeholders said when they first applied IFRS 16 *Leases*, they thought they were required to repeat transition disclosures in each of their quarterly financial statements.
- (c) IAS 34 requires a company to provide in its interim financial statements an explanation of events and transactions that are significant for an understanding of the changes in financial position and performance of the company since the end of the last annual reporting period. However, some stakeholders said that information disclosed by companies—for example, in the challenging and highly uncertain economic environment caused by the covid-19 pandemic—may be insufficient.

Indicative size of the project

B55 To address these concerns, the Board could:

- (a) develop enhanced disclosure requirements to provide an update on the latest complete set of annual financial statements (likely to be a *small* project);
- (b) clarify what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendment (likely to be a *small* project);
- (c) address interim accounting issues in each new IFRS Standard or major amendment as it is developed rather than relying on IAS 34 (likely to be a series of *small* or *medium-sized* additions to every project); or
- (d) review the requirements of IAS 34 to address all the concerns raised (likely to be a *large* project).

Negative interest rates

B56 Changes in the macroeconomic environment and the introduction of negative interest rates by some central banks have created practical challenges for some companies.

B57 Some stakeholders said discounting future cash flows using negative interest rates produces difficult-to-understand results that, in their view, may not faithfully represent the company's performance. Those stakeholders noted that discounting an asset or a liability with a negative discount rate will result

in a present value that is higher than the amount that will be received for the asset or the amount required to settle the liability. Stakeholders raised concerns about the lack of specific requirements for negative interest rates.

- B58 The Committee has discussed the implications of negative effective interest rates for the presentation of income and expenses in the statement or profit or loss. The Committee noted that interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue, because it reflects a gross outflow, instead of a gross inflow, of economic benefits. Consequently, the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue; instead it should be presented in an appropriate expense classification.³⁵

Indicative size of the project

- B59 A project to develop specific accounting requirements for negative interest rates is likely to be a *medium-sized* project.

Operating segments

- B60 During outreach for this Request for Information, some investors said that the requirement for segment disclosures based on a management approach is generally useful because it reflects how management views the business, provides insights into how the business is run and provides information that allows investors to assess how efficiently and effectively management has discharged its responsibilities. However, some investors expressed concerns about the information disclosed applying IFRS 8 *Operating Segments*. Those investors said:
- (a) a potential project should consider improvements to the criteria for aggregating operating segments into reportable segments. The investors suggested that the reliance on management judgement results in insufficient disaggregation.
 - (b) repeated changes to the composition of reportable segments affect comparability between periods for a reporting company.
 - (c) the Board should require disclosure of additional line items by segment. These lines could include revenue, assets, equity, capital expenditures, business combinations, non-current assets held for sale and discontinued operations. These additional disclosures should be required regardless of whether the information is regularly provided to the chief operating decision maker. IFRS 8 previously required disclosure of segment assets regardless of whether they were regularly provided to the chief operating decision maker. The Board removed that requirement because such information is unavailable in some industries with low use of physical assets and to converge with practice under US GAAP.

³⁵ See: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-39-ias-1-january-2015.pdf>.

- (d) the Board should develop requirements for disclosure of a minimum set of key performance indicators by segment to allow basic analysis—for example, margins, turnovers and returns.

Indicative size of the project

- B61 The input from investors suggests that targeted improvements to the segment aggregation criteria and enhanced disclosures may provide investors with more decision-useful information (likely to be a *medium-sized* project).
- B62 A national standard-setter has undertaken a project in this area, which could inform the Board’s work. The Board could also build on its previous work on proposed improvements to IFRS 8 and IAS 34 arising from the post-implementation review of IFRS 8.

Other comprehensive income

- B63 Some stakeholders noted that the *Conceptual Framework* sets out the principles for classification of income and expenses in the statement of financial performance and their reclassification from other comprehensive income to the statement of profit or loss (recycling). Income or expenses are classified outside the statement of profit or loss, in other comprehensive income, when doing so would result in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the company’s financial performance for the period.³⁶ Some stakeholders raised concerns that the use of other comprehensive income and recycling appears to be inconsistent in IFRS Standards. Some IFRS Standards require recycling—for example:
- (a) IAS 21 requires the recycling of gains and losses arising from translating the financial statements of a foreign operation; and
- (b) paragraph 4.1.2A of IFRS 9 requires recycling of gains and losses on financial assets measured at fair value through other comprehensive income.
- B64 Other IFRS Standards prohibit recycling—for example:
- (a) recycling of a revaluation surplus is prohibited applying the revaluation model in IAS 16 or IAS 38;
- (b) IAS 19 prohibits the recycling of actuarial gains and losses arising from defined benefit plans;
- (c) paragraph 5.7.5 of IFRS 9 prohibits the recycling of gains and losses from investments in equity instruments designated at fair value through other comprehensive income; and
- (d) paragraph 5.7.7(a) of IFRS 9 prohibits the recycling of changes in the fair value of financial liabilities attributable to a company’s own credit risk.

³⁶ See paragraphs 7.14 to 7.19 of the *Conceptual Framework*.

B65 Some stakeholders suggested that all IFRS Standards be reviewed for consistency with the principles set out in the *Conceptual Framework*; that review should also include reconsidering the requirements for income and expenses that are not subsequently recycled. The Board is conducting a post-implementation review of the classification and measurement requirements in IFRS 9, which will (among other matters) gather views on the treatment of fair value changes presented in other comprehensive income for some equity investments.

Indicative size of the project

B66 Applying the principles for the classification of income and expenses in other comprehensive income (and recycling) in the *Conceptual Framework* to IFRS Standards and considering whether to amend the requirements of those IFRS Standards is likely to be a *large* project.

B67 Some professional bodies have already considered some of these concerns. Their conclusions could inform the Board's work.

Pollutant pricing mechanisms

B68 To encourage a reduction in the production of greenhouse gases, governments have been developing pollutant pricing mechanisms – for example, emission trading schemes. Some stakeholders, including investors, said that the lack of accounting requirements in IFRS Standards for these mechanisms has led to diversity in practice in reporting their effects on companies.

B69 Emission trading schemes create tradeable emission allowances. One common form of emission trading schemes is a cap-and-trade scheme.³⁷ Comments from stakeholders included concerns about how companies:

- (a) recognise and initially measure emission allowances received from the scheme administrator for nil or nominal consideration;
- (b) subsequently measure emission allowances held, including both those held to cover past or future emissions of pollutants and those held for investment purposes;
- (c) recognise and measure a liability to remit emission allowances to cover pollutants already emitted, including deciding:
 - (i) whether a liability exists and when to recognise it; and
 - (ii) how to measure the liability;
- (d) present assets, liabilities, income and expenses resulting from pollutant pricing mechanisms; and
- (e) disclose information about pollutant pricing mechanisms.

³⁷ A cap-and-trade scheme sets an overall cap on the amount of pollutants that can be emitted in a specified period. This overall cap is then allocated across participants (emitters) by distributing or selling emission allowances. Emitters must remit allowances to cover pollutants emitted. They can sell surplus allowances and must either buy allowances or pay penalties if they have too few allowances to cover pollutants emitted within the specified period.

Indicative size of the project

- B70 The Board researched pollutant pricing mechanisms in previous projects and it could resume its previous discussions. The Board would need to decide whether to address all types of pollutant pricing mechanisms, or only some, such as emission trading schemes. The Board may also need to consider other schemes that have been developed since its previous discussions and whether to include in the scope of any project accounting by traders and scheme administrators. Therefore, the development of accounting requirements for various types of pollutant pricing mechanisms is likely to be a *large* project.³⁸
- B71 Guidance developed by national standard-setters could inform the Board's work.

Separate financial statements

- B72 The laws or regulations of some jurisdictions require companies to publish separate financial statements applying IAS 27 *Separate Financial Statements*. These separate financial statements may be useful to investors.³⁹ They may also be useful to others interested in financial statements—separate financial statements may, for example, be used as a starting point for determining permissible dividends or for tax calculations under local laws or regulations.
- B73 Some stakeholders said the Board should:
- (a) clarify or change the application of IFRS Standards for specific transactions in separate financial statements. Stakeholders' views in this respect are influenced by their view on who the primary users of separate financial statements are or should be. In some cases the views are also influenced by differences in cost-benefit considerations for separate financial statements. Some stakeholders requested reviews of:
 - (i) the accounting for contingent consideration and transaction costs related to the acquisition of investments in a subsidiary, joint venture or associate;⁴⁰
 - (ii) the application of the expected credit loss model in IFRS 9 to intra-group loans in a situation when, for example, the parent controls the flow of funds, the repayment is discretionary, or the transaction is viewed as a potential capital contribution from the parent;
 - (iii) the application of hedge accounting—for example, when one company holds the hedged item and another company within the same group holds the hedging instrument;

³⁸ Emission allowances held solely for investment purposes could be covered by a Standard described in paragraphs B13(c) and B15(d).

³⁹ See footnote 4 to Table 1 on page 12.

⁴⁰ Variable and contingent consideration is described in paragraphs B80–B83.

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- (iv) the accounting for the effects of some transactions between the parent and its subsidiaries when the transaction is not on market terms; and
 - (v) the accounting for business combinations under common control in the receiving company's separate financial statements.⁴¹
- (b) add disclosure requirements in separate financial statements—for example, about distributable profits and intra-group guarantees.

Indicative size of the project

- B74 To address these concerns in the context of general purpose financial statements, the Board could:
- (a) develop more disclosure requirements in separate financial statements (likely to be a *small* project);
 - (b) address some of the specific application questions separately (likely to be a series of *small* projects or a *medium-sized* project); or
 - (c) undertake a comprehensive review of IAS 27 (likely to be a *large* project).
- B75 Some national standard-setters and other professional bodies have considered some of the issues raised and their experience could inform the Board's work.

Statement of cash flows and related matters

- B76 Many stakeholders – most of them investors, preparers and standard-setters – suggested the Board undertake a project to amend or replace IAS 7. These stakeholders said:
- (a) they have difficulty reconciling the statement of cash flows to the other primary financial statements. They have particular difficulty in reconciling the statement of financial position to the statement of cash flows because of the effect of non-cash movements arising from transactions such as leases, supply chain financing arrangements (for example, reverse factoring) and the factoring of trade receivables. These stakeholders suggested companies either present these non-cash movements in the statement of cash flows or make better disclosures about these non-cash movements.
 - (b) companies should be required to present a statement of changes in net debt.⁴²

⁴¹ The Board's research project on Business Combinations under Common Control does not address the reporting of these transactions in the receiving company's separate financial statements.

⁴² The Board has considered this issue in the past (see paragraphs BC9–BC27 of the Basis for Conclusions on IAS 7 *Statement of Cash Flows*) and amended IAS 7 to add a requirement to disclose information about changes in liabilities arising from financing activities (see paragraphs 44A–44E of IAS 7).

- (c) the Board should revisit the classification of cash flows into operating, investing and financing categories.
- (d) the Board should standardise the definition of some commonly used cash flow measures, such as free cash flows.
- (e) some information presented in the statement of cash flows should be disaggregated—for example, net cash flows attributable to the operating, investing and financing activities of discontinued operations.
- (f) the Board should develop better disclosure requirements about operating expenses and capital expenditure, split into maintenance, growth and acquisition spend.
- (g) the Board should either remove the requirement to present a statement of cash flows for financial institutions or develop a statement of cash flows specifically for financial institutions.

B77 The Exposure Draft *General Presentation and Disclosures* proposes amendments to IAS 7.⁴³ However, these are only targeted improvements to a few areas and, consequently, are unlikely to address many concerns raised by stakeholders.

Indicative size of the project

B78 To address the concerns about IAS 7, the Board could:

- (a) develop more effective disclosures about the ongoing maintenance expenses and the growth spend (likely to be a *small* project);
- (b) consider whether to remove the requirement for financial institutions to produce a statement of cash flows (likely to be a *small* project);
- (c) undertake a targeted project to improve aspects of IAS 7, including providing information about non-cash movements (likely to be a *medium-sized* project);
- (d) seek to develop a statement of cash flows for financial institutions (likely to be a *medium-sized* project); or
- (e) undertake a comprehensive review of IAS 7 with the intention of replacing it with a new IFRS Standard (likely to be a *large* project).

B79 Some national standard-setters and other professional bodies have considered some of the issues raised and their experience could inform the Board's work.

Variable and contingent consideration

B80 In some transactions, the consideration paid or received is not fixed but may vary after the transaction date. Such transactions are commonly used to share risks and benefits between the seller and the buyer. Examples of transactions that may feature variable or contingent consideration include business

⁴³ For more information on the Primary Financial Statements project, see: <https://www.ifrs.org/projects/work-plan/primary-financial-statements/>.

combinations, leases, sales of goods and renderings of services, purchases and sales of tangible and intangible assets and service concession arrangements. Stakeholders reported diversity in practice in the accounting for such transactions, particularly for those transactions for which the applicable IFRS Standards provide limited specific requirements.

- B81 In the past, the Committee discussed several issues relating to variable or contingent consideration.⁴⁴ The Committee debated:
- (a) the initial accounting—when should a liability be recognised for a payment of variable or contingent consideration, at what amount, and should part or all that amount be reflected in the measurement of the asset acquired?
 - (b) the subsequent accounting—after the liability is recognised, do remeasurements of the liability result in revisions to the measurement of the asset acquired or should those remeasurements be reported as income or an expense in the statement of profit or loss?

Indicative size of the project

- B82 To address these concerns, the Board could:
- (a) consider whether IAS 16, IAS 38 and IFRIC 12 *Service Concession Arrangements* should be amended. These Standards have limited requirements on accounting for transactions that frequently involve variable or contingent consideration (likely to be a *medium-sized* project); or
 - (b) develop a consistent approach to reporting variable and contingent consideration for all IFRS Standards (likely to be a *large* project).
- B83 Some national standard-setters and other professional bodies have conducted or are conducting research on variable and contingent consideration, which could inform the Board's work.

⁴⁴ For example, in March 2016 the Committee decided that the accounting for payments to be made for the purchase of an item of property, plant and equipment or an intangible asset that is not part of a business combination is too broad for the Committee to address within the confines of IFRS Standards. In July 2016, the Committee concluded that addressing how an operator accounts for variable payments that it makes to a grantor when the intangible asset model in IFRIC 12 *Service Concession Arrangements* applies is too broad for the Committee to address within the confines of IFRS Standards.

Appendix C—Other financial reporting issues suggested to the Board

- C1 This appendix lists financial reporting issues suggested to the Board by a small number of stakeholders in the outreach carried out before publishing this Request for Information. These issues are not described in detail.
- C2 These other suggestions are that the Board:
- (a) align the definition of cost in IFRS Standards;
 - (b) clarify the accounting for transactions with owners (including government owners) acting in their capacity as owners;
 - (c) converge IFRS 13 *Fair Value Measurement* with International Valuation Standards;
 - (d) develop accounting requirements for assets acquired at no cost (from related and third parties);
 - (e) develop enhanced disclosures about the process used in determining materiality, including quantitative thresholds applied;
 - (f) develop standardised disclosure of financial ratios with numerators and denominators based on line items presented in the primary financial statements;
 - (g) review the accounting for shares bought back to replace shares granted in share-based payment transactions;
 - (h) review the requirements of IAS 33 *Earnings per Share* in the light of changes to the business environment and the *Conceptual Framework for Financial Reporting*;
 - (i) review the requirements of IAS 36 *Impairment of Assets*; and
 - (j) review the requirements of IAS 41 *Agriculture*, focusing on immature biological assets that cannot be sold in their current condition.

THIRD AGENDA CONSULTATION

November 2020

IFRS[®] Standards
Discussion Paper DP/2020/2

Business Combinations under Common Control

Comments to be received by 1 September 2021

IASB[®]

 IFRS[®]

Business Combinations under Common Control

Comments to be received by 1 September 2021

Discussion Paper *Business Combinations under Common Control* is published by the International Accounting Standards Board (Board) for comment only. Comments need to be received by **1 September 2021** and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment documents' page at: <https://www.ifrs.org/projects/open-for-comment/>.

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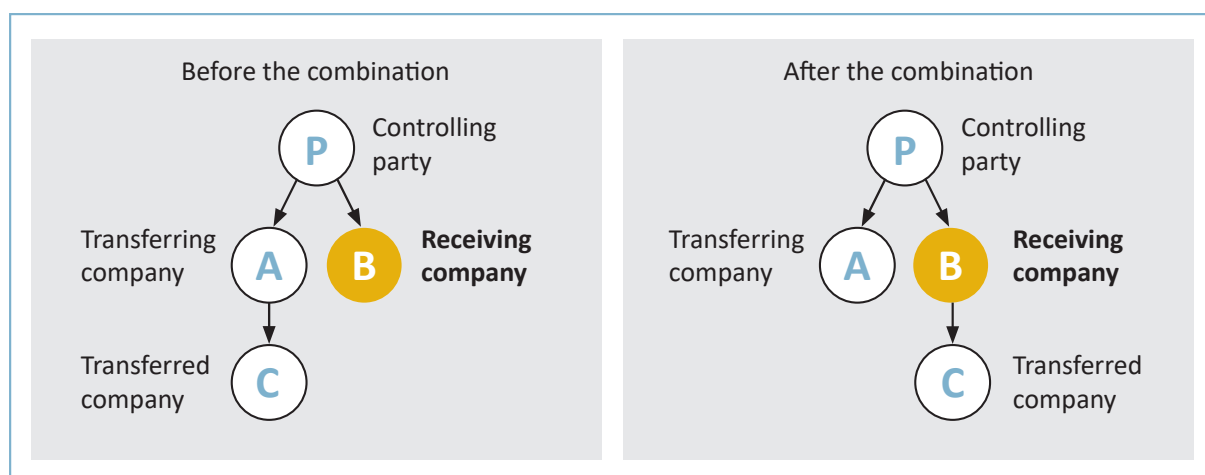
Introduction and invitation to comment

This Discussion Paper is designed to be accessible to a wide audience. It uses diagrams, colour and, where possible, simple non-technical language. Appendix A sets out the meanings of the terms defined in this Discussion Paper. Defined terms are in **bold type** the first time they appear in each section.

Why is the Board publishing this Discussion Paper?

IN1 The International Accounting Standards Board (Board) is undertaking a research project on **business combinations under common control**—combinations in which all of the combining companies or **businesses** are ultimately controlled by the same party, both before and after the combination. Diagram IN.1 provides a simple example of a business combination under common control.

Diagram IN.1—A business combination under common control



IN2 In the example in Diagram IN.1, control of Company C is transferred from Company A to Company B. All three companies are ultimately controlled by Company P, the **controlling party**, both before and after the transaction. IFRS Standards provide requirements on how companies P, A and C should report this transaction (see paragraph 1.19). However, no IFRS Standard specifically applies to how Company B (the **receiving company**) should report its combination with Company C (the **transferred company**)—such combinations are outside the scope of IFRS 3 *Business Combinations*. In the absence of a specifically applicable IFRS Standard, the receiving company is required to develop its own accounting policy for these transactions.¹

IN3 The Board is carrying out a research project on business combinations under common control in response to stakeholder feedback that the lack of a specifically applicable IFRS Standard for such combinations has resulted in diversity in practice. Furthermore, companies often provide little information about such combinations. The objective of the project is to explore possible reporting requirements for a receiving company that would reduce that diversity in practice and provide users of the receiving company's financial statements with better information about these combinations.

¹ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

IN4 This Discussion Paper summarises the results of this research. It sets out the Board’s preliminary views on such possible reporting requirements and seeks feedback on those preliminary views.

Who will be affected if the preliminary views in this Discussion Paper are implemented?

IN5 If the preliminary views in this Discussion Paper are implemented, they would result in new requirements for business combinations under common control. Any such requirements would apply to the financial statements of the receiving company—the company to which control of one or more companies or businesses has been transferred in the combination. (In Diagram IN.1, the receiving company is Company B.) Typically, those possible reporting requirements would apply to the receiving company’s consolidated financial statements only. However, in some circumstances, those possible reporting requirements would also apply to other types of financial statements prepared by the receiving company (see paragraphs 1.20–1.23 and B.16–B.18).

IN6 If the preliminary views are implemented, diversity in practice would be reduced and the reporting of business combinations under common control by the receiving company would be more transparent and result in more relevant and more comparable information about these combinations.

IN7 The preliminary views would not affect reporting by the controlling party, the **transferring company** or the transferred company (companies P, A and C in Diagram IN.1).

How did the Board reach its preliminary views?

IN8 In reaching its preliminary views, the Board considered:

- (a) whether and when business combinations under common control are similar to **business combinations** covered by IFRS 3;
- (b) what information would be useful to users of the receiving company’s financial statements;
- (c) whether the benefits of providing particular information would justify the costs of providing it;
- (d) how complex particular approaches would be; and
- (e) whether particular approaches would create opportunities for accounting arbitrage (sometimes called ‘structuring opportunities’).

IN9 In exploring these factors, the Board considered research and feedback from consultations conducted during the project, which included:

- (a) an analysis of the requirements and guidance in IFRS Standards and the *Conceptual Framework for Financial Reporting (Conceptual Framework)*;
- (b) a review of national requirements and recent consultation documents issued by national standard-setters, guidance published by accounting firms, academic papers, reports, articles and other literature;

- (c) consultations with investors and analysts, national standard-setters, regulators, and preparers of financial statements, including consultations with the following bodies that advise the Board: the Capital Markets Advisory Committee, the Accounting Standards Advisory Forum, the Global Preparers Forum and the Emerging Economies Group;
- (d) a desktop review of current reporting practice;² and
- (e) a review of corporate credit-rating methodologies of two leading credit-rating agencies.³

What does this Discussion Paper include?

IN10 This Discussion Paper discusses a range of issues that would need to be addressed to set up reporting requirements for business combinations under common control. The Discussion Paper groups these issues into five broad topics, and provides the Board's preliminary views and questions for respondents on each topic. The topics are:

- (a) the project's objective, scope and focus (Section 1);
- (b) selection of the measurement method (Section 2);
- (c) how to apply the **acquisition method** (Section 3);
- (d) how to apply a **book-value method** (Section 4); and
- (e) disclosure requirements (Section 5).

What are the next steps?

IN11 The views expressed in this Discussion Paper are preliminary and may change. The Board will consider the comments it receives in response to this Discussion Paper before deciding whether to develop an exposure draft containing proposals to implement any or all of its preliminary views.

Invitation to comment

IN12 The Board invites comments on the Discussion Paper *Business Combinations under Common Control*, particularly on the questions set out in paragraphs IN14–IN19, which are repeated in the related sections of the Discussion Paper. Comments are most helpful if they:

- (a) address the questions as stated;
- (b) indicate the specific paragraphs or preliminary views to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in the preliminary views that is difficult to translate; and
- (e) include any alternative the Board should consider, if applicable.

IN13 The Board is requesting comments only on matters addressed in this Discussion Paper.

² The desktop review covered annual reports published in English from 1 January 2018 to 31 March 2019 in various jurisdictions. The review identified 207 annual reports that disclosed 267 business combinations under common control.

³ More information about the research and consultations with stakeholders conducted in the project is provided in the staff papers considered by the Board during the development of this Discussion Paper. For example, see February 2020 [Agenda Paper 23B Due process](#) for a summary of consultations with stakeholders (Appendix B), the desktop review of current reporting practice (Appendix C) and the review of academic literature (Appendix D).

Questions for respondents

Project scope

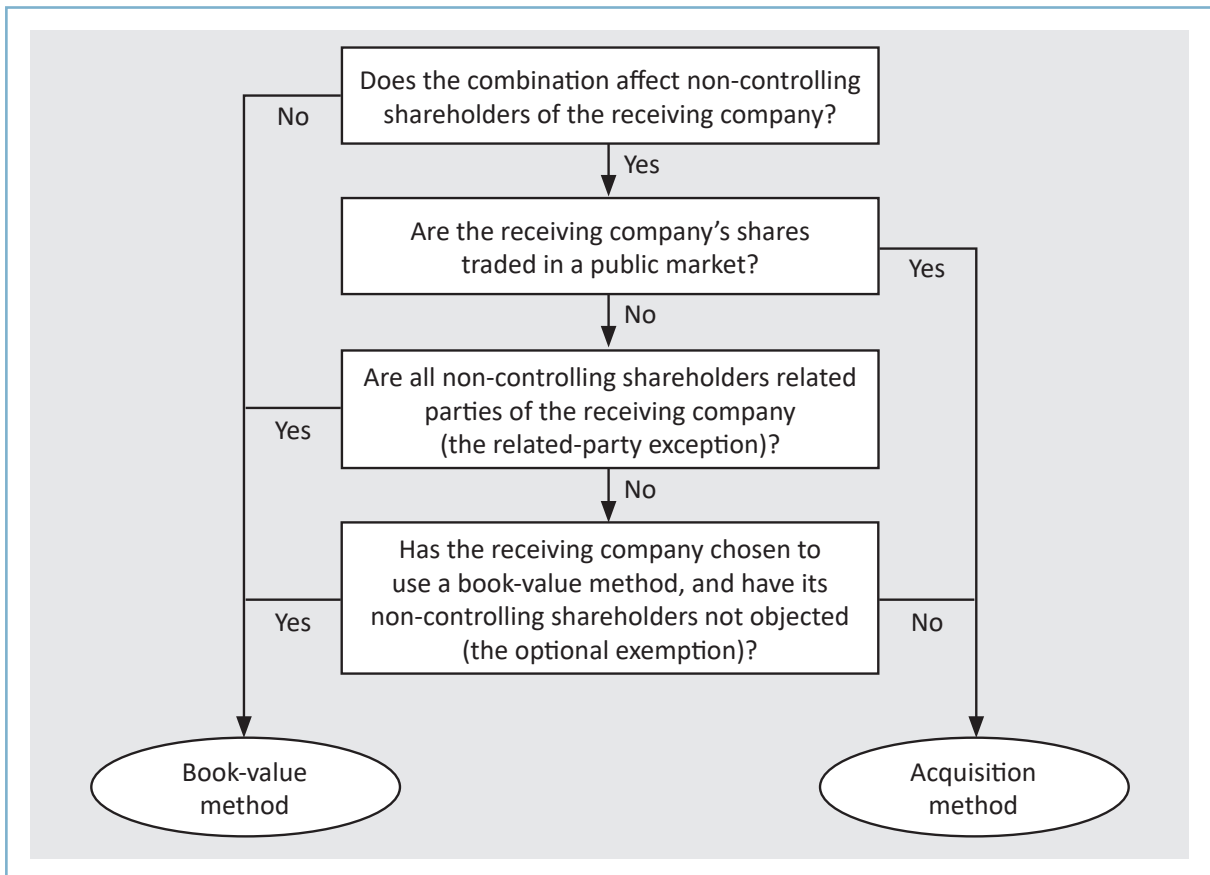
IN14 Section 1 outlines the project’s objective, scope and focus. It explains that the Board’s ultimate goal is to fill a ‘gap’ in IFRS Standards relating to how a receiving company should report a business combination under common control.

Project Scope
<p>Question 1</p> <p>Paragraphs 1.10–1.23 discuss the Board’s preliminary view that it should develop proposals that cover reporting by the receiving company for all transfers of a business under common control (in the Discussion Paper, collectively called business combinations under common control) even if the transfer:</p> <ul style="list-style-type: none"> (a) is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or (b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering. <p>Do you agree with the Board’s preliminary view on the scope of the proposals it should develop? Why or why not? If you disagree, what transactions do you suggest that the Board consider and why?</p>

Selecting the measurement method

IN15 Section 2 discusses which measurement methods should apply to business combinations under common control. The Board has reached the preliminary view that neither the acquisition method nor a book-value method should be applied to *all* business combinations under common control. Instead, the acquisition method should be applied to some such combinations and a book-value method should be applied to all other such combinations.

IN16 The Board’s preliminary views on when each method should be used are summarised in Diagram IN.2.

Diagram IN.2—Summary of the Board’s preliminary views

Selecting the measurement method

Question 2

Paragraphs 2.15–2.34 discuss the Board’s preliminary views that:

- (a) neither the acquisition method nor a book-value method should be applied to *all* business combinations under common control.

Do you agree? Why or why not? If you disagree, which method do you think should be applied to all such combinations and why?

- (b) in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company, subject to the cost-benefit trade-off and other practical considerations discussed in paragraphs 2.35–2.47 (see Question 3).

Do you agree? Why or why not? If you disagree, in your view, when should the acquisition method be applied and why?

- (c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly-owned companies.

Do you agree? Why or why not? If you disagree, in your view, when should a book-value method be applied and why?

Selecting the measurement method

Question 3

Paragraphs 2.35–2.47 discuss the cost–benefit trade-off and other practical considerations for business combinations under common control that affect non-controlling shareholders of the receiving company.

- (a) In the Board’s preliminary view, the acquisition method should be *required* if the receiving company’s shares are traded in a public market.

Do you agree? Why or why not?

- (b) In the Board’s preliminary view, if the receiving company’s shares are privately held:

- (i) the receiving company should be *permitted* to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected (the optional exemption from the acquisition method).

Do you agree with this exemption? Why or why not? Do you believe that the exemption will be workable in practice? If not, in your view, how should such an exemption be designed so that it is workable in practice?

- (ii) the receiving company should be *required* to use a book-value method if all of its non-controlling shareholders are related parties of the company (the related-party exception to the acquisition method).

Do you agree with this exception? Why or why not?

- (c) If you disagree with the optional exemption (Question 3(b)(i)) or the related-party exception (Question 3(b)(ii)), in your view, how should the benefits of applying the acquisition method be balanced against the costs of applying that method for privately held companies?

Selecting the measurement method

Question 4

Paragraphs 2.48–2.54 discuss suggestions from some stakeholders that the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies. However, in the Board’s preliminary view, publicly traded receiving companies should always apply the acquisition method.

- (a) Do you agree that the optional exemption from the acquisition method should *not* be available for publicly traded receiving companies? Why or why not? If you disagree, in your view, how should such an exemption be designed so that it is workable in practice?

- (b) Do you agree that the related-party exception to the acquisition method should *not* apply to publicly traded receiving companies? Why or why not?

Applying the acquisition method

IN17 Section 3 discusses how to apply the acquisition method to business combinations under common control. It explains that, in principle, the receiving company should apply the acquisition method as set out in IFRS 3. However, in some such combinations, the amount of the consideration paid might differ from what would have been paid in an arm's length transaction with an unrelated party. Accordingly, the Board considered whether it should develop special requirements for the receiving company to recognise any such difference as a distribution from equity or contribution to equity.

Applying the acquisition method

Question 5

Paragraphs 3.11–3.20 discuss how to apply the acquisition method to business combinations under common control.

- (a) In the Board's preliminary view, it should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach for identifying and measuring a distribution from equity do you recommend and why? In particular, do you recommend either of the two approaches discussed in Appendix C or do you have a different recommendation?

- (b) In the Board's preliminary view, it should develop a requirement for the receiving company to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, not as a bargain purchase gain in the statement of profit or loss, when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach do you recommend and why?

- (c) Do you recommend that the Board develop any other special requirements for the receiving company on how to apply the acquisition method to business combinations under common control? If so, what requirements should be developed and why are any such requirements needed?

Applying a book-value method

IN18 Section 4 discusses how to apply a book-value method to business combinations under common control. In practice, a variety of book-value methods are used. However, the Board would specify a single book-value method in IFRS Standards. The matters discussed in Section 4 include:

- (a) measuring the assets and liabilities received;
- (b) measuring the consideration paid;
- (c) reporting any difference between the consideration paid and the book value of the assets and liabilities received;
- (d) reporting transaction costs; and
- (e) providing pre-combination information.

Applying a book-value method

Question 6

Paragraphs 4.10–4.19 discuss the Board’s preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should measure the assets and liabilities received using the transferred company’s book values.

Do you agree with the Board’s preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Applying a book-value method

Question 7

Paragraphs 4.20–4.43 discuss the Board’s preliminary views that:

- (a) the Board should not prescribe how the receiving company should measure the consideration paid in its own shares when applying a book-value method to a business combination under common control; and
- (b) when applying that method, the receiving company should measure the consideration paid as follows:
 - (i) consideration paid in assets—at the receiving company’s book values of those assets at the combination date; and
 - (ii) consideration paid by incurring or assuming liabilities—at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards.

Do you agree with the Board’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Applying a book-value method

Question 8

Paragraphs 4.44–4.50 discuss the Board’s preliminary views that:

- (a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and
- (b) the Board should not prescribe in which component, or components, of equity the receiving company should present that difference.

Do you agree with the Board’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Applying a book-value method

Question 9

Paragraphs 4.51–4.56 discuss the Board’s preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.

Do you agree with the Board’s preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Applying a book-value method

Question 10

Paragraphs 4.57–4.65 discuss the Board’s preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information.

Do you agree with the Board’s preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Disclosure requirements

IN19 Section 5 discusses what information the receiving company should disclose about business combinations under common control. It sets out the Board’s preliminary view that all the disclosure requirements in IFRS 3 should apply to combinations to which the acquisition method is applied, including any improvements to those requirements resulting from the Board’s Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*. However, only some of those disclosure requirements are appropriate for combinations to which a book-value method is applied.

Disclosure requirements

Question 11

Paragraphs 5.5–5.12 discuss the Board’s preliminary views that for business combinations under common control to which the acquisition method applies:

- (a) the receiving company should be required to comply with the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*; and
- (b) the Board should provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 *Related Party Disclosures* when providing information about these combinations, particularly information about the terms of the combination.

Do you agree with the Board’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Question 12

Paragraphs 5.13–5.28 discuss the Board’s preliminary views that for business combinations under common control to which a book-value method applies:

- (a) some, but not all, of the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*, are appropriate (as summarised in paragraphs 5.17 and 5.19);
- (b) the Board should not require the disclosure of pre-combination information; and
- (c) the receiving company should disclose:
 - (i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and
 - (ii) the component, or components, of equity that includes this difference.

Do you agree with the Board’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Deadline

IN20 The Board will consider all comments received in writing by 1 September 2021.

How to comment

IN21 Please submit your comments electronically.

Online <https://www.ifrs.org/projects/open-for-comment/>

By email commentletters@ifrs.org

IN22 Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this and on how we use your personal data.

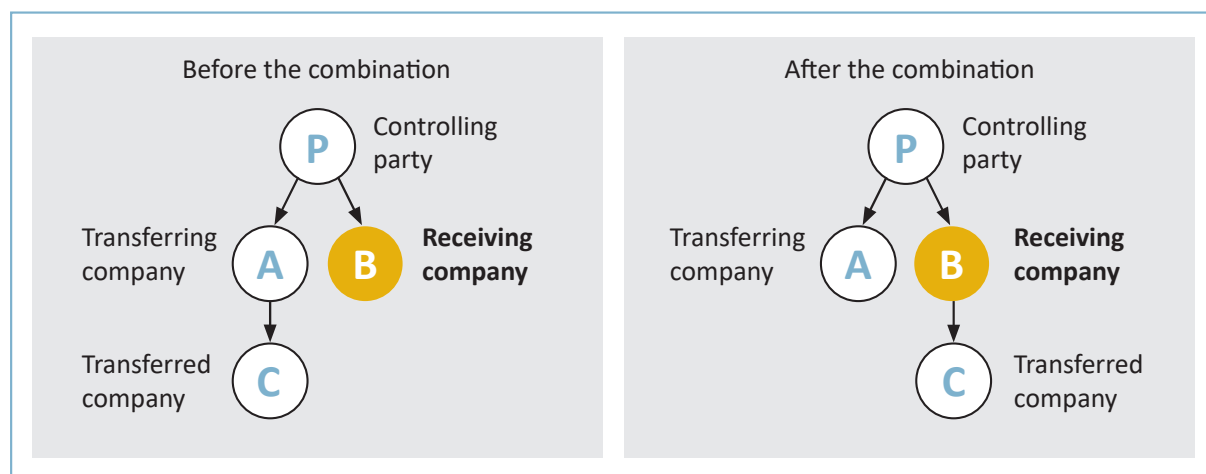
Section 1—Objective, scope and focus

- 1.1 This section sets out background information for the research project on **business combinations under common control** (paragraphs 1.2–1.8) and discusses:
- the objective of the project (paragraph 1.9);
 - the scope of the project (paragraphs 1.10–1.23);
 - the focus of the project (paragraphs 1.24–1.29); and
 - the interaction between the project and the International Accounting Standards Board’s (Board’s) other projects (paragraph 1.30).

Background

- 1.2 Accounting requirements for **business combinations**—sometimes called mergers and acquisitions—are set out in IFRS 3 *Business Combinations*. However, the scope of IFRS 3 explicitly excludes business combinations under common control—combinations in which all of the combining companies or **businesses** are ultimately controlled by the same party (or parties), both before and after the combination.
- 1.3 Diagram 1.1 provides a simple example of a business combination under common control.

Diagram 1.1—A business combination under common control



- 1.4 In the example in Diagram 1.1, control of Company C is transferred from Company A to Company B. All three companies are ultimately controlled by Company P, the **controlling party**, both before and after the transaction. IFRS Standards provide requirements on how companies P, A and C should report this transaction (see paragraph 1.19). However, no IFRS Standard specifically applies to how Company B (the **receiving company**) should report its combination with Company C (the **transferred company**).
- 1.5 In the absence of a specifically applicable IFRS Standard, the receiving company is required to develop its own accounting policy for business combinations under common control, applying the requirements on selecting accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Developing such a policy involves considering the following sources in descending order:

- (a) the requirements in IFRS Standards dealing with similar and related issues. In some cases, because IFRS 3 deals with business combinations, companies apply the requirements of IFRS 3 to report business combinations under common control, despite the scope exclusion in that Standard.
- (b) guidance in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*.
- (c) the most recent pronouncements issued by other standard-setting bodies that meet specified criteria.⁴ Some such bodies have issued requirements or guidance on reporting business combinations under common control.

1.6 Feedback provided to the Board indicates that business combinations under common control occur often in many jurisdictions. That feedback also highlights that the lack of a specifically applicable IFRS Standard has resulted in diversity in practice in preparing financial statements applying IFRS Standards. For example, in some cases companies report these combinations using the **acquisition method** set out in IFRS 3, whereas in other cases companies use a **book-value method**. Also, a variety of book-value methods are used in practice.⁵

1.7 Table 1.1 summarises some of the differences in reporting practice for business combinations under common control, using the simple example in Diagram 1.1.

Table 1.1—Differences in reporting practice

	Acquisition method	Book-value method
How does Company B measure the assets and liabilities of Company C received in the combination?	Fair value, with limited exceptions	Book value—various book values are used in practice, for example those reported: <ul style="list-style-type: none"> • by Company C (the transferred company); or • by Company P (the controlling party).
Does Company B recognise all the identifiable assets and liabilities of Company C received in the combination?	Yes, with limited exceptions	No—only assets and liabilities already recognised before the combination
Does Company B recognise goodwill as a result of the combination?	Yes, unless the combination results in a gain	No
From which date does Company B include in its financial statements the assets, liabilities, income and expenses of Company C?	From the date of the combination	Various approaches are applied—for example, including assets, liabilities, income and expenses of Company C: <ul style="list-style-type: none"> • from the date of the combination; or • from the beginning of the earliest period presented.

⁴ As specified in paragraph 12 of IAS 8.

⁵ Various labels are used for book-value methods applied in practice, including the predecessor method, the pooling (or uniting) of interests method and merger accounting. This Discussion Paper uses the term ‘book-value method’ as a collective term for all these methods.

- 1.8 The differences between the two methods—and the diversity in how book-value methods are applied—result in differences in how companies preparing financial statements applying IFRS Standards report similar transactions. Furthermore, companies often provide little information about business combinations under common control. Stakeholders, notably regulators of capital markets, expressed concerns about this diversity in practice when responding to the Board’s 2011 and 2015 agenda consultations. The diversity in practice can make it difficult for users of financial statements to understand how a business combination under common control affected the receiving company and to compare companies that undertake similar transactions.

Objective of the project

- 1.9 Because of those concerns, the Board began a research project on business combinations under common control. The objective of the project is to explore possible reporting requirements for a receiving company that would reduce diversity in practice and improve the transparency of reporting these combinations. More specifically, the Board aims to provide users of 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.

Scope of the project

- 1.10 Paragraphs 1.12–1.23 discuss three aspects of the project’s scope:
- (a) which transactions are within the project’s scope (paragraphs 1.12–1.16);
 - (b) which company’s reporting of those transactions is being considered in the project (paragraphs 1.17–1.19); and
 - (c) the types of financial statements in which those transactions are reported (paragraphs 1.20–1.23).
- 1.11 Appendix B elaborates on the discussion in paragraphs 1.12–1.23 using illustrative examples and diagrams.

Which transactions are within the project’s scope?

- 1.12 The research project focuses on business combinations under common control, which are excluded from the scope of IFRS 3. IFRS 3 describes a business combination under common control as:
- a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.⁶

⁶ Paragraph B1 of IFRS 3 *Business Combinations*.

- 1.13 A business combination involves the transfer of a business. Accordingly, all transactions being considered in the project involve the transfer of a business under common control. For example, in Diagram 1.1, Company C (the transferred company) must have a business for the transaction to be within the scope of the project. The project is not considering reporting requirements for other types of transactions under common control that do not involve the transfer of a business, for example, transfers of assets (see Examples 1 and 2 in Appendix B). Those transactions are generally addressed by applicable IFRS Standards that do not contain scope exclusions for transactions under common control. Furthermore, the project is not reconsidering reporting requirements for business combinations that are covered by IFRS 3.⁷
- 1.14 For simplicity, this Discussion Paper discusses business combinations under common control that involve the transfer of a company. However, just as is the case for business combinations covered by IFRS 3, business combinations under common control do not necessarily involve the transfer of an entire company. Instead, they could involve a transfer of an unincorporated business (for example, a business operated by an individual person and not within a corporate structure) or of a business that was an unincorporated branch or other part of a company, rather than an entire company.
- 1.15 The project is also considering transactions—sometimes called group restructurings—that involve a transfer of a business under common control but do not meet the definition of a business combination in IFRS 3. For example, some transactions might not meet that definition if they involve transferring a business to a newly established parent company. The Board has reached a preliminary view that it should develop proposals on all transfers of a business under common control, even if the transfer does not meet the definition of a business combination in IFRS 3 (see Example 3 in Appendix B). For simplicity, this Discussion Paper uses the term ‘business combination under common control’ to refer to all such transfers.
- 1.16 In describing business combinations under common control, IFRS 3 requires that common control is ‘not transitory’ but does not provide guidance on that notion. Some stakeholders have raised questions about the meaning of ‘transitory control’, for example, in submissions to the IFRS Interpretations Committee. Those questions arise when considering whether particular combinations are outside the scope of IFRS 3. The Board has not yet considered whether to clarify the meaning of ‘transitory control’ because the outcome of this project could lead to the Board modifying or removing the scope exclusion in IFRS 3. However, in the light of those application questions, the Board has reached the preliminary view that its proposals should cover all transfers of businesses in which all of the combining companies are ultimately controlled by the same party, irrespective of whether the transfer is:
- (a) preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or
 - (b) conditional on a sale of the combining companies to an external party, such as in an initial public offering (see Example 4 in Appendix B).

Which company’s reporting?

- 1.17 In undertaking this project, the Board’s goal is to fill a ‘gap’ in IFRS Standards. Accordingly, the project is considering reporting requirements for a receiving company in a business combination under common control. In the example in Diagram 1.1, the receiving company is Company B.

⁷ The Board is conducting another research project on possible improvements to aspects of IFRS 3 (and IAS 36 *Impairment of Assets*), following feedback from the Post-implementation Review of IFRS 3. In that project, the Board published a Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* in March 2020.

- 1.18 The term ‘receiving company’ refers not only to the immediate receiving company in the combination. It also refers to those parent companies (if any) of that immediate receiving company that did not control the transferred company before the combination (see Example 5 in Appendix B).
- 1.19 The project is not considering the reporting requirements for the following other companies involved in the combination illustrated in the example in Diagram 1.1 because IFRS Standards already contain requirements for them:
- (a) Company P (the controlling party)—any effects on Company P are covered by IFRS 10 *Consolidated Financial Statements*;
 - (b) Company C (the transferred company)—the disclosure of information about its new parent (Company B) is covered by IAS 24 *Related Party Disclosures*; and
 - (c) Company A (the **transferring company**)—the loss of control of its subsidiary (Company C) is covered by IFRS 10.

Which types of financial statements?

- 1.20 In general, the project is addressing how a receiving company should report a business combination under common control in its consolidated financial statements.⁸ In some cases, the receiving company might not be required to prepare such financial statements. However, consolidated financial statements are required if, for example, the receiving company is **publicly traded** or is preparing to issue its **shares** in a **public market**.
- 1.21 Furthermore, if the combination involves the transfer of an unincorporated business (see paragraph 1.14), the possible reporting requirements developed in this project would also apply in other types of financial statements prepared by the receiving company, such as its separate financial statements.
- 1.22 This Discussion Paper uses the term ‘financial statements’ to refer to all financial statements prepared by the receiving company to which the possible reporting requirements developed in the project would apply (see paragraphs B.16–B.18 in Appendix B).
- 1.23 However, the project is not addressing how a receiving company should report in its separate financial statements an investment in a subsidiary received in a business combination under common control. That topic is addressed by IAS 27 *Separate Financial Statements*.

Focus of the project

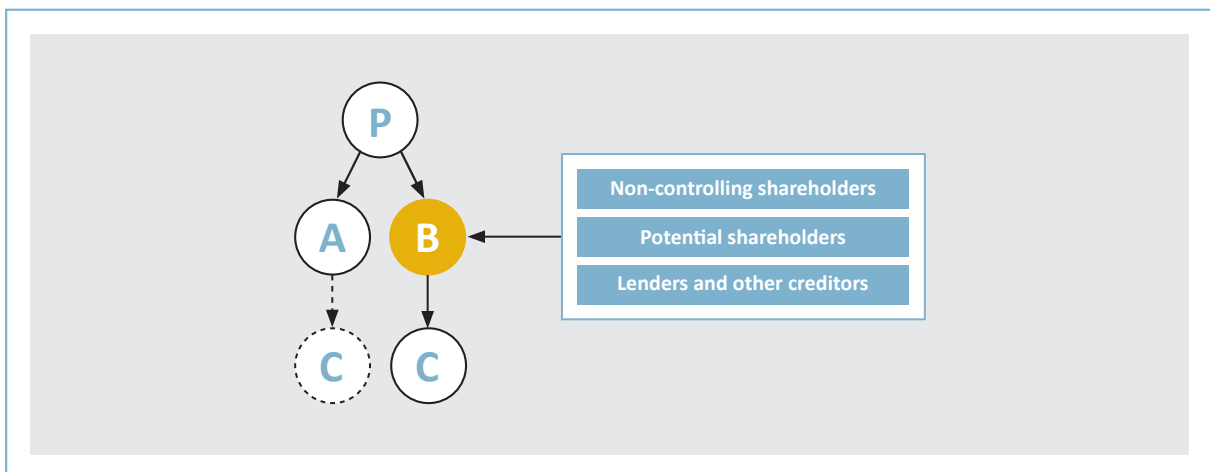
- 1.24 IFRS Standards set reporting requirements for companies that prepare general purpose financial statements. Those financial statements are intended to meet the information needs of the company’s existing and potential shareholders, lenders and other creditors who must rely on those financial statements for much of their information needs because they cannot require the company to provide to them information tailored to their information needs.⁹ This Discussion Paper refers to those parties as users of the receiving company’s general purpose financial statements.

⁸ In some jurisdictions, the receiving company’s consolidated financial statements are sometimes called sub-consolidated financial statements if the receiving company’s parent company prepares consolidated financial statements for a wider group.

⁹ Paragraph 1.5 (including the related footnote 4) of the *Conceptual Framework for Financial Reporting (Conceptual Framework)*.

- 1.25 Existing shareholders of the receiving company in a business combination under common control comprise the controlling party and any **non-controlling shareholders** who own shares in the receiving company at the combination date. However, because the controlling party controls the receiving company, it can obtain the information it needs from the receiving company. One example of such information is information needed to enable the controlling party to prepare its own consolidated financial statements. Another example is information obtained by the controlling party when it exercises its power to direct the activities of the receiving company, such as when the controlling party directs the receiving company to undertake a business combination under common control. In that case, the controlling party would already have information about the combination without using the receiving company's general purpose financial statements. Hence, irrespective of whether the controlling party reviews and analyses those financial statements, that party does not need to rely on those statements for information about the combination.
- 1.26 In contrast, existing non-controlling shareholders, potential shareholders, and existing and potential lenders cannot direct the receiving company to undertake a business combination under common control and are typically not in a position to require the receiving company to provide them with information about that combination. Instead, they must rely on the receiving company's general purpose financial statements for meeting their information needs.
- 1.27 Accordingly, this project does not seek to address the controlling party's information needs—nor the information needs of users of the controlling party's financial statements—although the project might result in the receiving company providing information that is useful to those parties. Rather, this project focuses on the information needs of the receiving company's existing non-controlling shareholders, its potential shareholders and its existing and potential lenders and other creditors who must rely on the receiving company's general purpose financial statements for much of their information needs.
- 1.28 Diagram 1.2 depicts the categories of users of the receiving company's general purpose financial statements whose information needs this project is looking to address.

Diagram 1.2—Users of the receiving company's financial statements



- 1.29 A receiving company's non-controlling shareholders, potential shareholders and existing and potential lenders and other creditors may have different information needs. In reaching its preliminary views, the Board considered the common information needs of those users of a receiving company's financial statements.¹⁰

¹⁰ Paragraph 1.8 of the *Conceptual Framework*.

Interaction with other projects

- 1.30 The development of possible reporting requirements for business combinations under common control is not expected to affect the Board's other active projects, but some of the Board's other active projects might affect the development of those requirements, namely:
- (a) Goodwill and Impairment—the Board is considering possible improvements to IFRS 3, including improved disclosure requirements. The Board published a Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* in March 2020. That Discussion Paper is open for comments until 31 December 2020. Any amendments to IFRS 3 could affect:
 - (i) those business combinations under common control to which the acquisition method applies; and
 - (ii) disclosures about business combinations under common control.
 - (b) the Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12—one of the Board's preliminary views set out in this Discussion Paper is based on an existing requirement in IFRS 10 (see paragraph 2.47(b)(i)). The Board has not identified a need to examine that requirement in the first phase of the Post-implementation Review of that Standard. However, any subsequent findings in the Post-implementation Review could affect the Board's future conclusions on the issue discussed in paragraphs 2.42–2.44. The Board plans to publish a Request for Information for the Post-implementation Review in the fourth quarter of 2020.

Question for respondents

Project Scope
Question 1
<p>Paragraphs 1.10–1.23 discuss the Board's preliminary view that it should develop proposals that cover reporting by the receiving company for all transfers of a business under common control (in the Discussion Paper, collectively called business combinations under common control) even if the transfer:</p> <ul style="list-style-type: none"> (a) is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or (b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering. <p>Do you agree with the Board's preliminary view on the scope of the proposals it should develop? Why or why not? If you disagree, what transactions do you suggest that the Board consider and why?</p>

Section 2—Selecting the measurement method

- 2.1 The absence of specific requirements in IFRS Standards for a **receiving company** in **business combinations under common control** has resulted in diversity in practice, as outlined in paragraphs 1.2–1.8. The areas of diverse practice include the selection of the measurement method. The following methods are commonly used: the **acquisition method** and various forms of a **book-value method**. In practice, companies do not use a single consistent principle to determine which method to apply.
- 2.2 One way to reduce diversity in practice would be to require a single method for all **business combinations**, including all business combinations under common control—the acquisition method set out in IFRS 3 *Business Combinations*. As explained in Table 1.1 (see paragraph 1.7), the acquisition method requires measuring identifiable assets and liabilities received in the combination at fair value, and requires the recognition of goodwill.
- 2.3 Another approach, suggested by some stakeholders and often used in practice, would be to require a book-value method for some or all business combinations under common control. As explained in Table 1.1, that method requires measuring assets and liabilities received in the combination at their existing book values.
- 2.4 Some stakeholders have suggested a third method—a ‘fresh start’ method (sometimes called a ‘new basis’ method). That method measures at fair value all assets and liabilities of all of the combining companies, including the receiving company’s own assets and liabilities. However, that method is rarely, if ever, used and received little support during the Board’s initial consultations with stakeholders. Consequently, the fresh start method is not discussed further in this Discussion Paper.
- 2.5 Paragraphs 2.6–2.61 discuss:
- (a) stakeholder input (paragraphs 2.6–2.14);
 - (b) the Board’s main considerations in selecting the measurement method (paragraphs 2.15–2.34);
 - (c) the cost–benefit trade-off and other practical considerations for combinations that affect **non-controlling shareholders** (paragraphs 2.35–2.54);
 - (d) a summary of the Board’s preliminary views (paragraph 2.55); and
 - (e) the effects of implementing the Board’s preliminary views (paragraphs 2.56–2.61).

Stakeholder input

- 2.6 In consultations conducted in developing this Discussion Paper, stakeholders expressed diverse views on reporting business combinations under common control. Broadly, the views expressed can be summarised as follows:
- (a) View A—business combinations under common control are different from business combinations covered by IFRS 3. Accordingly, the acquisition method should not be applied to any business combinations under common control. Instead, a book-value method should be applied to all such combinations (paragraphs 2.7–2.9).

- (b) View B—business combinations under common control are similar to business combinations covered by IFRS 3 in most, if not all, cases. Accordingly, the acquisition method should normally be applied to business combinations under common control, except perhaps in some cases when the benefits of information produced by that method do not justify the costs of applying it. In those cases, a book-value method should be applied (paragraphs 2.10–2.11).
- (c) View C—some business combinations under common control are similar to business combinations covered by IFRS 3 and others are not similar. Accordingly, neither the acquisition method nor a book-value method should be applied to all business combinations under common control. Instead, the acquisition method should be applied in some cases and a book-value method should be applied in other cases (paragraphs 2.12–2.13).

View A—business combinations under common control are different from business combinations covered by IFRS 3

- 2.7 Some stakeholders take the view that *all* business combinations under common control differ from business combinations covered by IFRS 3. They argue that business combinations under common control lack economic substance because a transfer of a **business** in such a combination does not change ultimate control of that business. Instead, the **controlling party** controls all combining companies both before and after the combination and simply moves its economic resources from one ‘location’ to another within the group. In contrast, in a business combination covered by IFRS 3, if another party controls the acquiring company, ultimate control of the **transferred company** passes to that party.
- 2.8 Accordingly, these stakeholders argue that a book-value method should apply to all business combinations under common control to reflect the controlling party’s continued control of the combining companies. They argue that the acquisition method should not apply to these combinations because, in their view, that method is designed for transactions that involve a change in ultimate control of a business. These stakeholders also argue that a book-value method would:
 - (a) best meet the information needs common to all shareholders, lenders and other creditors of the receiving company, including the controlling party;
 - (b) be less costly to apply than the acquisition method; and
 - (c) be aligned with prevailing practice and with requirements or guidance in many jurisdictions.
- 2.9 These stakeholders further argue that applying the acquisition method to some or all business combinations under common control would not provide the most useful information about those transactions because in their view that method would:
 - (a) involve significant uncertainty in measuring at fair value assets and liabilities received in a related party transaction;
 - (b) result in measuring goodwill at an amount that is not evidenced by a transaction price between independent parties;
 - (c) treat any synergies between the combining companies as newly acquired in the combination, even though some of those synergies may have already existed before the combination; and

- (d) if applied to only some such combinations, decrease comparability between business combinations under common control and create opportunities for accounting arbitrage.

View B—business combinations under common control are similar to business combinations covered by IFRS 3

- 2.10 Some stakeholders take the view that most, if not all, business combinations under common control are similar to business combinations covered by IFRS 3. They note that all business combinations, including all business combinations under common control, involve a transfer of a business. When viewed from the perspective of the receiving company (rather than the perspective of the controlling party), a business combination under common control transfers control of a business to that company, just as occurs in a business combination covered by IFRS 3, and has economic substance for the receiving company. These stakeholders argue that the perspective of the controlling party is irrelevant for the receiving company and for its financial statements, which this project focuses on.
- 2.11 Accordingly, these stakeholders argue that the acquisition method would provide the most useful information about business combinations under common control to users of the receiving company's financial statements. They also argue that applying that method would improve comparability between companies because similar transactions would be reported in a similar way. However, they acknowledge that the benefits of providing that improved information might not always outweigh the costs. Therefore, they argue that the acquisition method should apply to business combinations under common control except when cost-benefit considerations justify using a book-value method.

View C—some business combinations under common control are similar to business combinations covered by IFRS 3 and others are not

- 2.12 Some stakeholders argue that business combinations under common control are not all similar to each other and that different measurement methods may therefore be appropriate in different circumstances. They take the view that some transfers of businesses under common control are similar to business combinations covered by IFRS 3 and that the acquisition method would therefore provide the most useful information in those cases. However, in their view, some other such transfers may not be similar to business combinations covered by IFRS 3 and may, for example, instead result in the pre-existing business continuing its operations in a new legal form. In such cases, they suggest that the acquisition method may not provide the most useful information.
- 2.13 These stakeholders suggest evaluating whether business combinations under common control are similar to business combinations covered by IFRS 3 using one or more criteria, for example:
- (a) whether the receiving company has non-controlling shareholders that are affected by the combination (such as whether those shareholders acquire a significant **ownership interest** in the economic resources transferred in the combination);¹¹
 - (b) the pricing of the combination (such as whether the receiving company would have paid a similar amount of consideration in a combination with an unrelated party);

¹¹ These stakeholders focus on whether the ultimate ownership interests in the economic resources transferred in a business combination under common control change as a result of the combination. Such a change will typically occur when the receiving company has non-controlling shareholders.

- (c) evidence of fair value (such as whether the fair value of the consideration transferred is based on independent valuations or on other external evidence);
- (d) the decision-making process (such as whether the combining companies initiated the combination and negotiated its terms, or whether the combination was initiated and directed by the controlling party); and
- (e) the purpose of the combination (such as whether its purpose was to benefit the combining companies, or whether it was to benefit the controlling party or other companies in the group).

Common ground in stakeholders' views

2.14 As explained in paragraphs 2.6–2.13, stakeholders have expressed diverse views on how business combinations under common control should be reported and why. However, although different stakeholders analyse business combinations under common control in different ways, they sometimes come to similar conclusions, albeit for different reasons. Specifically, the following common ground has emerged:

- (a) for combinations that do not affect non-controlling shareholders of a receiving company, many stakeholders who provided feedback during the development of this Discussion Paper generally supported applying a book-value method, even when the combinations affect lenders or other creditors of the receiving company or are undertaken in preparation for a sale of the combining companies, for example, in an initial public offering. Some of those stakeholders, notably investors and analysts who specialise in credit analysis, also expressed the view that the outcome of credit analysis would not depend greatly on whether the acquisition method or a book-value method is applied to combinations under common control. Furthermore, some suggested that if a combination is undertaken in preparation for a sale or listing of wholly-owned combining companies, the information provided to potential shareholders about those companies should not depend on the legal structure chosen for the combination (see Diagram 2.4). Finally, some stakeholders have cost-benefit reasons for supporting a book-value method for combinations that do not affect non-controlling shareholders.
- (b) for combinations that affect non-controlling shareholders of a receiving company, many stakeholders who provided feedback during the development of this Discussion Paper generally supported applying the acquisition method, especially when the extent of non-controlling shareholders' interests in the receiving company is 'substantive'. Those stakeholders argued that use of the acquisition method would provide useful information to those non-controlling shareholders. Some of these stakeholders also expressed a view that the presence of non-controlling shareholders may indicate that the transaction is similar to a business combination covered by IFRS 3. However, some stakeholders disagreed with applying the acquisition method to any business combinations under common control, including those that affect non-controlling shareholders of the receiving company (see paragraphs 2.7–2.9).

Main considerations in selecting the measurement method

- 2.15 The Board considered the stakeholder input and other research (summarised in paragraphs IN8–IN9) in reaching its preliminary view on which method or methods should be applied to business combinations under common control. In particular, the Board considered:
- (a) whether and when business combinations under common control are similar to business combinations covered by IFRS 3;
 - (b) what information would be most useful to users of the receiving company’s financial statements; and
 - (c) whether the benefits of providing that information would justify the costs of providing it.
- 2.16 The Board does not agree with the view that all business combinations under common control are different from business combinations covered by IFRS 3 and should be accounted for differently. In the Board’s view, although ultimate control of the combining companies does not change in business combinations under common control, that does not mean that such combinations are simply reallocations of economic resources within the group. Instead, such combinations always have economic substance for the receiving company because the receiving company gains control of a business that it did not control before the combination, just as occurs in a business combination covered by IFRS 3.
- 2.17 In addition, some business combinations under common control result in a change in the ultimate ownership interests in the economic resources transferred in the combination, just as occurs in business combinations covered by IFRS 3. Specifically, this occurs when the receiving company has non-controlling shareholders. In those circumstances, those non-controlling shareholders acquire an ownership interest in those economic resources that they did not previously have, whereas the ownership interest of the controlling party in those economic resources is reduced.¹² Hence, such a business combination under common control has a substantive effect on both the receiving company and its shareholders and is not a mere reallocation of economic resources within the group.
- 2.18 The Board next considered whether to require companies to evaluate how similar a business combination under common control is to business combinations covered by IFRS 3 in order to determine what information should be provided about that combination. In the Board’s view, it would be difficult to provide a workable set of indicators for companies to use in making such an evaluation. Also, the Board’s view is that such an evaluation would be subjective and that requiring companies to make such an evaluation may not help reduce diversity in practice. Thus, the Board has reached the view that it should not base the selection of the measurement method on such an evaluation by the receiving company.
- 2.19 The Board also considers that some of the indicators suggested by stakeholders—for example, the purpose of the combination or the process for deciding the terms of the combination—would not change the conclusion about what information would be most useful to users of the receiving company’s financial statements. The Board acknowledges that the pricing of some business combinations under common control can differ from the pricing of business combinations covered by IFRS 3 (see paragraph 2.28) and that evidence of fair value may not always be readily available in a business combination under common control. However, in the Board’s view, those considerations relate to the mechanics of how the selected measurement method should be applied rather than to the selection of the measurement method (Section 3 discusses those considerations). Instead, the Board focussed on changes in ownership interests in the economic resources transferred in business combinations under common control, as discussed in paragraphs 2.20–2.34.

¹² The effect of the combination on the controlling party will also depend on whether non-controlling shareholders are present in the transferring company.

Combinations that affect non-controlling shareholders

2.20 As discussed in paragraph 2.17, when non-controlling shareholders of the receiving company acquire an ownership interest in the economic resources transferred in a business combination under common control, the combination has a substantive effect not only on the receiving company itself but also on its shareholders. The Board considers that a transfer to non-controlling shareholders of the receiving company of an ownership interest in the economic resources of the transferred company has a pervasive effect on the evaluation of how similar the combination is to a business combination covered by IFRS 3. Specifically, the Board’s view is that if such a transfer occurs, that transaction is similar to business combinations covered by IFRS 3. That similarity is illustrated in Diagrams 2.1 and 2.2. In both scenarios, Company B, the receiving company, gains control of Company C, the transferred company, which it did not control before. Furthermore, in both scenarios, non-controlling shareholders of Company B acquire an ownership interest in the economic resources of Company C, regardless of whether ultimate control of Company C changes. Both combinations result in a substantive change in the ownership interests in the economic resources of the transferred company.

Diagram 2.1—Business combination covered by IFRS 3

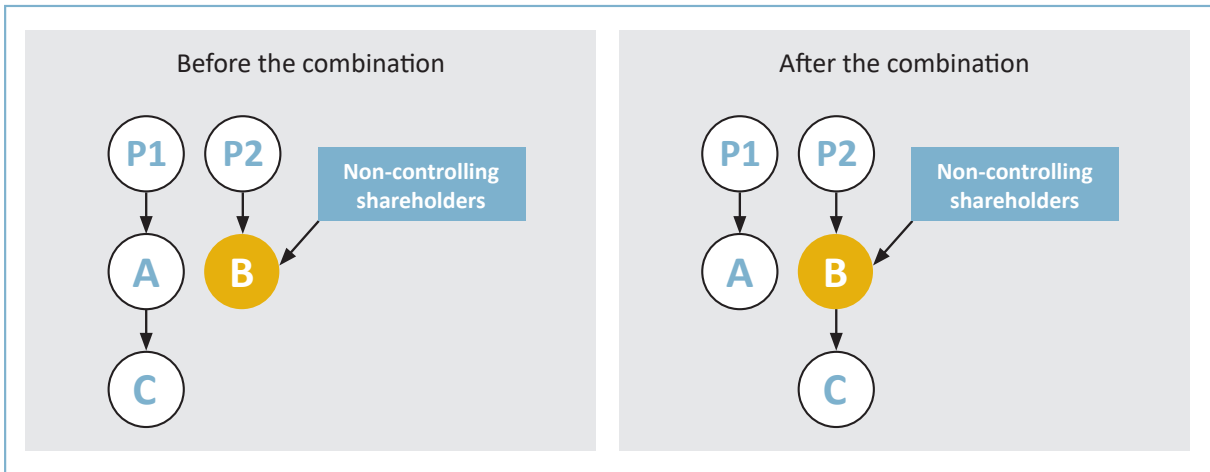
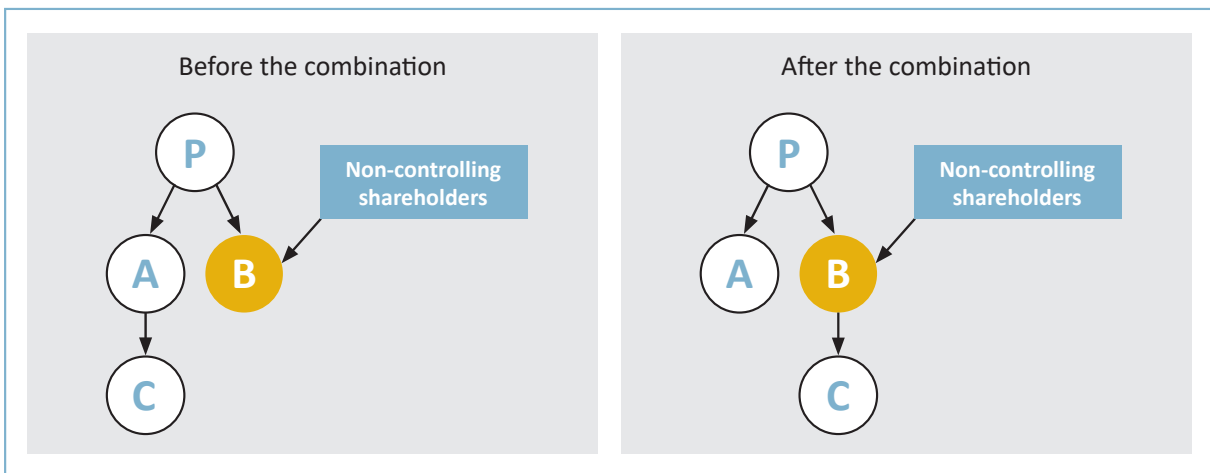


Diagram 2.2—Business combination under common control



- 2.21 Furthermore, if a business combination under common control affects non-controlling shareholders of the receiving company, the composition of users who rely on that company's financial statements for meeting their information needs about the combination is also similar to the composition of users in a business combination covered by IFRS 3. Specifically, for both types of business combinations, they comprise those non-controlling shareholders, potential shareholders and lenders and other creditors of the receiving company.
- 2.22 Therefore, because both the combination itself is similar to a business combination covered by IFRS 3 (paragraph 2.20) and the composition of users of the receiving company's financial statements is similar in both cases (paragraph 2.21), the common information needs of those users in such combinations are also similar.
- 2.23 Accordingly, in the Board's preliminary view, in principle, the acquisition method should be applied to business combinations under common control that affect non-controlling shareholders of the receiving company, subject to the cost-benefit trade-off and other practical considerations (discussed in paragraphs 2.35–2.47).

Combinations that do not affect non-controlling shareholders

- 2.24 In contrast, if the receiving company does not have non-controlling shareholders (such as in a business combination under common control involving wholly-owned companies), not only is there no change in the ultimate control of the combining companies, but also no change in the ultimate ownership interests in the economic resources transferred in the combination. In such circumstances, questions may arise about how similar the combination is to business combinations covered by IFRS 3 and whether the acquisition method should be applied.
- 2.25 Combinations between wholly-owned companies are illustrated in Diagrams 2.3 and 2.4, using an example of a controlling party, Company P, that wishes to sell its wholly-owned subsidiaries, companies A and B, in an initial public offering. In Scenario 1, Company P owns and controls Company A and Company B via an intermediate holding company, HoldCo. Accordingly, Company P could sell its subsidiaries by selling HoldCo. In contrast, in Scenario 2, Company P owns and controls its subsidiaries directly. In this case, Company P might first need to restructure its subsidiaries. Company P could do that in various ways, as illustrated in Diagram 2.4.

Diagram 2.3—Group structure before initial public offering

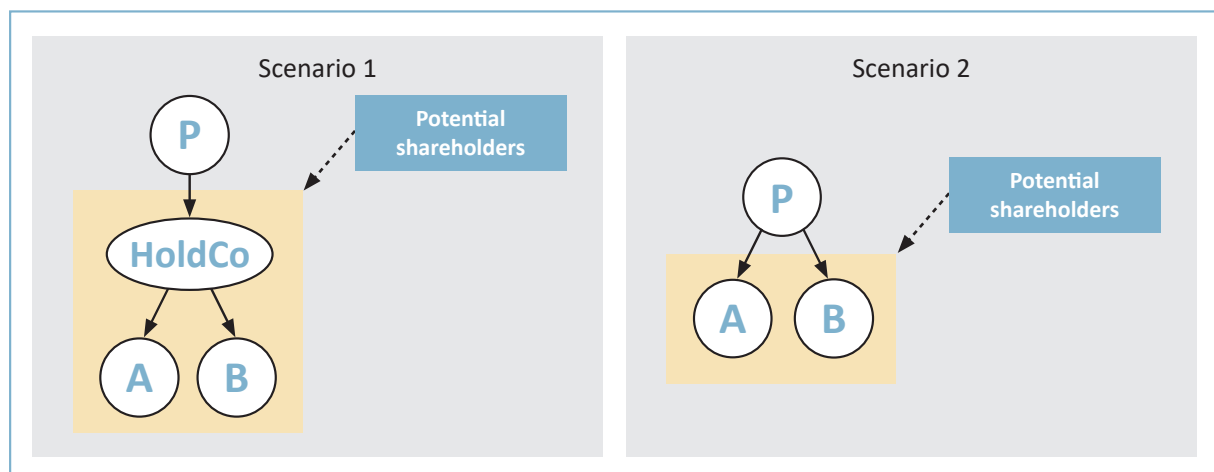
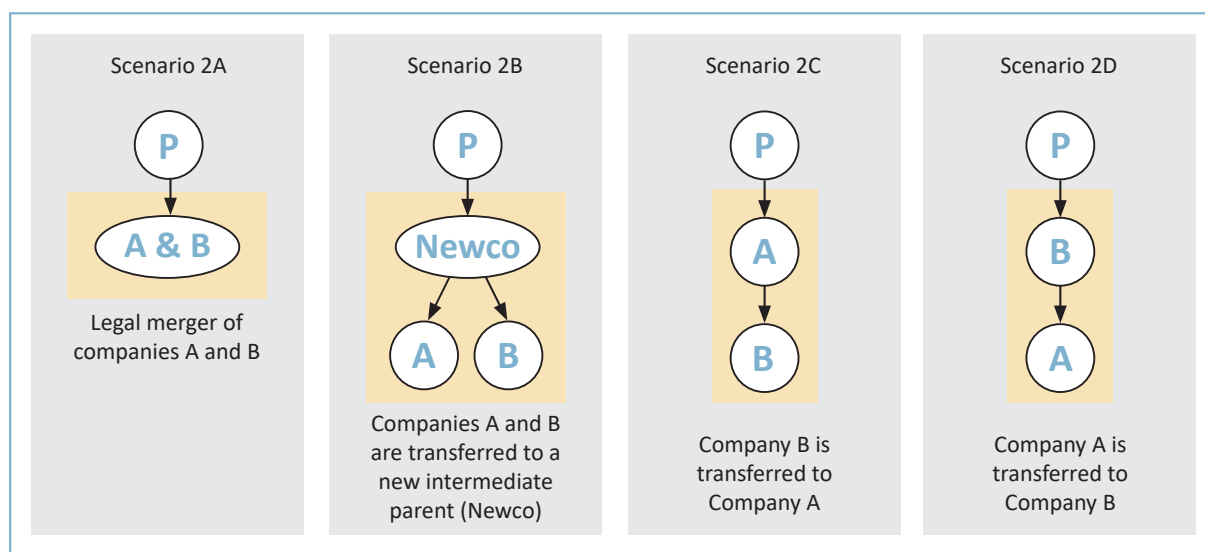


Diagram 2.4—Group restructuring in preparation for an initial public offering

- 2.26 If the acquisition method was applied to the group restructuring illustrated in Diagram 2.4, one of the combining companies would need to be identified as the ‘acquirer’—either Company A or Company B or, in Scenario 2B, possibly Newco.¹³ Identifying the acquirer determines which measurement bases are applied to the assets and liabilities of the combining companies, and thus would usually have a fundamental and pervasive effect on what information is provided to potential public shareholders. The assets and liabilities of the company identified as the acquirer continue to be measured at their existing book values, whereas the assets and liabilities of the other combining company (or companies, in Scenario 2B) are measured at fair value. However, from the viewpoint of those shareholders, they would be investing in the same economic resources in all scenarios, as illustrated by the shaded areas in Diagrams 2.3 and 2.4. In contrast, a book-value method would produce similar information in all those scenarios, regardless of whether and how the controlling party restructures its subsidiaries in preparation for the initial public offering.
- 2.27 Furthermore, identifying the acquirer in a business combination under common control involving wholly-owned companies like the group restructuring illustrated in Diagram 2.4 might be difficult. That difficulty arises because, when applying the acquisition method, the legal structure of the combination does not necessarily determine which company is the acquirer. Instead, IFRS 3 provides application guidance on identifying the acquirer. Some of that guidance considers the effects of the combination on the shareholders of the combining companies.¹⁴ However, such effects would not arise for combining companies that are wholly-owned by the controlling party. In such cases, it might be difficult to identify the acquirer in a way that results in useful information. In contrast, if non-controlling shareholders acquire an ownership interest in the economic resources transferred in the combination, the guidance in IFRS 3 could help identify the acquirer.

¹³ When a new company is formed to effect a business combination, in some cases paragraph B18 of IFRS 3 does not permit the new company to be identified as the acquirer. In those cases, either Company A or Company B must be identified as the acquirer.

¹⁴ Paragraphs B15(a) and B15(b) of IFRS 3.

- 2.28 Another difficulty with applying the acquisition method when the receiving company does not have non-controlling shareholders is that the consideration paid might differ from the consideration that would have been paid to an unrelated party. For example, in the group restructuring illustrated in Diagram 2.4, the controlling party, Company P, might direct the combining companies to transact at the book value of the assets and liabilities of the transferred company. However, as discussed further in Section 3, the measurement of goodwill applying the acquisition method is based on the premise that the amount of the consideration paid is determined in an arm's length negotiation and depends on the fair value of the acquired business and the price for any synergies expected from the combination. As a result, goodwill is measured at an amount that is expected to reflect the fair value of the pre-existing goodwill in the acquired business and the price for the synergies expected from the combination. In contrast, if business combinations under common control are not priced at arm's length, applying the acquisition method might measure goodwill at an arbitrary amount that does not provide useful information.
- 2.29 As also discussed further in Section 3, such a scenario is less likely to arise in a business combination under common control that affects non-controlling shareholders of the receiving company. The research for this project indicates that in such combinations, the consideration paid would typically approximate the consideration that would have been paid between unrelated parties, because many jurisdictions have regulations that are designed to protect non-controlling shareholders. However, those regulations would not apply if a transaction does not affect non-controlling shareholders.
- 2.30 Furthermore, when a business combination under common control does not affect non-controlling shareholders of the receiving company, questions arise about which method would produce sufficient benefits for users of the receiving company's financial statements to justify the costs of applying that method.
- 2.31 Cost is a pervasive constraint on the information that can be provided by financial reporting. It is important that the costs of reporting particular information are justified by the benefits of reporting that information.¹⁵ If a business combination under common control does not affect non-controlling shareholders of the receiving company, that company's only existing shareholder is the controlling party and, as discussed in paragraph 2.24, the combination does not change that party's control of the combining companies nor its ownership interest in them. Also, as discussed in paragraph 1.25, because the controlling party controls the receiving company, it does not need to rely on that company's general purpose financial statements to meet its information needs.

¹⁵ Paragraph 2.39 of the *Conceptual Framework*.

- 2.32 Some question, therefore, whether the costs of applying the acquisition method to these combinations would be justified. Feedback received from stakeholders in the project indicates that a book-value method is typically less costly to apply and would provide useful information:
- (a) to potential shareholders of the receiving company. This is because a book-value method provides potential shareholders with similar information about the combined economic resources in all scenarios, regardless of whether a combination under common control is undertaken in preparation for a sale to potential shareholders and regardless of how the combination is legally structured (as discussed in paragraphs 2.25–2.26 and illustrated in Diagrams 2.3 and 2.4).
 - (b) to lenders and other creditors of the receiving company. This is because their economic interest in the receiving company is typically limited to receiving payments of principal and interest. Thus, lenders and other creditors need information about the receiving company's cash flows and debt commitments in order to assess the company's ability to service its existing debt and to raise new debt. That information is largely unaffected by whether the acquisition method or a book-value method is used to account for a business combination under common control. In addition, although information about fair values of particular assets received in such a combination can be useful to lenders and other creditors in some cases, the outcome of their analysis would not depend greatly on whether they receive that information.
- 2.33 Accordingly, in the Board's preliminary view, a book-value method should be applied to business combinations under common control that do not affect non-controlling shareholders of the receiving company, including all combinations between wholly-owned companies.

Selecting the measurement method

The Board's preliminary views

- 2.34 The Board's preliminary views are that:
- (a) neither the acquisition method nor a book-value method should be applied to *all* business combinations under common control;
 - (b) in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company, subject to the cost–benefit trade-off and other practical considerations (discussed in paragraphs 2.35–2.47); and
 - (c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly-owned companies.

The cost–benefit trade-off and other practical considerations for combinations that affect non-controlling shareholders

- 2.35 Having reached the preliminary view that, in principle, the acquisition method should be applied to business combinations under common control that affect non-controlling shareholders of the receiving company, the Board next considered whether that method should be applied to *all* or only to *some* such combinations.

- 2.36 Some stakeholders consulted in the project suggested that the acquisition method should be applied only if non-controlling shareholders hold a ‘substantive’ ownership interest in the receiving company and that a book-value method should be applied in all other cases. Some of those stakeholders argued that the acquisition method would be more costly to apply than a book-value method. They expressed concerns that the costs of applying the acquisition method may not be justified by the benefits of the information provided by that method when non-controlling shareholders have only a ‘small’ ownership interest in the receiving company. Some stakeholders also suggested that those costs may not be justified when all non-controlling shareholders are **related parties** of the receiving company, who may not need to rely on the company’s financial statements to meet their information needs.
- 2.37 Some stakeholders also expressed concerns about opportunities for accounting arbitrage. They noted that the acquisition method would require a receiving company to recognise goodwill and other intangible assets, and to measure assets at fair value, when IFRS Standards would not permit doing so if the receiving company had always owned the transferred business. They suggested that requiring the acquisition method for all business combinations under common control that affect non-controlling shareholders would allow a receiving company to structure a combination in a particular way to achieve those accounting outcomes.
- 2.38 Accordingly, the Board considered whether, in some circumstances, applying the acquisition method to combinations that affect non-controlling shareholders might not produce benefits that justify the costs of applying that method, or might create opportunities for accounting arbitrage. The Board first considered whether it should set a quantitative threshold specifying that the acquisition method should not be applied if the extent of the ownership interest of non-controlling shareholders is below that threshold. However, the Board has rejected such an approach because a quantitative threshold would be arbitrary and would lack a conceptual basis. In addition, it could give rise to further concerns about opportunities for accounting arbitrage. Accordingly, the Board next considered qualitative factors.
- 2.39 First, the Board has reached the preliminary view that the acquisition method should be applied to business combinations under common control if the receiving company’s **shares** are traded in a **public market**. The Board noted that minimum listing requirements or capital markets regulations for public trading in many jurisdictions typically prevent the listing of shares when the ownership interest of non-controlling shareholders in the company is insignificant. Accordingly, a condition based on trading in a public market would not itself impose an arbitrary quantitative threshold, but would apply quantitative considerations indirectly without being arbitrary. In the Board’s view, such a condition is objective and easy to apply, and would not create opportunities for accounting arbitrage. Furthermore, a similar condition is already used in IFRS Standards to determine which information must be provided in some specified cases.¹⁶
- 2.40 Second, the Board considered how to weigh the benefits of applying the acquisition method against the costs if the receiving company’s shares are not **publicly traded**, and whether and when a book-value method should instead be applied to combinations that affect non-controlling shareholders in such companies. The Board has reached the preliminary view that for **privately held** companies (that is, companies whose shares are not publicly traded) there should be:

¹⁶ 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*. These Standards describe a public market as a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets.

- (a) an optional exemption from the acquisition method—the receiving company should be *permitted* to use a book-value method rather than the acquisition method, if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected (see paragraphs 2.41–2.44) (the optional exemption from the acquisition method); and
 - (b) an exception to the acquisition method—the receiving company should be *required* to use a book-value method rather than the acquisition method if all of its non-controlling shareholders are related parties of the company, as defined in IAS 24 *Related Party Disclosures* (see paragraph 2.45) (the related-party exception to the acquisition method).
- 2.41 The Board considers that for privately held companies, the benefits of information provided by the acquisition method may not outweigh the costs of providing that information. For example, the benefits might not outweigh the costs if non-controlling shareholders of a privately held company:
- (a) do not hold a significant ownership interest in the company;
 - (b) do not need to rely on the company’s financial statements to meet their information needs (for example, if the terms and conditions of agreements between the company and the private shareholders give them a right to obtain information); or
 - (c) do not routinely rely on analysis of detailed financial information, performed either by themselves or by financial intermediaries.
- 2.42 Therefore, the Board has reached the view that it should allow privately held companies to ‘opt out’ from the acquisition method and to apply a book-value method instead, on condition that all of its non-controlling shareholders have been informed about the use of a book-value method for a combination and have not objected to its use. This condition is based on one already used in IFRS Standards for exempting privately held companies from some requirements in specified circumstances when, in the Board’s view, the costs of applying those requirements may outweigh the benefits of doing so.¹⁷
- 2.43 The condition would not require any action from non-controlling shareholders unless they object to the use of a book-value method. The Board’s view is that designing the condition in this way would lead to a more appropriate trade-off between benefits and costs than requiring companies to seek explicit consent for the use of a book-value method. This is because when non-controlling shareholders are largely indifferent about which information they receive, they are unlikely to respond to a request about which method to use. However, the Board has also reached the view that it should allow non-controlling shareholders to require the use of the acquisition method so they receive fair value information when it is important to them.
- 2.44 Practical questions may arise about applying such an exemption, for example, about how and when the company should notify its non-controlling shareholders or how long those shareholders should be given to raise any objections. However, such a condition is already used in IFRS Standards. Accordingly, the Board expects that such an exemption would be workable in practice, especially for a small number of concentrated and stable shareholdings in a privately held company.

¹⁷ See paragraph 4 of IFRS 10 and paragraph 17 of IAS 28.

- 2.45 The Board has also reached the preliminary view that a privately held receiving company should not be permitted to use the acquisition method if all of its non-controlling shareholders are related parties of the company, as defined in IAS 24. The Board's reason is that the receiving company's related parties might not need to rely on its general purpose financial statements to meet their information needs. Hence, the benefits of applying the acquisition method in those cases might not justify the costs. In addition, requiring a book-value method in those cases would prevent opportunities to structure a combination by issuing shares to related parties for the sole purpose of qualifying for the acquisition method.
- 2.46 The Board's preliminary views on when the acquisition method should be applied to combinations that affect non-controlling shareholders and when a book-value method should be applied to such combinations are all based on conditions already used in IFRS Standards. The Board considers that an approach relying on conditions already used would generally involve less complexity than introducing into IFRS Standards new conditions that have not been applied in practice.

Selecting the measurement method

The Board's preliminary views

2.47 For business combinations under common control that affect non-controlling shareholders of the receiving company, the Board's preliminary views are that:

- (a) if the receiving company's shares are traded in a public market, the receiving company should be *required* to apply the acquisition method; and
- (b) if the receiving company's shares are privately held:
 - (i) the receiving company should be *permitted* to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected (the optional exemption from the acquisition method); and
 - (ii) the receiving company should be *required* to use a book-value method if all of its non-controlling shareholders are related parties of the company (the related-party exception to the acquisition method).

2.48 In reaching the preliminary views expressed in paragraph 2.47, the Board considered whether the optional exemption and the related-party exception should apply not only to privately held companies, but also to publicly traded companies.

2.49 First, some stakeholders suggested that, even for a publicly traded receiving company, the benefits of information provided to non-controlling shareholders by the acquisition method may not be enough to justify the costs if those non-controlling shareholders do not object to receiving information about book values of assets and liabilities of the transferred company instead of fair value information. In considering this suggestion, the Board noted that for publicly traded companies such an exemption:

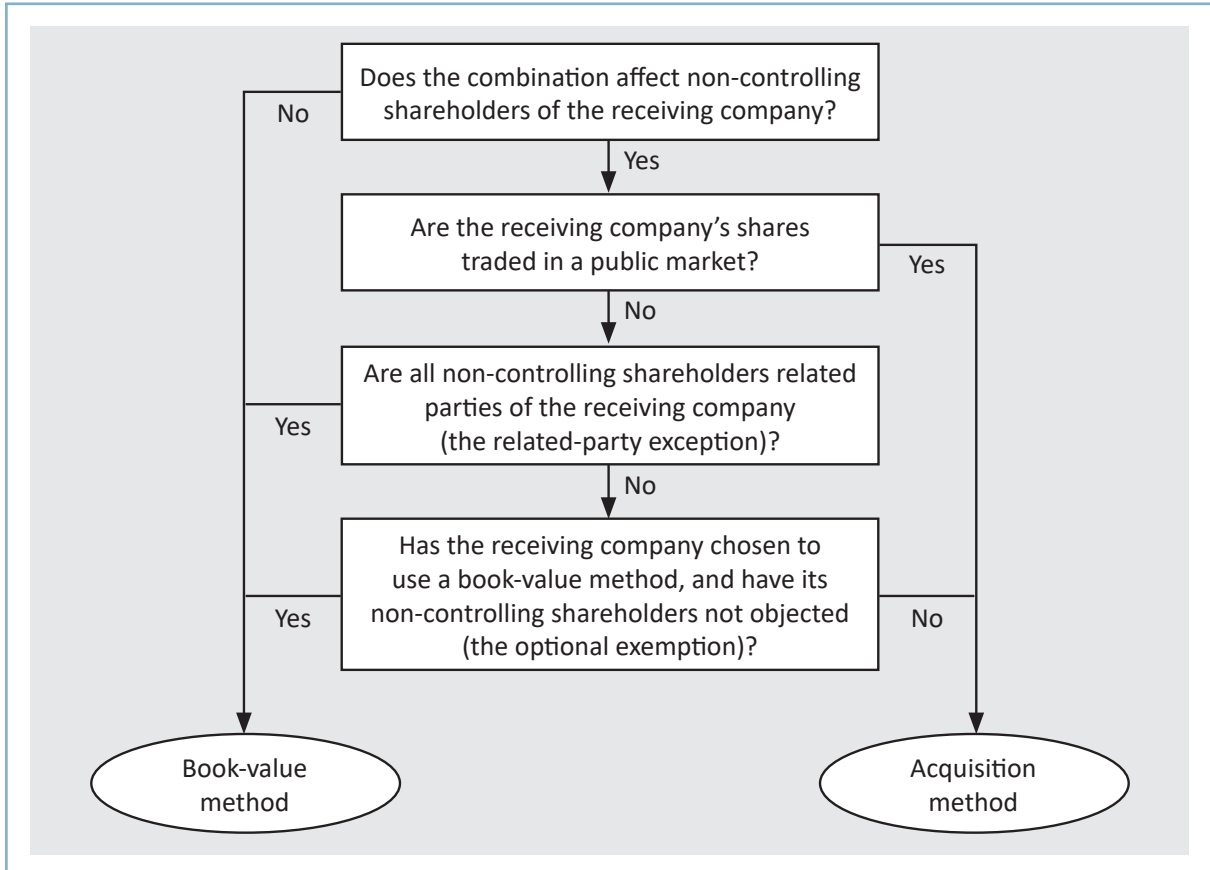
- (a) might be more difficult to apply (see paragraph 2.50); and
- (b) might be more difficult to justify on cost-benefit grounds (see paragraph 2.51).

- 2.50 The optional exemption might be more difficult to apply for publicly traded companies because such companies often have many shareholders, with frequent changes in share ownership, whereas privately held companies are likely to have a more stable and concentrated ownership structure. Accordingly, the practical challenges discussed in paragraph 2.44 for privately held companies could be much more difficult to overcome for publicly traded companies.
- 2.51 The optional exemption might also be more difficult to justify on cost-benefit grounds for publicly traded companies because:
- (a) non-controlling shareholders in a publicly traded receiving company are likely to hold, in aggregate, a significant ownership interest in that company (paragraph 2.39) and would need to rely on its financial statements for much of their information needs—unlike non-controlling shareholders in a privately held receiving company who:
 - (i) might not hold a significant ownership interest in that company;
 - (ii) might not need to rely on the company’s financial statements to meet their information needs; or
 - (iii) might not routinely analyse detailed financial information (paragraph 2.41).
 - (b) share ownership in publicly traded companies is likely to change more often than in a privately held company. As a result, the non-controlling shareholders in a publicly traded company who will use the information about the combination might not be the same as the shareholders who were consulted when the receiving company proposed to use a book-value method, and their response might have been different. This possibility also exists for privately held companies, but it is less likely to be the case for those companies because their holdings are generally less liquid and those companies are therefore more likely to have a stable ownership base.
- 2.52 For those reasons, the Board has reached the view that if it wished to extend the optional exemption from the acquisition method to publicly traded companies, that exemption might need to be designed in a different way than the exemption for privately held companies in order for it to achieve appropriate accounting outcomes and be workable in practice.
- 2.53 Second, some stakeholders suggested that the related-party exception to the acquisition method should also apply to publicly traded companies. In other words, a publicly traded receiving company would be required to use the book-value method if all its non-controlling shareholders are related parties of the company. In considering this suggestion, the Board noted that listing requirements or capital market regulations often limit how many shares of a publicly traded company can be held by parties that are considered to be related to the company. Accordingly, the Board expects it would be unusual for all the non-controlling shareholders of a publicly traded receiving company to be related parties of that company. Hence, extending the related-party exception to publicly traded companies may have little practical effect.
- 2.54 Although the Board is not proposing to extend the optional exemption from or the related-party exception to the acquisition method to publicly traded companies, the Board is requesting feedback from stakeholders about whether (and, if so, how) such extensions should be made.

Summary of the Board’s preliminary views

2.55 The Board’s preliminary views on which method to use and when are summarised in Diagram 2.5.

Diagram 2.5—Summary of the Board’s preliminary views



The effects of implementing the Board’s preliminary views

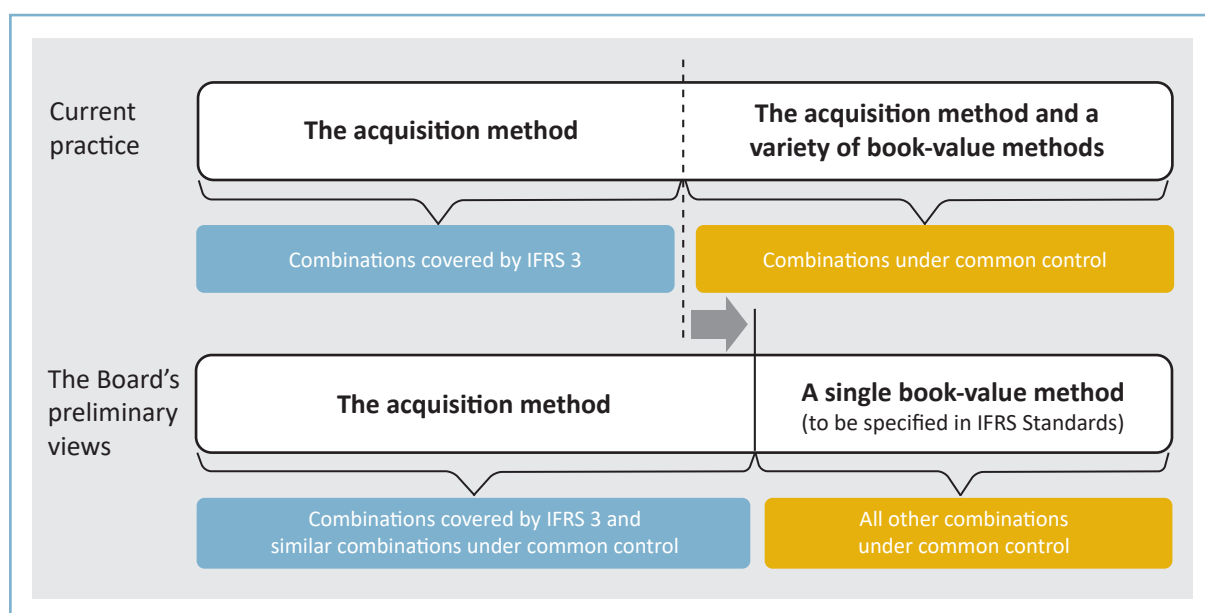
2.56 If the Board’s preliminary views are implemented, the acquisition method would apply to business combinations under common control in specified circumstances and a book-value method would apply in all other cases. Some stakeholders suggested that applying a single method—for example, a book-value method—to all business combinations under common control would more effectively reduce diversity in practice and improve comparability in reporting such combinations than the approach outlined in the Board’s preliminary views. In addition, some stakeholders argued that applying a book-value method to all business combinations under common control would result in less complexity, be less costly and provide fewer opportunities for accounting arbitrage than the Board’s approach.

2.57 However, the Board considers that an approach based on its preliminary views would meet the project’s objective of reducing diversity in practice, improving transparency of reporting and providing better information about business combinations under common control—that is, information that is both more relevant and more comparable—while taking appropriate account of the cost–benefit trade-off. In particular:

- (a) diversity in practice would be reduced by specifying:
 - (i) which method should be applied in which circumstances so companies undertaking similar combinations would apply the same accounting policies.
 - (ii) how a book-value method should be applied, thus eliminating the diversity in practice caused by the variety of book-value methods used.
- (b) the acquisition method would be applied both to business combinations covered by IFRS 3 and to business combinations under common control that are similar to business combinations covered by IFRS 3 when the benefits of applying that method outweigh the costs. As a result, users of the receiving company’s financial statements would receive more relevant and more comparable information about business combinations under common control and the transparency of reporting these combinations will be improved.

2.58 Those overall effects of implementing the Board’s preliminary views are illustrated in Diagram 2.6.¹⁸

Diagram 2.6—The overall effects of implementing the Board’s preliminary views



¹⁸ Diagram 2.6 is designed to illustrate the overall effects of implementing the Board’s preliminary views. It is not intended to illustrate the likely scale of the change to current practice.

- 2.59 In contrast, requiring a book-value method for all business combinations under common control would result in companies reporting transactions that are similar to transactions covered by IFRS 3 applying a method that is different from the method required by IFRS 3. Hence, if the Board pursued such an approach, users of the receiving company's financial statements would receive information that is less relevant and less comparable.
- 2.60 Furthermore, the Board's view is that requiring one of two specified methods and specifying when each should be used would not introduce undue complexity for either preparers or users of financial statements because both methods are already in use. Besides, the criteria developed by the Board for determining which method should be applied are objective and are all based on conditions already used in IFRS Standards. In fact, the Board's view is that complexity would be reduced because companies would be subject to the requirements in IFRS Standards instead of having to develop their own accounting policy.
- 2.61 Finally, because IFRS 3 already requires the acquisition method for business combinations within its scope, if the Board decided to pursue a single measurement method for all business combinations that would mean extending the scope of the acquisition method to all business combinations under common control. Although such an approach might appear simpler, many of the Board's stakeholders consulted during the project do not support it and, on the basis of the Board's analysis set out in this section, the Board concurs with that view.

Questions for respondents

Selecting the measurement method

Question 2

Paragraphs 2.15–2.34 discuss the Board's preliminary views that:

- (a) neither the acquisition method nor a book-value method should be applied to *all* business combinations under common control.
- Do you agree? Why or why not? If you disagree, which method do you think should be applied to all such combinations and why?
- (b) in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company, subject to the cost-benefit trade-off and other practical considerations discussed in paragraphs 2.35–2.47 (see Question 3).
- Do you agree? Why or why not? If you disagree, in your view, when should the acquisition method be applied and why?
- (c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly-owned companies.
- Do you agree? Why or why not? If you disagree, in your view, when should a book-value method be applied and why?

Selecting the measurement method

Question 3

Paragraphs 2.35–2.47 discuss the cost–benefit trade-off and other practical considerations for business combinations under common control that affect non-controlling shareholders of the receiving company.

- (a) In the Board’s preliminary view, the acquisition method should be *required* if the receiving company’s shares are traded in a public market.

Do you agree? Why or why not?

- (b) In the Board’s preliminary view, if the receiving company’s shares are privately held:

- (i) the receiving company should be *permitted* to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected (the optional exemption from the acquisition method).

Do you agree with this exemption? Why or why not? Do you believe that the exemption will be workable in practice? If not, in your view, how should such an exemption be designed so that it is workable in practice?

- (ii) the receiving company should be *required* to use a book-value method if all of its non-controlling shareholders are related parties of the company (the related-party exception to the acquisition method).

Do you agree with this exception? Why or why not?

- (c) If you disagree with the optional exemption (Question 3(b)(i)) or the related-party exception (Question 3(b)(ii)), in your view, how should the benefits of applying the acquisition method be balanced against the costs of applying that method for privately held companies?

Selecting the measurement method

Question 4

Paragraphs 2.48–2.54 discuss suggestions from some stakeholders that the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies. However, in the Board’s preliminary view, publicly traded receiving companies should always apply the acquisition method.

- (a) Do you agree that the optional exemption from the acquisition method should *not* be available for publicly traded receiving companies? Why or why not? If you disagree, in your view, how should such an exemption be designed so that it is workable in practice?

- (b) Do you agree that the related-party exception to the acquisition method should *not* apply to publicly traded receiving companies? Why or why not?

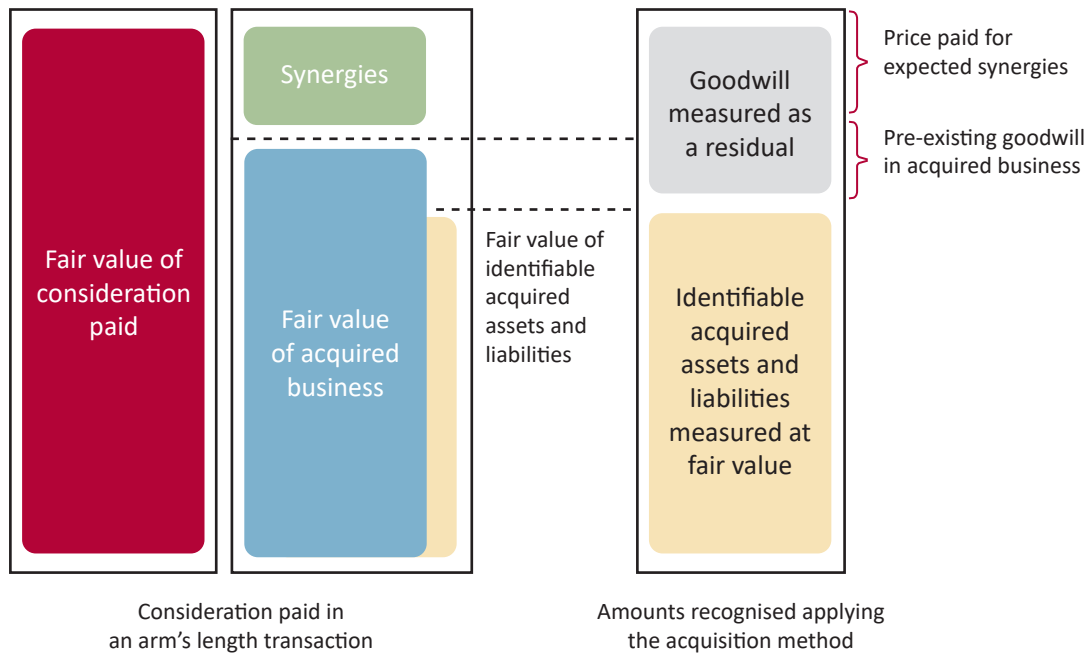
Section 3—Applying the acquisition method

- 3.1 Section 2 discusses the Board’s preliminary view that the **acquisition method** set out in IFRS 3 *Business Combinations* should be applied to **business combinations under common control** that affect **non-controlling shareholders** of the **receiving company** (with an exemption and an exception, as set out in paragraph 2.47). This section discusses whether the Board would need to develop any special requirements on how to apply that method to such combinations.
- 3.2 The reasons for the Board’s preliminary views discussed in Section 2 on when to apply the acquisition method include the following:
- (a) these combinations are similar to **business combinations** covered by IFRS 3; and
 - (b) the composition of users of information about these combinations—and hence their common information needs and cost–benefit considerations—are similar to those in business combinations covered by IFRS 3.
- 3.3 Accordingly, in principle, the acquisition method should be applied as set out in IFRS 3. However, business combinations under common control may contain one feature that is not present in business combinations covered by IFRS 3. Specifically, the consideration paid in business combinations under common control might be directed by the **controlling party** and therefore might differ from an arm’s length price that would have been negotiated between unrelated parties in a business combination covered by IFRS 3.
- 3.4 However, the measurement of goodwill applying the acquisition method is based on the premise that the amount of the consideration paid is determined in an arm’s length negotiation and depends on:
- (a) the fair value of the acquired **business**; and
 - (b) the price paid for any synergies expected from the combination.¹⁹
- 3.5 More specifically, as explained in Table 1.1 (see paragraph 1.7), applying the acquisition method, an acquirer recognises the identifiable assets and liabilities acquired in the business combination and measures them at fair value. The acquirer also recognises goodwill and measures it as a residual amount: the excess of the fair value of the consideration paid over the fair value of the identifiable acquired assets and liabilities.²⁰ As a result, goodwill is measured at an amount that is expected to reflect the fair value of the pre-existing goodwill in the acquired business and the price paid for any synergies expected from the combination.²¹ These key features of the acquisition method are illustrated in Diagram 3.1.

¹⁹ Paragraph BC316 of the Basis for Conclusions to IFRS 3.

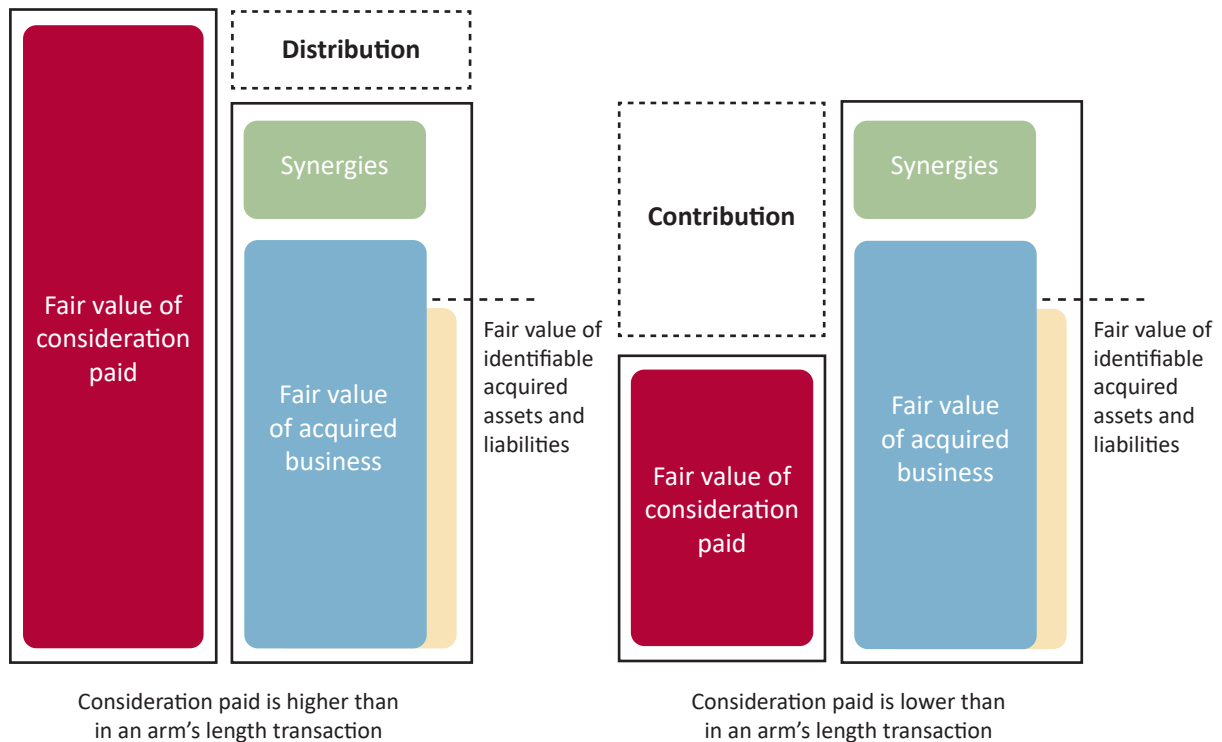
²⁰ Paragraph 3.5 summarises requirements explained more precisely in paragraph 32 of IFRS 3.

²¹ As illustrated in Diagram 3.1, the fair value of the pre-existing goodwill in the acquired business is the excess of the fair value of the acquired business as a whole over the aggregate fair value of its identifiable assets and liabilities. Expected synergies relate to the benefits that arise from combining the acquired business with the acquirer’s business and are unique to each combination.

Diagram 3.1—Key features of the acquisition method

3.6 However, in a business combination under common control, the receiving company and the **transferring company** might not have been involved in deciding how much consideration is paid. Instead, the controlling party might have determined the amount of consideration. Any difference between that amount and the amount that would have been paid to an unrelated party in an arm's length transaction indicates that the combination includes an additional component—a transaction with the owners acting in their capacity as owners. Specifically, as illustrated in Diagram 3.2:

- if the consideration paid is higher, that excess constitutes a distribution from equity by the receiving company to the transferring company, and ultimately to the controlling party; and
- if the consideration paid is lower, that difference constitutes a contribution to equity of the receiving company from the transferring company, and ultimately from the controlling party.

Diagram 3.2—Distribution from equity or contribution to equity

- 3.7 Applying IAS 1 *Presentation of Financial Statements*, transactions with owners in their capacity as owners should be reported in the receiving company's statement of changes in equity.²²
- 3.8 Accordingly, the Board considered whether it should develop special requirements for the receiving company, when applying the acquisition method to a business combination under common control, to identify and recognise:
- distributions from equity (paragraphs 3.11–3.16); and
 - contributions to equity (paragraphs 3.17–3.20).
- 3.9 The Board has not identified a need to consider any other special requirements on how to apply the acquisition method to business combinations under common control.
- 3.10 Paragraphs 5.8–5.12 discuss whether the Board should develop disclosure requirements for business combinations under common control in addition to those required by IFRS 3, for example, disclosures about the terms of these combinations.

²² Paragraph 106 of IAS 1 *Presentation of Financial Statements*.

Distributions from equity

- 3.11 If the Board were to require the receiving company to identify and recognise a distribution from equity in a business combination under common control, the Board would need to specify how to measure any such distributions. The Board considered a similar issue when it developed IFRS 3: whether to provide special requirements for business combinations in which a buyer ‘overpays’ for the acquisition. No such requirements are included in IFRS 3, because the Board concluded that, in practice, an overpayment is unlikely to be detectable or known at the acquisition date and that the overpayment would be difficult, if not impossible, to quantify. Accordingly, if an overpayment occurs, it is initially included in goodwill recognised in a business combination and is addressed through subsequent testing of goodwill for impairment.²³
- 3.12 In the Board’s view, similar difficulties would arise in identifying and measuring a distribution to the controlling party in a business combination under common control. Appendix C discusses such difficulties.
- 3.13 The Board also considered whether a distribution from equity would be likely to occur in practice in business combinations under common control that affect non-controlling shareholders of the receiving company. In effect, any such distribution would transfer wealth from those non-controlling shareholders to the transferring company, and ultimately to the controlling party. Research for this project and stakeholder input suggest that distributions to the controlling party are unlikely to occur in such combinations. Such distributions are unlikely to occur because many jurisdictions have legal requirements and regulations that are designed to protect the interests of non-controlling shareholders.
- 3.14 For the reasons discussed in paragraphs 3.12–3.13, the Board has reached the preliminary view that it should not develop a requirement for the receiving company to identify, measure and recognise a distribution to the controlling party applying the acquisition method. Accordingly, in the unlikely event that an overpayment occurs in a business combination under common control that affects non-controlling shareholders, it would be initially included in goodwill and addressed through subsequent testing of goodwill for impairment, just as occurs in a business combination covered by IFRS 3. Many stakeholders who provided their views on this matter during the development of this Discussion Paper (see paragraph IN9), notably investors and analysts, agreed with that conclusion.
- 3.15 However, investors and analysts also emphasised that they need information about the economics of the combination to help them make their own assessment of whether the consideration paid includes an overpayment. Disclosure requirements when applying the acquisition method to business combinations under common control are discussed further in Section 5 (see paragraphs 5.5–5.12). In particular, that section explains that in another active project—Goodwill and Impairment—the Board is considering possible improvements to IFRS 3, including improved disclosure requirements designed to help investors and analysts understand whether the price paid in a business combination was reasonable.²⁴ Any such improved disclosures would also provide useful information about the consideration paid in a business combination under common control to which the acquisition method is applied.

²³ Paragraph BC382 of the Basis for Conclusions to IFRS 3.

²⁴ See Section 2 of the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*, published in March 2020.

The Board's preliminary view

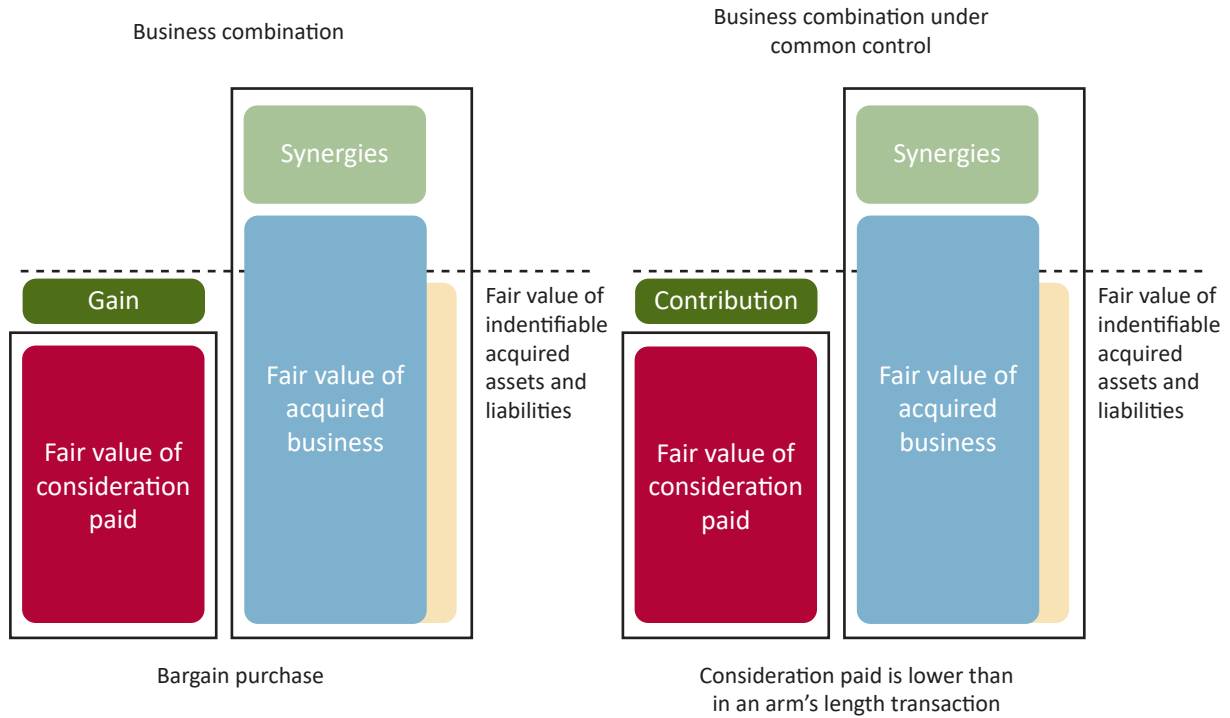
- 3.16 The Board has reached the preliminary view that it should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a business combination under common control.

Contributions to equity

- 3.17 The Board also considered whether the receiving company should be required to recognise a contribution to equity when applying the acquisition method to a business combination under common control. The Board first considered whether such a contribution would be likely to occur if such a combination affects non-controlling shareholders of the receiving company. The legal protections discussed in paragraph 3.13 might not apply in this situation, because any such contribution would transfer wealth from the controlling party to the non-controlling shareholders of the receiving company and so would not adversely affect those shareholders. Nevertheless, the controlling party is unlikely to allow a transfer of wealth to non-controlling shareholders. Therefore, the Board has reached the view that such contributions are also unlikely to occur in practice.
- 3.18 However, in the unlikely event that a contribution did occur, the question arises whether it could be identified and measured and, if so, whether it should be recognised. As illustrated in Diagram 3.2, in a business combination under common control, economically the amount of any contribution to equity equals the excess of the consideration that would have been negotiated between unrelated parties in an arm's length transaction over the consideration actually paid. In an arm's length transaction between unrelated parties, the amount of consideration is expected to reflect the fair value of the acquired business and the price paid for any synergies expected from the combination (as discussed in paragraph 3.4). However, that amount would be difficult, if not impossible, to measure in practice. Hence, measuring the full amount of the contribution (as indicated by the dashed box in Diagram 3.2) would not be workable in practice.
- 3.19 The Board next considered whether any portion of the contribution could be identified and measured. In considering that question, the Board analysed the requirements of IFRS 3 for bargain purchase gains. A bargain purchase gain arises if the fair value of the consideration paid is below the fair value of identifiable assets and liabilities acquired in a business combination, as illustrated in Diagram 3.3. The Standard explains that a bargain purchase gain might happen occasionally, for example, in a forced sale in which the seller is acting under compulsion.²⁵ IFRS 3 requires such a gain to be recognised in the statement of profit or loss. However, based on the discussion in paragraph 3.6, in a business combination under common control, any excess fair value of the identifiable acquired assets and liabilities over the consideration paid constitutes a contribution to equity and therefore should be reported as a change in the receiving company's equity. Accordingly, the Board has reached the preliminary view that it should develop a requirement for the receiving company in a business combination under common control to recognise any excess of the fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, rather than as a gain in the statement of profit or loss. The measurement of a contribution is illustrated in Diagram 3.3.

²⁵ Paragraph 35 of IFRS 3.

Diagram 3.3—Measuring a bargain purchase gain and a contribution to equity



Applying the acquisition method

The Board's preliminary view

3.20 The Board has reached the preliminary view that it should develop a requirement for the receiving company to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, not as a bargain purchase gain in the statement of profit or loss, when applying the acquisition method to a business combination under common control.

Question for respondents

Applying the acquisition method

Question 5

Paragraphs 3.11–3.20 discuss how to apply the acquisition method to business combinations under common control.

- (a) In the Board’s preliminary view, it should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach for identifying and measuring a distribution from equity do you recommend and why? In particular, do you recommend either of the two approaches discussed in Appendix C or do you have a different recommendation?

- (b) In the Board’s preliminary view, it should develop a requirement for the receiving company to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, not as a bargain purchase gain in the statement of profit or loss, when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach do you recommend and why?

- (c) Do you recommend that the Board develop any other special requirements for the receiving company on how to apply the acquisition method to business combinations under common control? If so, what requirements should be developed and why are any such requirements needed?

Section 4—Applying a book-value method

- 4.1 Section 2 discusses the Board’s preliminary view that a **book-value method** should be applied to:
- (a) all **business combinations under common control** that do not affect **non-controlling shareholders** of the **receiving company**—including combinations that affect potential shareholders or lenders or other creditors of the receiving company; and
 - (b) some business combinations under common control that affect non-controlling shareholders of a **privately held** receiving company in specified circumstances (see paragraph 2.47(b)).
- 4.2 This section discusses the Board’s preliminary views on how a book-value method should be applied to such combinations.
- 4.3 IFRS Standards do not refer to any book-value methods and do not specify how such a method should be applied. As discussed in paragraph 1.6, a variety of book-value methods are used in practice. In particular, the variations relate to:
- (a) measuring the assets and liabilities received—the receiving company uses either the **transferred company’s** book values or the **controlling party’s** book values to measure those assets and liabilities.²⁶
 - (b) providing pre-combination information—the receiving company includes the transferred company’s assets, liabilities, income and expenses in its financial statements:
 - (i) either prospectively from the date of the combination,²⁷ without restating pre-combination information; or
 - (ii) retrospectively from the beginning of the earliest period presented as if the receiving company and transferred company had always been combined, with pre-combination information restated.²⁸
- 4.4 Paragraphs 4.6–4.65 discuss:
- (a) input from stakeholders (paragraphs 4.6–4.9);
 - (b) how to measure the assets and liabilities received (paragraphs 4.10–4.19);
 - (c) how to measure the consideration paid (paragraphs 4.20–4.43);
 - (d) how to report any difference between the consideration paid and the book value of the assets and liabilities received (paragraphs 4.44–4.50);
 - (e) how to report transaction costs (paragraphs 4.51–4.56); and
 - (f) how to provide pre-combination information (paragraphs 4.57–4.65).

²⁶ In some cases, the transferring company’s book values are used.

²⁷ The date on which control of a company (or business) is transferred to the receiving company.

²⁸ In practice, retrospective restatement might apply only from the beginning of the reporting period or only from the date when the combining companies first came under common control by the controlling party.

- 4.5 This section focuses on the key features of a book-value method. The Board will consider the comments received on this Discussion Paper in deciding whether to confirm its preliminary views and develop detailed proposals on how the receiving company should apply a book-value method. Such future detailed proposals might address, for example, how to determine the book values of the assets and liabilities received when those book values are not readily available.

Stakeholder input

- 4.6 Stakeholder views on *how* a receiving company should apply a book-value method are often linked to their views on *when* and *why* the receiving company should apply that method (summarised in paragraphs 2.6–2.13). Paragraphs 4.7–4.9 discuss how stakeholder views on those topics are interrelated.

View A—business combinations under common control are different from business combinations covered by IFRS 3

- 4.7 As discussed in paragraphs 2.7–2.9, some stakeholders argue that a book-value method should be applied to all business combinations under common control. They argue that all such combinations are different from **business combinations** covered by IFRS 3 *Business Combinations*. These stakeholders view business combinations under common control from the perspective of the controlling party, which controls all combining companies both before and after the combination. In their view, the controlling party simply moves its economic resources from one ‘location’ to another within the group. To reflect the controlling party’s continuing control of the combining companies, these stakeholders typically advocate:
- (a) measuring the assets and liabilities received using the controlling party’s book values; and
 - (b) including the transferred company’s assets, liabilities, income and expenses in the receiving company’s financial statements retrospectively from the beginning of the earliest period presented as if the receiving company and transferred company had always been combined, with pre-combination information restated.

View B—business combinations under common control are similar to business combinations covered by IFRS 3

- 4.8 As discussed in paragraphs 2.10–2.11, some stakeholders argue that most, if not all, business combinations under common control are similar to business combinations covered by IFRS 3. These stakeholders view business combinations under common control from the perspective of the receiving company (rather than the perspective of the controlling party). However, they agree with using a book-value method in some cases for cost-benefit reasons and, in effect, view that method as a series of practical expedients that simplify the **acquisition method** and avoid, for example, the need to determine the fair value of assets and liabilities received. For these reasons, these stakeholders typically express the following views on how to apply a book-value method:
- (a) measuring the assets and liabilities received:
 - (i) some favour using the transferred company’s book values because that approach adopts the perspective of the combining companies rather than the controlling party’s perspective.
 - (ii) others favour using the controlling party’s book values because in some cases those values may be more up to date (see paragraph 4.11).

- (b) providing pre-combination information—they advocate including the transferred company’s assets, liabilities, income and expenses in the receiving company’s financial statements prospectively from the date of combination, which is consistent with the requirements in IFRS 3. Such a prospective approach does not restate pre-combination information.

View C—some business combinations under common control are similar to business combinations covered by IFRS 3 and others are not

4.9 As discussed in paragraphs 2.12–2.13, some stakeholders argue that business combinations under common control are not all similar to each other. In their view, some such combinations are similar to business combinations covered by IFRS 3 and other such combinations may not be similar. For the latter combinations, in their view, a book-value method should be used. These stakeholders express the following views on how to apply that method:

- (a) measuring the assets and liabilities received:
 - (i) some favour using the transferred company’s book values because such an approach treats the receiving company and the transferred company on the same basis and produces an outcome that is similar to **combined financial statements**.
 - (ii) others favour using the controlling party’s book values, for cost-benefit reasons. They suggest that using those book values may simplify internal reporting within the group and hence reduce the cost of reporting.
- (b) providing pre-combination information:
 - (i) some favour including the transferred company’s assets, liabilities, income and expenses in the receiving company’s financial statements retrospectively from the beginning of the earliest period presented, as if the receiving company and the transferred company had always been combined, with pre-combination information restated. In their view, this approach is consistent with the concept of combined financial statements (see paragraph 4.59) and provides useful information about the combined company.
 - (ii) others favour including the transferred company’s assets, liabilities, income and expenses in the receiving company’s financial statements prospectively from the date of the combination, without restating pre-combination information. They agree that pre-combination information for all combining companies could be useful. However, they argue that such information would be both subjective and costly to provide. In addition, they point out that such an approach would depict a combined company that in fact did not exist before the combination.

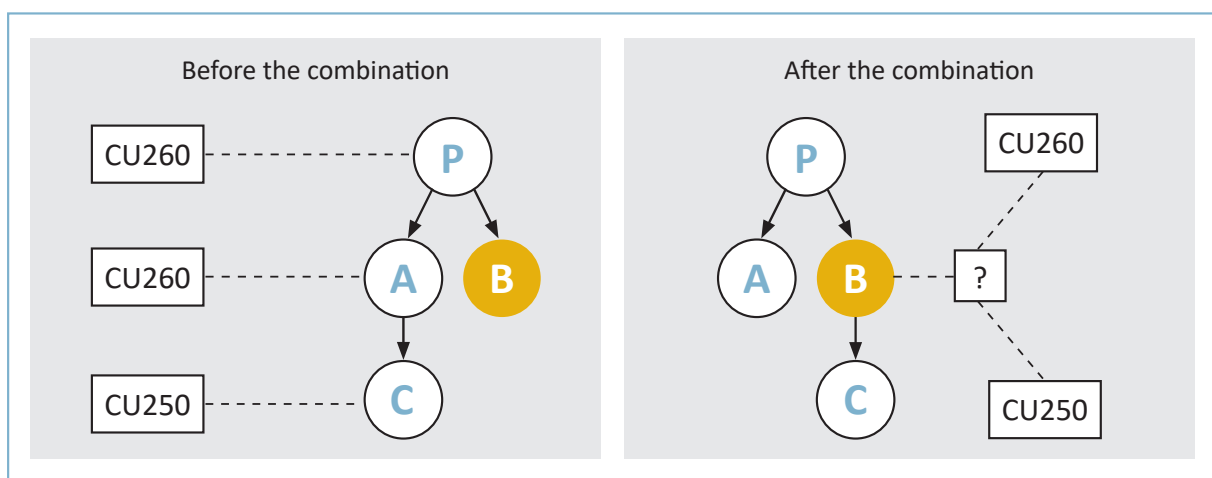
Measuring the assets and liabilities received

4.10 The Board considered whether the receiving company should measure the assets and liabilities received at the transferred company’s book values or at the controlling party’s book values.²⁹ Those book values would typically be identical if the controlling party has controlled the transferred company since the creation of that company. However, those book values could differ if, for example, the transferred company had previously been acquired from an external party (that is, a party outside the group), especially if that external acquisition was recent.

²⁹ Regardless of the approach used, the book values of the assets and liabilities received might need to be adjusted to align them with the receiving company’s accounting policies.

4.11 A difference between the transferred company's book values and the controlling party's book values is illustrated in the example in Diagram 4.1. In that example, Company P controls and wholly owns companies A, B and C. In the past, Company A acquired Company C from an external party. Applying the acquisition method, the assets and liabilities of Company C were measured at fair value at the acquisition date both by Company A, the immediate acquirer, and by Company P, the controlling party. Subsequently, Company C is transferred from Company A to Company B.³⁰ At the time of this business combination under common control, the book value of Company C's assets and liabilities in its financial statements is CU250,³¹ and the book value of those assets and liabilities in both Company A's and Company P's consolidated financial statements is CU260.³² The latter book value reflects a more recent valuation of Company C's assets and liabilities that was performed at the time when Company A acquired that company from the external party.

Diagram 4.1—Book values in a business combination under common control



4.12 In the example in Diagram 4.1, using the controlling party's book values to measure the assets and liabilities received in the business combination under common control would:

- (a) provide information based on a more recent valuation of the assets and liabilities of Company C, the transferred company. However, the controlling party's book values would typically not reflect the fair value of those assets and liabilities at the date of the business combination under common control, especially if the prior external acquisition occurred a long time ago.
- (b) be, arguably, inconsistent with the *Conceptual Framework for Financial Reporting (Conceptual Framework)* which focuses on information about transactions and events from the perspective of the company that prepares the financial statements—in this case, the receiving company.³³ From that perspective, the book values recorded by the controlling party, arguably, have no relation to the combination between Company B, the receiving company, and Company C, the transferred company, because the controlling party is not a party to that combination.

³⁰ In describing business combinations under common control, IFRS 3 requires that common control is not transitory. As discussed in paragraph 1.16, the Board has not yet considered whether to retain the notion of 'transitory control' and whether to clarify its meaning.

³¹ In this Discussion Paper, monetary amounts are denominated in 'currency units' (CU).

³² The amounts of CU250 and CU260 are both aggregate net amounts that comprise: (a) the total book value of the assets; minus (b) the total book value of the liabilities.

³³ Paragraph 3.8 of the *Conceptual Framework*.

- (c) treat the assets and liabilities of the combining companies, Company B and Company C, on a different basis. That is, following the combination, the assets and liabilities of Company B, the receiving company, would continue to be measured at the book values reported by that company whereas the assets and liabilities of Company C, the transferred company, would be measured at the book values reported by the controlling party. Such an approach means that different information would be provided about the assets and liabilities of the combining companies, depending on how the combination is structured (that is, depending on whether Company C is transferred to Company B or vice versa).
- 4.13 In contrast, using the transferred company's book values to measure the assets and liabilities received in the business combination under common control would:
- (a) provide uninterrupted historical information about Company C, the transferred company, that is useful in analysing trends;
- (b) present the combination from the perspective of the combining companies, Company B and Company C, rather than from the perspective of the controlling party; and
- (c) treat the assets and liabilities of the combining companies, Company B and Company C, on the same basis. That is, following the combination, each company's assets and liabilities would continue to be measured at the book values previously reported by that company. Such an approach would provide similar information about the assets and liabilities of the combining companies, irrespective of how the combination is structured (that is, irrespective of whether Company C is transferred to Company B or vice versa).
- 4.14 The Board considers that using the transferred company's book values, rather than the controlling party's book values, would be more consistent with the Board's reasons for requiring or permitting a book-value method in specified circumstances. Specifically, as discussed in paragraphs 2.24–2.27 and illustrated in Diagrams 2.3 and 2.4, using a book-value method for business combinations under common control that do not affect non-controlling shareholders would:
- (a) provide useful information to potential shareholders of the combining companies because the information produced by that method does not depend on how the combination is legally structured; and
- (b) avoid the difficulties that would arise if the acquisition method was applied because a book-value method does not rely on identifying the 'acquirer' in order to provide useful information.
- 4.15 Extending this logic to *how* a book-value method should be applied suggests that the assets and liabilities of each combining company should be treated on the same basis. That is, each company's assets and liabilities should continue to be measured at the book values previously reported by that company—instead of using different approaches for measuring the assets and liabilities of the combining companies depending on how the combination is legally structured.

- 4.16 The Board also considered the other arguments summarised in paragraphs 4.12–4.13 for using the transferred company’s book values or the controlling party’s book values. The Board acknowledged that, in principle, both information about more recent valuations (discussed in paragraph 4.12(a)) and uninterrupted historical information for analysing trends (discussed in paragraph 4.13(a)) could be useful to users of financial statements. However, the Board’s view is that from a conceptual standpoint, using the transferred company’s book values is more appropriate than using the controlling party’s book values because the controlling party is not a party to the combination of the receiving company with the transferred company.
- 4.17 From a practical perspective, the Board noted that whether the transferred company’s book values or the controlling party’s book values are less costly to use would depend on the facts and circumstances of each combination. For example, one factor that would affect the costs of applying a book-value method is whether the transferred company or the controlling party has prepared its financial statements applying IFRS Standards.
- 4.18 On the basis of the above analysis, the Board has reached the preliminary view that using the transferred company’s book values would be likely to provide the most useful information to users of the receiving company’s financial statements at a cost justified by the benefits of that information.

Applying a book-value method

The Board's preliminary view

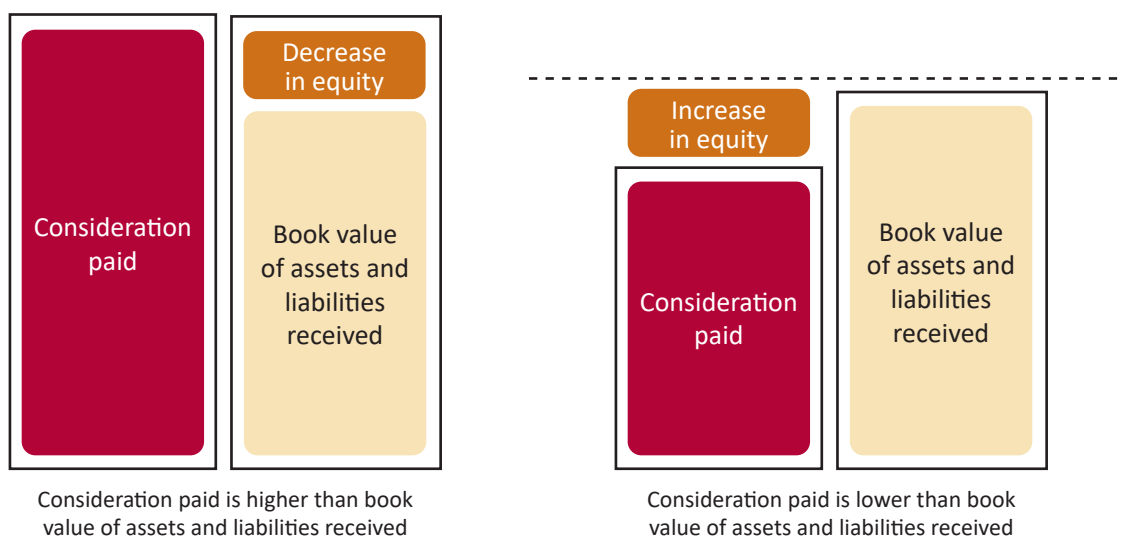
- 4.19 The Board has reached the preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should measure the assets and liabilities received using the transferred company’s book values.

Measuring the consideration paid

- 4.20 The consideration paid in a business combination under common control can take various forms. Research for this project indicates that the consideration is usually paid in cash or in the receiving company’s own **shares**, but sometimes in non-cash assets or by incurring or assuming liabilities.
- 4.21 That research also indicates that when a book-value method is applied in practice, the consideration paid is measured either at fair value or at book value or, in the case of the consideration paid in own shares, at their par value or a nominal value. Accordingly, the Board considered how the receiving company should measure the consideration paid:
- (a) in own shares (paragraphs 4.25–4.28);
 - (b) in assets (paragraphs 4.29–4.36); and
 - (c) by incurring or assuming liabilities (paragraphs 4.37–4.42).

- 4.22 As discussed in paragraph 3.5, the acquisition method generally measures both the consideration paid and the identifiable acquired assets and liabilities at fair value. Any difference between the fair value of the consideration and the fair value of those assets and liabilities is recognised as goodwill or, in unusual cases, as a gain on a bargain purchase. As also discussed in that paragraph, the acquisition method measures goodwill at an amount that is expected to reflect the fair value of the pre-existing goodwill in the acquired **business** and the price paid for any synergies expected from the combination (see Diagram 3.1 for the illustration of the key features of the acquisition method).
- 4.23 However, as discussed in paragraphs 4.10–4.19, a book-value method measures the assets and liabilities received at their book values rather than their fair values. In addition, book-value methods applied to business combinations under common control in practice typically do not recognise goodwill or a gain. Instead, any difference between the consideration paid and the book value of the assets and liabilities received is typically recognised as a decrease or an increase within the receiving company’s equity and, as discussed in paragraphs 4.44–4.50, the Board concurs with such an approach. Accordingly, the reasons for requiring fair value measurement of the consideration paid when applying the acquisition method do not apply to a book-value method.
- 4.24 The interaction between the key features of a book-value method, discussed in paragraph 4.23, is illustrated in Diagram 4.2.

Diagram 4.2—The key features of a book-value method



Consideration paid in own shares

- 4.25 The Board considered whether it should specify how the receiving company should measure the consideration paid in its own shares—for example, at their fair value or at their par value or a nominal value.

- 4.26 As explained in paragraph 4.23, there is an interaction between the question of how to measure the consideration paid and the question of how to report any difference between that consideration and the book value of the assets and liabilities received. In the Board's view, discussed in paragraphs 4.44–4.50, that difference should be recognised within equity. If that difference is recognised within equity, the measurement of the consideration paid in own shares would not affect the receiving company's assets, liabilities, income or expenses or its total equity, but could affect the amounts reported for particular components of the receiving company's equity.
- 4.27 The potential effects on the receiving company's financial statements of the measurement of the consideration paid in the receiving company's own shares are shown in Diagram 4.3. Continuing with the example presented in Diagram 4.1, Company B, the receiving company, issues 100 shares in consideration for Company C, the transferred company. Par value of Company B's shares is CU2 per share and their fair value at the combination date is CU2.7 per share. The book value of Company C's assets and liabilities in its financial statements at the combination date is CU250. The measurement approach for the consideration paid by issuing Company B's own shares could affect the amounts reported for particular components of Company B's equity, as illustrated in Diagram 4.3.

Diagram 4.3—Measuring consideration paid in own shares

<i>(all amounts are in CU)</i>	Issued shares at par value	Issued shares at fair value
Company B's equity		
Issued shares	200	270
Difference between the consideration paid and the book value of the assets and liabilities received	50	(20)
Net increase in equity	<u><u>250</u></u>	<u><u>250</u></u>

- 4.28 The reporting of components within a reporting company's equity and the measurement of issued shares for the purpose of that reporting are often affected by national requirements and regulations, and are generally not prescribed in IFRS Standards. For those reasons, the Board has reached a preliminary view that it should not prescribe how to measure the consideration paid in the receiving company's own shares.

Consideration paid in assets

- 4.29 The Board next considered how the receiving company should measure the consideration paid in assets—at the fair value of those assets or at their book value in the receiving company's financial statements at the date of combination. If the consideration is paid in cash, its fair value would also be its book value so both measurement approaches would produce the same outcome. However, if the consideration is paid in assets other than cash, the measurement of the consideration would affect whether the receiving company recognises a gain or loss on disposal of those assets in the statement of profit or loss, as follows:
- (a) if the consideration paid is measured at the book value of those assets, no gain or loss would be recognised.
 - (b) if the consideration paid is measured at the fair value of those assets, the receiving company would recognise a gain or loss on disposal of those assets if their book values differ from their fair values.

- 4.30 In addition, the measurement of the consideration paid in assets could affect the amounts reported for particular components of the receiving company's equity, just as occurs when the consideration is paid in the receiving company's own shares (as discussed in paragraph 4.27).
- 4.31 The potential effects on the receiving company's financial statements of measuring the consideration paid in assets other than cash at the fair value or at the book value of those assets are illustrated in Diagram 4.4. Continuing with the example presented in Diagram 4.1, Company B, the receiving company, transfers non-cash assets in consideration for Company C, the transferred company. The book value of those assets in Company B's financial statements at the combination date is CU220 and their fair value is CU270. The book value of Company C's assets and liabilities in its financial statements at the combination date is CU250. Depending on how the consideration paid by transferring non-cash assets is measured, Company B would or would not report a gain on disposal of those assets in the statement of profit or loss. In addition, the amounts reported for particular components of Company B's equity could also vary.

Diagram 4.4—Measuring the consideration paid in assets

<i>(all amounts are in CU)</i>	Assets transferred at book value	Assets transferred at fair value
Company B's statement of profit or loss		
Gain on disposal	–	50
Company B's equity		
Retained earnings or other appropriate component of equity	–	50
Difference between the consideration paid and the book value of the assets and liabilities received	30	(20)
Net effect on equity	30	30

- 4.32 As explained in paragraph 4.28, the Board does not generally prescribe the reporting of components within a reporting company's equity because this matter is often affected by national requirements and regulations. However, because the measurement of the consideration paid in assets other than cash would affect the amounts recognised in the receiving company's statement of profit or loss, the Board considered whether this form of consideration should be measured at the fair value of those assets or at their book value.
- 4.33 It could be argued that measuring the consideration paid in assets at the book value of those assets rather than at their fair value would result in different accounting outcomes depending on the structure of the transaction. For example, if the receiving company first sells the assets at their fair value, and then uses the cash proceeds as the consideration in the business combination under common control, it recognises a gain or loss on disposal of those assets in the statement of profit or loss. Alternatively, if the receiving company uses those assets as the consideration in the combination and measures the consideration at the book value of those assets, it will not recognise a gain or loss on disposal. This argument suggests that the consideration paid in assets should be measured at the fair value of those assets, which would result in similar information about the disposal of the assets, regardless of how that disposal occurred.

- 4.34 However, measuring the consideration paid in assets at their fair values could be costly and could involve significant measurement uncertainty. In contrast, such challenges would not arise if the assets are sold for cash and those cash proceeds are used as the consideration paid in the combination. It could also be argued that measuring the consideration paid in assets at their book values, rather than at their fair values, would be more consistent with measuring the assets and liabilities received at their book values. Such an approach would, arguably, be more appropriate if a business combination under common control is viewed as a single transaction—an exchange of the consideration for the business—rather than two separate transactions—a disposal of assets and an acquisition of a business.
- 4.35 Furthermore, information about the gain or loss on disposal may be of limited use to users of the receiving company's financial statements in business combinations under common control to which a book-value method would be applied. Under the Board's preliminary views set out in Section 2, such combinations would typically affect lenders and other creditors of the receiving company. As explained in paragraph 2.32(b), lenders and other creditors need information about the receiving company's cash flows and debt commitments, so they can assess the company's ability to service its existing debt and to raise new debt. That assessment would not depend greatly on information about a gain or loss on disposal of an asset.
- 4.36 Having considered the arguments discussed in paragraphs 4.33–4.35, the Board has reached the view that the benefits of measuring the consideration paid in assets at the fair value of those assets may not outweigh the costs of doing so. Therefore, the Board has reached the preliminary view that the receiving company should measure the consideration paid in assets at the receiving company's book values of those assets at the combination date.

Consideration paid by incurring or assuming liabilities

- 4.37 Finally, the Board considered how the receiving company should measure the consideration paid by incurring a liability to the **transferring company** or by assuming a liability of the transferring company to another party.
- 4.38 This form of consideration paid—and the related liability—could be measured at:
- (a) the fair value of the liability at the combination date; or
 - (b) the amount determined on initial recognition of the liability at the combination date applying IFRS Standards.
- 4.39 The Board considered the potential effects of those measurement approaches on the receiving company's financial statements. The measurement approach would affect:
- (a) the initial measurement of the liability; and
 - (b) the amount recognised within the receiving company's equity for any difference between the consideration paid and the book value of the assets and liabilities received.
- 4.40 However, in some cases, for example for financial liabilities, the applicable IFRS Standard would require measuring the liability on initial recognition at fair value. In those cases, both measurement approaches would produce the same outcome.

- 4.41 Except for the effects discussed in paragraphs 4.39–4.40, the measurement approach for the consideration paid by incurring or assuming a liability would not have any other effects on the receiving company’s financial statements at the combination date. Moreover, as stated in paragraphs 4.28 and 4.36, the Board has reached preliminary views that would not require the receiving company to measure other forms of consideration paid at fair value when applying a book-value method.
- 4.42 Accordingly, the Board has not identified convincing reasons to require the consideration paid by incurring or assuming liabilities to always be measured at fair value. Instead, the Board has reached a preliminary view that such consideration should be measured at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards. As stated in paragraph 4.40, in some cases the applicable IFRS Standard would require measuring the liability at fair value.

Applying a book-value method

The Board's preliminary views

- 4.43 The Board's preliminary views are that:
- (a) the Board should not prescribe how the receiving company should measure the consideration paid in own shares when applying a book-value method to a business combination under common control; and
 - (b) when applying that method, the receiving company should measure the consideration paid as follows:
 - (i) consideration paid in assets—at the receiving company’s book values of those assets at the combination date; and
 - (ii) consideration paid by incurring or assuming liabilities—at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards.

Reporting the difference between the consideration paid and assets and liabilities received

- 4.44 As discussed in paragraph 4.23, research for this project indicates that, in practice, when applying a book-value method, any difference between the consideration paid and the book value of the assets and liabilities received in a business combination under common control is typically recognised within the receiving company’s equity.
- 4.45 The Board considered whether it should require that approach or a different approach. Under IFRS Standards, changes in equity arise from one of two sources—from transactions with owners in their capacity as owners (such as a contribution of equity or a distribution of dividends to shareholders) or as a result of the company’s financial performance for the period. Economically, not all of the difference that may arise when applying a book-value method necessarily constitutes a contribution to, or distribution from, the receiving company’s equity, nor does all of it necessarily represent income or an expense. Instead, that difference may include one or more of the following components:

- (a) any difference between the consideration paid and what would have been paid to an unrelated party in an arm's length transaction. As discussed in paragraph 3.6, such a difference constitutes a contribution to or a distribution from the receiving company's equity.
 - (b) unrecognised goodwill, comprising the pre-existing goodwill in the transferred company and any synergies arising as a result of the combination. Applying a book-value method, such goodwill is not recognised because (among other reasons) the consideration paid in some business combinations under common control may not approximate the fair value of the acquired business together with the price for the expected synergies (see paragraphs 2.28–2.29). Accordingly, recognising goodwill in those circumstances might result in measuring goodwill at an arbitrary amount that does not provide useful information.
 - (c) other factors, such as measurement differences arising from measuring assets and liabilities received at their book values rather than their fair values and the effects of how the consideration paid is measured under a book-value method (discussed in paragraphs 4.20–4.43).
- 4.46 An approach that requires the difference described in paragraph 4.45 to be segregated into components could be costly and complex to apply. For example, determining whether any of that difference relates to differences between the book values and fair values of the assets and liabilities received would require the receiving company to determine those fair values. Moreover, as discussed in paragraphs 3.11–3.12, the Board has reached the view that a requirement to identify and measure components within the difference between the consideration paid and the fair value of the identifiable acquired assets and liabilities applying the acquisition method would be difficult, if not impossible, to apply in practice—those challenges would also arise if the Board were to require the receiving company to segregate the difference arising applying a book-value method into components. Finally, segregating that difference into components and recognising those components separately would, in effect, remove the differences between a book-value method and the acquisition method. Such an outcome would negate the Board's preliminary view, discussed in Section 2, that a book-value method should be applied to particular business combinations under common control.
- 4.47 Accordingly, the Board has reached the view that the receiving company should not be required to segregate into components any such difference arising when applying a book-value method. The Board has also reached the view that recognising that difference in the receiving company's equity is more appropriate than recognising it as an asset, liability, income or expense. The Board's reasons include that, in accordance with the Board's preliminary views set out in Section 2, a book-value method would be applied to business combinations under common control which might not be subject to any regulations applicable to related party transactions (see paragraphs 2.28–2.29) and which might therefore include a contribution to or distribution from the receiving company's equity (see paragraph 4.45(a)).
- 4.48 The Board next considered whether it should prescribe within which component of equity a receiving company should present any difference arising when applying a book-value method. In practice, locations for presenting this difference include:
- (a) reserves, for example, a special reserve (such as 'reorganisation reserve') or in general reserves;
 - (b) retained earnings or a similar component of equity; or
 - (c) share premium, additional paid-in-capital or a similar component of equity.

4.49 As discussed in paragraph 4.28, IFRS Standards generally do not prescribe within which component of equity particular amounts should be presented. Often, the presentation of components of equity depends on national laws, regulations or other requirements in particular jurisdictions. Accordingly, the Board has reached the preliminary view that it should not prescribe within which component of equity the receiving company should present any difference between the consideration paid and the book value of the assets and liabilities received.

Applying a book-value method

The Board's preliminary views

4.50 The Board's preliminary views are that:

- (a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and
- (b) the Board should not prescribe in which component, or components, of equity the receiving company should present that difference.

Reporting transaction costs

4.51 In undertaking business combinations under common control, companies might incur transaction costs, such as advisory, legal, accounting, valuation and other professional fees and the costs of issuing shares or debt instruments.

4.52 In developing its preliminary view on how such transaction costs should be treated under a book-value method, the Board considered:

- (a) the requirements of IFRS 3 and the rationale for those requirements; and
- (b) reporting practices applying a book-value method.

4.53 Under the acquisition method, transaction costs are recognised as expenses in the statement of profit or loss in the period in which they are incurred, with one exception. That exception is for the costs of issuing shares or debt instruments, which are accounted for in accordance with the applicable IFRS Standards.³⁴

4.54 In developing IFRS 3, the Board concluded that transaction costs incurred to effect a business combination are not part of the exchange between the buyer and the seller of the business. Rather, they are separate transactions in which the buyer pays for services received. Accordingly, the costs of those services received and consumed during the period should be recognised as expenses (except for costs to issue shares or debt instruments).³⁵ In practice, book-value methods typically use the same approach for transaction costs.

4.55 The Board has identified no reason for a book-value method to treat transaction costs differently from the approach required by IFRS 3. The approach required by IFRS 3 is also generally used in practice when applying a book-value method.

³⁴ IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*.

³⁵ Paragraphs BC365–BC370 of the Basis for Conclusions to IFRS 3.

The Board's preliminary view

4.56 The Board has reached the preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.

Providing pre-combination information

- 4.57 As discussed in paragraph 4.3, in some cases when applying a book-value method, companies combine the assets, liabilities, income and expenses of the transferred company retrospectively. In other words, the receiving company's financial statements are prepared as if the combining companies had always been combined, with pre-combination information restated to include the transferred company's assets, liabilities, income and expenses from the beginning of the earliest period presented. In other cases, companies combine those items prospectively, that is, from the date of the combination, as is required for business combinations covered by IFRS 3. The prospective approach does not require the receiving company to restate pre-combination information.
- 4.58 As discussed in paragraphs 4.14–4.15, in developing its preliminary views on how a book-value method should be applied, the Board considered the reasons for its preliminary view on when a book-value method should be applied to business combinations under common control. Specifically, as discussed in paragraphs 2.24–2.27 and illustrated in Diagrams 2.3 and 2.4, using a book-value method for business combinations under common control that do not affect non-controlling shareholders would:
- (a) provide useful information to potential shareholders of the combining companies because the information produced by that method does not depend on how the combination is legally structured; and
 - (b) avoid the difficulties that would arise if the acquisition method was applied because a book-value method does not rely on identifying the 'acquirer' in order to provide useful information.
- 4.59 Extending this logic to *how* a book-value method should be applied in relation to pre-combination information suggests that pre-combination information should be prepared in a way that does not depend on how the combination is legally structured. That is, the receiving company should combine the transferred company's assets, liabilities, income and expenses retrospectively, so the receiving company's financial statements are prepared as if the combining companies had always been combined. Such an approach would result in the same information being provided, regardless of how the combination is legally structured. Also, such an approach would be similar to the concept of combined financial statements discussed in the *Conceptual Framework*, which implies a retrospective approach.³⁶

³⁶ Paragraph 3.12 of the *Conceptual Framework*.

- 4.60 However, in discussing this issue, many users of financial statements and other stakeholders did not agree with using a retrospective approach in the primary financial statements. As explained in paragraph 4.9(b)(ii), although they agreed that pre-combination information for all combining companies could be useful, they expressed a view that such a retrospective approach would provide a picture of a group in a period when that group did not exist. Some stakeholders call such information ‘pro forma’ (or hypothetical) information and consider it inappropriate to include such information in primary financial statements. Some stakeholders also expressed concerns that preparing such information may involve significant judgement and uncertainty. Finally, some stakeholders pointed out that historical information about each of the combining companies would typically be required by capital market regulations if the combination is undertaken in preparation for an initial public offering.
- 4.61 From a practical perspective, the Board noted that the retrospective approach would be more costly to apply than a prospective approach. Furthermore, the two approaches would provide different information only in the financial statements for the period in which the combination occurs (including when presenting comparative information) and in the financial statements for the following period (only when presenting comparative information). The differences between the approaches would not cause differences in the financial statements for later periods.
- 4.62 After considering the stakeholder input and analysis summarised in paragraphs 4.57–4.61, the Board has reached the view that the benefits of information provided by a retrospective approach may be limited and may not outweigh the costs of providing that information. Accordingly, the Board has reached the preliminary view that the receiving company should combine the transferred company’s assets, liabilities, income and expenses prospectively from the combination date. (However, that preliminary view would not preclude requiring the receiving company to disclose pre-combination information in the notes to its financial statements. That issue is discussed in paragraphs 5.23–5.25.)
- 4.63 The Board next considered whether it should provide application guidance on identifying the receiving company for accounting purposes or whether the legal structure of the transaction should determine this in all cases. This question arises because a prospective approach provides pre-combination information for the receiving company only. For example, Diagram 2.4 in Section 2 illustrates a combination of two wholly-owned subsidiaries in preparation for an initial public offering. Because the combination could be structured in various ways, the question is whether only the legal structure of the transaction should always determine which company is the receiving company for accounting purposes. An alternative approach might be to develop application guidance on identifying which company is the receiving company for accounting purposes. As explained in paragraph 2.27, IFRS 3 already provides application guidance on identifying the acquirer for accounting purposes when applying the acquisition method, such as in reverse acquisitions. However, as explained in paragraph 2.27, that guidance may not help with identifying which company is the receiving company in the circumstances when a book-value method would be applied.

4.64 As discussed in paragraph 4.58(b), one of the Board’s reasons for its preliminary view that a book-value method should be applied to business combinations under common control that do not affect non-controlling shareholders is the difficulty of identifying the acquirer in a way that would provide useful information (see paragraphs 2.26–2.27). A similar difficulty would be likely to arise if the Board were to require companies to look beyond the legal structure of the combination when applying a book-value method and to consider other facts and circumstances to identify the receiving company for accounting purposes. Also, when using a book-value method, identifying the receiving company does not affect the recognition and measurement of the assets, liabilities, income and expenses at the combination date or subsequently—as explained in paragraph 4.61, only pre-combination information is affected. Accordingly, in the Board’s view, the costs of requiring companies to look beyond the legal structure of the combination to identify the receiving company when applying a book-value method are likely to outweigh the benefits of the information provided by such an approach. Hence, the Board has reached the view that it should not develop application guidance on identifying the receiving company when applying a book-value method that considers factors other than the legal structure of the transaction.

Applying a book-value method

The Board's preliminary view

4.65 The Board has reached the preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information.

Questions for respondents

Applying a book-value method

Question 6

Paragraphs 4.10–4.19 discuss the Board’s preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should measure the assets and liabilities received using the transferred company’s book values.

Do you agree with the Board’s preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Applying a book-value method

Question 7

Paragraphs 4.20–4.43 discuss the Board’s preliminary views that:

- (a) the Board should not prescribe how the receiving company should measure the consideration paid in its own shares when applying a book-value method to a business combination under common control; and
- (b) when applying that method, the receiving company should measure the consideration paid as follows:
 - (i) consideration paid in assets—at the receiving company’s book values of those assets at the combination date; and
 - (ii) consideration paid by incurring or assuming liabilities—at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards.

Do you agree with the Board’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Applying a book-value method

Question 8

Paragraphs 4.44–4.50 discuss the Board’s preliminary views that:

- (a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and
- (b) the Board should not prescribe in which component, or components, of equity the receiving company should present that difference.

Do you agree with the Board’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Applying a book-value method

Question 9

Paragraphs 4.51–4.56 discuss the Board’s preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.

Do you agree with the Board’s preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Question 10

Paragraphs 4.57–4.65 discuss the Board’s preliminary view that, when applying a book-value method to a business combination under common control, the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information.

Do you agree with the Board’s preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

Section 5—Disclosure requirements

- 5.1 This section discusses what information the Board should require **receiving companies** to disclose in the notes about **business combinations under common control** to improve the transparency of reporting these combinations. In practice, companies often provide little information, particularly when applying a **book-value method**.
- 5.2 When developing its preliminary views on disclosure, the Board considered:
- (a) its preliminary views on when and how the **acquisition method** and a book-value method should apply to business combinations under common control;
 - (b) the disclosure requirements in IFRS 3 *Business Combinations*, together with possible improvements to those requirements, as discussed in the Board's Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (IFRS 3 Discussion Paper);³⁷ and
 - (c) the fact that business combinations under common control are related party transactions, which means that in some cases the terms of such combinations might differ from those of an arm's length transaction.
- 5.3 Paragraphs 5.5–5.28 discuss:
- (a) disclosure when applying the acquisition method (paragraphs 5.5–5.12); and
 - (b) disclosure when applying a book-value method (paragraphs 5.13–5.28).
- 5.4 The Board's discussion on disclosure is necessarily preliminary, because:
- (a) decisions on disclosure in the context of a particular method are linked to decisions about when and how that method applies, and the Board's preliminary views expressed in Sections 2–4 might change after considering feedback on this Discussion Paper;
 - (b) the Board's preliminary views set out in its IFRS 3 Discussion Paper might change after it considers feedback on that Discussion Paper; and
 - (c) the Board has not yet fully developed the book-value method it would require.

Disclosure when applying the acquisition method

- 5.5 Section 2 discusses the Board's preliminary view that the acquisition method should be applied to business combinations under common control that affect **non-controlling shareholders** of the **receiving company** (with an exemption and an exception, as set out in paragraph 2.47). One of the Board's reasons for its preliminary view is that business combinations under common control that affect non-controlling shareholders of the receiving company are similar to **business combinations** covered by IFRS 3. Furthermore, the composition of users of the receiving company's financial statements is similar in both cases. Hence, as discussed in paragraph 2.22, the common information needs of those users in such business combinations are also similar. Therefore, the Board's preliminary view is that, in principle, the disclosure requirements in IFRS 3, together with possible improvements to those requirements set out in the IFRS 3 Discussion Paper, should also apply to business combinations under common control when the acquisition method is used.

³⁷ This Discussion Paper was published in March 2020 and is open for comments until 31 December 2020.

- 5.6 Requiring the same disclosures about those business combinations under common control as are required for business combinations covered by IFRS 3 would be consistent with the practice of some companies that apply the disclosure requirements in IFRS 3 to business combinations under common control reported using the acquisition method.
- 5.7 In addition to developing its overall approach to establishing disclosure requirements for these combinations, the Board considered each of the disclosure requirements in IFRS 3 and each possible improvement to those requirements discussed in the IFRS 3 Discussion Paper. The Board has found no reason to exclude any of those requirements or any of those improvements for business combinations under common control when the acquisition method is used.
- 5.8 The Board also considered whether additional information should be required for those combinations. In particular, a feature of business combinations under common control is that such combinations may not be priced at arm's length, because they involve **related parties**. Therefore, as discussed in paragraph 3.3, the amount of the consideration paid might differ from the amount that would have been paid to an unrelated party in an arm's length transaction. Hence, the Board considered whether it should require additional disclosure about the terms of these combinations to help users of the financial statements understand how the amount of the consideration paid was determined and whether it was reasonable (see paragraph 3.15).
- 5.9 The Board's preliminary views on possible improvements to the IFRS 3 disclosure requirements discussed in the IFRS 3 Discussion Paper would help address the issue discussed in paragraph 5.8. These possible improvements include the disclosure of additional information to help users of the financial statements assess whether the price paid in a business combination was reasonable, such as information about expected synergies.³⁸ The Board considers that such information would also be useful to users of the receiving company's financial statements in a business combination under common control reported applying the acquisition method.
- 5.10 Furthermore, IAS 24 *Related Party Disclosures* applies to business combinations under common control. In particular, that Standard requires the disclosure of information about the nature of the related party relationship, the amount of the consideration paid and any outstanding balances.³⁹ IAS 24 also states that disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.
- 5.11 The Board considered whether those requirements in IAS 24 are sufficient to require the receiving company to provide users of its financial statements with the information they need about the terms of a business combination under common control. The Board noted that those requirements would need to be applied together with the requirements in IFRS 3 (including any improved requirements resulting from the IFRS 3 Discussion Paper) when disclosing information about business combinations under common control, for example, information about the terms of those combinations. The Board has reached the preliminary view that it should provide application guidance to help companies apply those disclosure requirements to such combinations. For example, that guidance could explain that companies should disclose information about the governance process over the terms of the combination, such as whether those terms were supported by an independent appraisal or were subject to an approval process involving shareholders or the governing body of the receiving company.

³⁸ See Section 2 of the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (IFRS 3 Discussion Paper) for more information (for example, paragraphs 2.53–2.68).

³⁹ Paragraph 18 of IAS 24.

The Board's preliminary views

- 5.12 The Board's preliminary views are that for business combinations under common control to which the acquisition method applies:
- (a) the receiving company should be required to comply with the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*; and
 - (b) the Board should provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 *Related Party Disclosures* when providing information about those combinations, particularly information about the terms of the combination.

Disclosure when applying a book-value method

- 5.13 Section 2 discusses the Board's preliminary views that a book-value method should apply to all business combinations under common control that do not affect non-controlling shareholders of the receiving company, and some combinations that affect such shareholders in specified circumstances (see paragraphs 2.34 and 2.47). The Board has reached the view that those combinations may not be similar to business combinations covered by IFRS 3 (see paragraphs 2.24–2.29). For example, those combinations involve no change in ultimate **ownership interests** in the economic resources transferred in the combination. Furthermore, if there are no non-controlling shareholders in the receiving company, the composition of users that rely on the receiving company's financial statements for their information needs is also different from business combinations covered by IFRS 3. Specifically, those users only include potential shareholders and existing and potential lenders and other creditors. As a result, the common information needs of those users in such business combinations under common control may also differ from user information needs in business combinations covered by IFRS 3. In addition, the cost-benefit considerations may also be different in those cases.
- 5.14 Section 4 discusses the Board's preliminary views on how a book-value method should be applied to business combinations under common control, in particular, how to measure the assets and liabilities received and the consideration paid, and what pre-combination information should be provided.
- 5.15 The matters discussed in Sections 2 and 4 affect what information the Board should require companies to disclose about those business combinations under common control to which a book-value method would be applied. Specifically, those matters affect the nature and extent of the information necessary to meet common user information needs, as well as whether the benefits of disclosing particular information outweigh the associated costs.
- 5.16 In identifying possible disclosure requirements for such combinations when a book-value method applies, the Board considered the disclosure requirements in IFRS 3 as a starting point. However, in the Board's view, because of the differences in both common user information needs and the cost-benefit trade-off, as well as the differences between how a book-value method and the acquisition method would be applied, only some of the disclosure requirements in IFRS 3 would be appropriate when a book-value method applies.

- 5.17 The Board has reached the preliminary view that the requirement in IFRS 3 for companies to provide information to help users of financial statements evaluate the nature and financial effect of the combination is appropriate for business combinations under common control.⁴⁰ The Board has also reached the preliminary view that the related possible requirement discussed in the IFRS 3 Discussion Paper, for companies to provide information to help users understand the benefits expected from the combination, is also appropriate for these combinations.
- 5.18 However, the specific information needed to meet these requirements might differ from the information needed for business combinations covered by IFRS 3. For example, the benefits expected from the combination might include synergies and other benefits for the **controlling party** and the group it controls. Information about those other benefits might be necessary for users of the receiving company's financial statements to understand the nature and effect of the combination.
- 5.19 The Board has also reached the preliminary view that when a book-value method is used, companies should be required to disclose:
- (a) the name and a description of the **transferred company**, the combination date, the percentage of voting equity interests transferred to the receiving company, the primary reasons for the combination and a description of how the receiving company obtained control (paragraphs B64(a)–(d) of IFRS 3);
 - (b) the recognised amounts of each major class of assets received and liabilities assumed, including information about recognised amounts of liabilities arising from financing activities and defined benefit pension liabilities (paragraph B64(i) of IFRS 3 and the related preliminary view discussed in the IFRS 3 Discussion Paper);
 - (c) the carrying amount of any non-controlling interest in the transferred company (paragraph B64(o) of IFRS 3);
 - (d) aggregate information for individually immaterial combinations that are material collectively (paragraph B65 of IFRS 3);
 - (e) information about combinations that occur after the end of the reporting period but before the financial statements are authorised for issue (paragraph B66 of IFRS 3);
 - (f) the amount and an explanation of any gain or loss recognised in the current reporting period that relates to assets and liabilities received in a business combination under common control that occurred in the current or previous reporting period, if such disclosure is relevant to understanding the receiving company's financial statements (paragraph B67(e) of IFRS 3); and
 - (g) whatever additional information is necessary to meet the disclosure requirements discussed in paragraph 5.17 (paragraph 63 of IFRS 3).
- 5.20 However, in the Board's preliminary view, other disclosures required by IFRS 3 should not be required for business combinations under common control to which a book-value method is applied. For example, the Board's view is that it should not require disclosure of the combination-date fair value of the consideration transferred, such as the fair value of non-monetary assets transferred (paragraph B64(f) of IFRS 3). The Board's preliminary views on measuring the consideration transferred when applying a book-value method would not require fair value measurement (see paragraphs 4.20–4.43) and, in the Board's view, the costs of disclosing such information would outweigh the benefits.

⁴⁰ Paragraph 59 of IFRS 3.

5.21 Table 5.1 summarises those disclosure requirements set out in IFRS 3 (including possible improvements to those requirements discussed in the IFRS 3 Discussion Paper) which, in the Board’s preliminary view, should not be required for business combinations under common control to which a book-value method applies. Table 5.1 also notes the main reason for the Board’s view on each requirement (although more than one reason applies in some cases).

Table 5.1—IFRS 3 disclosures that should not be required when a book-value method is applied

Main reason for the Board’s preliminary view	Disclosure requirement
These combinations may not be similar to combinations covered by IFRS 3	Strategic rationale, management’s objectives for the acquisition and subsequent performance of the acquisition (preliminary view discussed in the IFRS 3 Discussion Paper relating to paragraph B64(d) of IFRS 3)
	Description, timing and estimated amount of expected synergies (preliminary view discussed in the IFRS 3 Discussion Paper relating to paragraph B64(e) of IFRS 3)
The book-value method differs from the acquisition method	Description of factors that make up acquired goodwill and reconciliation of its carrying amount at the beginning and at the end of the reporting period (paragraphs B64(e) and B67(d) of IFRS 3)
	Description and estimate of financial effects of contingent liabilities recognised (paragraphs B64(j) and B67(c) of IFRS 3)
	Amount of gain recognised in a bargain purchase (paragraph B64(n) of IFRS 3)
The costs of providing the information outweigh the benefits	Fair value of the consideration transferred and of each major class of consideration at the acquisition date (paragraph B64(f) of IFRS 3)
	Fair value and gross contractual amount of acquired receivables (paragraph B64(h) of IFRS 3)
	Amount of goodwill deductible for tax purposes (paragraph B64(k) of IFRS 3)
	Pro forma information for the current period as though the acquisition had occurred at the beginning of the annual reporting period (paragraph B64(q) of IFRS 3 and the related preliminary view discussed in the IFRS 3 Discussion Paper)
The Board has not yet discussed all aspects of a book-value method and the disclosure relates to a matter not yet considered	Amount at the acquisition date (and subsequent changes in that amount) and description of contingent consideration and indemnification assets (paragraphs B64(g) and B67(b) of IFRS 3)
	Description and amount recognised for separate transactions (paragraphs B64(l) and B64(m) of IFRS 3)
	Fair value of the equity interest in the acquiree in a business combination achieved in stages (paragraph B64(p) of IFRS 3)
	Information to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods (paragraphs 61, 62 and B67(a) of IFRS 3)

- 5.22 In addition to considering the disclosure requirements in IFRS 3 and the possible improvements to those requirements, the Board considered whether it should specify any other disclosure requirements for business combinations under common control when a book-value method applies.
- 5.23 In particular, the Board considered whether it should require disclosure of pre-combination information. Section 4 explains that the Board reached the preliminary view that the assets, liabilities, income and expenses of the transferred company should be combined with those of the receiving company prospectively, from the combination date, without restating pre-combination information. However, that preliminary view would not preclude requiring the receiving company to disclose pre-combination information in the notes to its financial statements.
- 5.24 For example, the Board could require a complete set of pre-combination information for all the combining companies, such as a full or condensed set of **combined financial statements**. Alternatively, the Board could require limited pre-combination information, such as the revenue and profit or loss of the combined company for the current reporting period, as if the combination had occurred at the beginning of the reporting period (as required by paragraph B64(q)(ii) of IFRS 3). (The IFRS 3 Discussion Paper discusses possible improvements to this requirement, such as adding a requirement to disclose cash flows from operating activities.)
- 5.25 In considering whether it should require disclosure of pre-combination information, the Board noted feedback from users of financial statements that such information could be useful, for example, in performing trend analysis. However, some stakeholders (including preparers of financial statements) argued that this information is costly to prepare, for example, when it would be necessary to align accounting policies of the combining companies retrospectively rather than prospectively. On balance, in the Board's view, the benefits of the disclosure of pre-combination information in the circumstances when a book-value method is applied would not outweigh the costs of doing so. Accordingly, the Board has reached the preliminary view that it should not require the disclosure of pre-combination information.
- 5.26 The Board next considered its preliminary view, as discussed in paragraphs 4.44–4.50, that when a book-value method applies:
- (a) any difference between the amount of the consideration paid and the book value of the assets and liabilities received should be recognised within the receiving company's equity; and
 - (b) the Board would not prescribe the component, or components, of equity within which that difference should be presented.
- 5.27 In the Board's view, information about that difference would be useful to users of the receiving company's financial statements. Accordingly, the Board has reached the preliminary view that the receiving company should disclose the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received, together with the component, or components, of equity that includes this difference.

The Board's preliminary views

5.28 The Board's preliminary views are that for business combinations under common control to which a book-value method applies:

- (a) some, but not all, of the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*, are appropriate (as summarised in paragraphs 5.17 and 5.19);
- (b) the Board should not require the disclosure of pre-combination information; and
- (c) the receiving company should disclose:
 - (i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and
 - (ii) the component, or components, of equity that includes this difference.

Questions for respondents

Question 11

Paragraphs 5.5–5.12 discuss the Board's preliminary views that for business combinations under common control to which the acquisition method applies:

- (a) the receiving company should be required to comply with the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*; and
- (b) the Board should provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 *Related Party Disclosures* when providing information about these combinations, particularly information about the terms of the combination.

Do you agree with the Board's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Question 12

Paragraphs 5.13–5.28 discuss the Board’s preliminary views that for business combinations under common control to which a book-value method applies:

- (a) some, but not all, of the disclosure requirements in IFRS 3 *Business Combinations*, including any improvements to those requirements resulting from the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*, are appropriate (as summarised in paragraphs 5.17 and 5.19);
- (b) the Board should not require the disclosure of pre-combination information; and
- (c) the receiving company should disclose:
 - (i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and
 - (ii) the component, or components, of equity that includes this difference.

Do you agree with the Board’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

Appendix A—Terms used in this Discussion Paper

In general, this Discussion Paper uses simple, non-technical language (as discussed in the Introduction). However, the following terms are used in this Discussion Paper with meanings specified in this appendix.

acquisition method	The method required in IFRS 3 <i>Business Combinations</i> to account for business combinations within the scope of that Standard.
book-value method	<p>A method in which a receiving company measures assets and liabilities received in a business combination under common control using the book values (carrying amounts) of those assets and liabilities determined by applying IFRS Standards.</p> <p>A variety of book-value methods are used in practice and various labels are used for those methods, including the predecessor method, the pooling (or uniting) of interests method or merger accounting. This Discussion Paper uses the term ‘book-value method’ as a collective term for all these methods.</p>
business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating income from ordinary activities. ⁴¹
business combination	A transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are sometimes called mergers or acquisitions. ⁴²
business combination under common control	<p>A business combination in which all of the combining companies or businesses are ultimately controlled by the same party, both before and after the combination.⁴³</p> <p>For simplicity, this Discussion Paper uses this term to refer to all transactions within the scope of the project (as described in paragraphs 1.12–1.16), irrespective of whether those transactions meet the definition of a business combination in IFRS 3.</p>
combined financial statements	The financial statements of a reporting entity that comprises two or more entities that are not all linked by a parent-subsidary relationship. ⁴⁴ The <i>IFRS for SMEs</i> [®] Standard describes an approach to preparing combined financial statements (for example, intercompany transactions and balances are eliminated). ⁴⁵

⁴¹ Appendix A of IFRS 3.

⁴² Appendix A of IFRS 3.

⁴³ Paragraphs B1–B4 of IFRS 3.

⁴⁴ Paragraph 3.12 of the *Conceptual Framework*.

⁴⁵ Paragraph 9.29 of the *IFRS for SMEs* Standard.

controlling party	<p>The party or parties that control all of the combining companies both before and after a business combination under common control. IFRS 3 explains that in these combinations, the controlling party could be a company, an individual or, in specified circumstances, a group of individuals.⁴⁶ For simplicity, this Discussion Paper uses examples of business combinations under common control in which the controlling party is a company, rather than an individual or a group of individuals. For example, in Diagram 1.1, the controlling party is Company P.</p> <p>In some combinations, there may exist more than one party that controls all of the combining companies both before and after the combination. For example, if Company P in Diagram 1.1 was controlled by another party—say Company U—then both companies U and P would be a ‘controlling party’ because both companies would control companies A, B and C. In this case, Company U would be the ultimate controlling party.</p>
non-controlling shareholders	<p>Shareholders other than the controlling party (sometimes called minority shareholders). For example, in Diagram 2.2, if 70% of shares in Company B, the receiving company, are held by the controlling party and the other 30% of its shares are held by other parties, those other parties are non-controlling shareholders in Company B.</p> <p>For simplicity, this Discussion Paper uses the term ‘shareholders’ to refer to all holders of the company’s equity instruments, as defined in IAS 32 <i>Financial Instruments: Presentation</i>, and the term ‘shares’ to refer to all those equity instruments (also see the definition of the term ‘shares’).</p>
ownership interest	<p>An economic interest held in a company by its shareholders. This Discussion Paper uses the term ‘ownership interest’ broadly to refer not only to the shareholders’ legal interest in the company’s shares, but also to their economic interest in the economic resources of that company and of its subsidiaries.</p>
privately held	<p>Shares that are not traded in a public market or a company whose shares are not traded in a public market.</p>
public market	<p>A domestic or foreign stock exchange or an over-the-counter market, including local and regional markets.⁴⁷</p>
publicly traded	<p>Shares that are traded in a public market or a company whose shares are traded in a public market.</p>
related party	<p>A related party as defined in IAS 24 <i>Related Party Disclosures</i>.⁴⁸</p>
receiving company	<p>The company to which control of a company (or business) is transferred in a business combination under common control. For example, in Diagram 1.1, Company B is the receiving company. The term ‘receiving company’ refers not only to the immediate receiving company but also to those parent companies (if any) of that immediate receiving company that did not control the transferred company before the combination.</p>

⁴⁶ Paragraphs B2 and B3 of IFRS 3.

⁴⁷ 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*.

⁴⁸ Paragraph 9 of IAS 24.

shares	Equity instruments, as defined in IAS 32, issued by the receiving company. For simplicity, this Discussion Paper focuses on receiving companies with simple capital structures, comprising only ordinary shares that meet the definition of an equity instrument and simple debt instruments that meet the definition of a liability. In the next phase of the project, the Board will consider the implications of more complex instruments.
transferred company	The company (or business) that is transferred from one company to another in a business combination under common control. For example, in Diagram 1.1, Company C is the transferred company.
transferring company	The company that loses control of one or more companies (or businesses) in a business combination under common control. For example, in Diagram 1.1, Company A is the transferring company. The term ‘transferring company’ refers not only to the immediate transferring company, but also to those parent companies (if any) of that immediate transferring company that also lose control of the transferred company as a result of the combination.

Appendix B—Scope of the project

- B.1 Paragraphs 1.10–1.23 of Section 1 discuss the scope of the project. This appendix elaborates on:
- which transactions are within the project’s scope (paragraphs B.2–B.12);
 - which company’s reporting of those transactions is considered in the project (paragraphs B.13–B.15); and
 - in which types of financial statements those transactions are reported (paragraphs B.16–B.18).

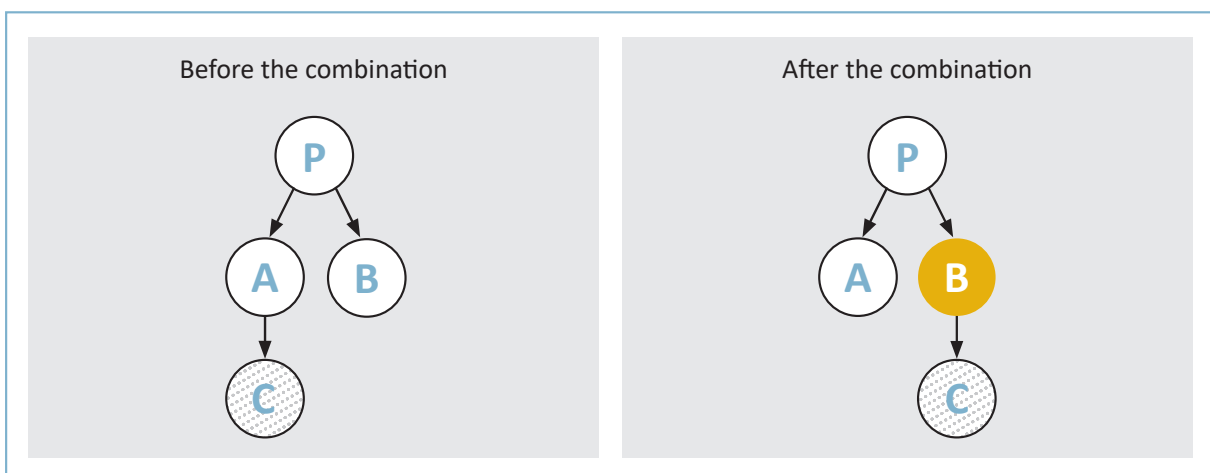
Which transactions are within the project’s scope?

- B.2 Paragraph 1.13 explains that the project is not considering reporting requirements for transactions involving companies under common control that do not involve the transfer of a **business**, for example, transfers of assets. Examples 1 and 2 illustrate transactions that are outside the scope of the project.
- B.3 Paragraphs 1.15–1.16 explain the Board’s preliminary view that it should develop proposals for reporting by the **receiving company** of all transfers of a business under common control, irrespective of whether the transfer:
- is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or
 - is conditional on a sale of the combining companies to an external party, such as in an initial public offering.
- B.4 Examples 3 and 4 illustrate transactions that are within the project’s scope.

Example 1—A transfer of a company that does not have a business

- B.5 In Example 1, control of Company C is transferred from Company A to Company B. All three companies are ultimately controlled by Company P. However, Company C does not have a business—it has no business activities and its only asset is vacant land.

Diagram B.1—A transfer of a company that does not have a business

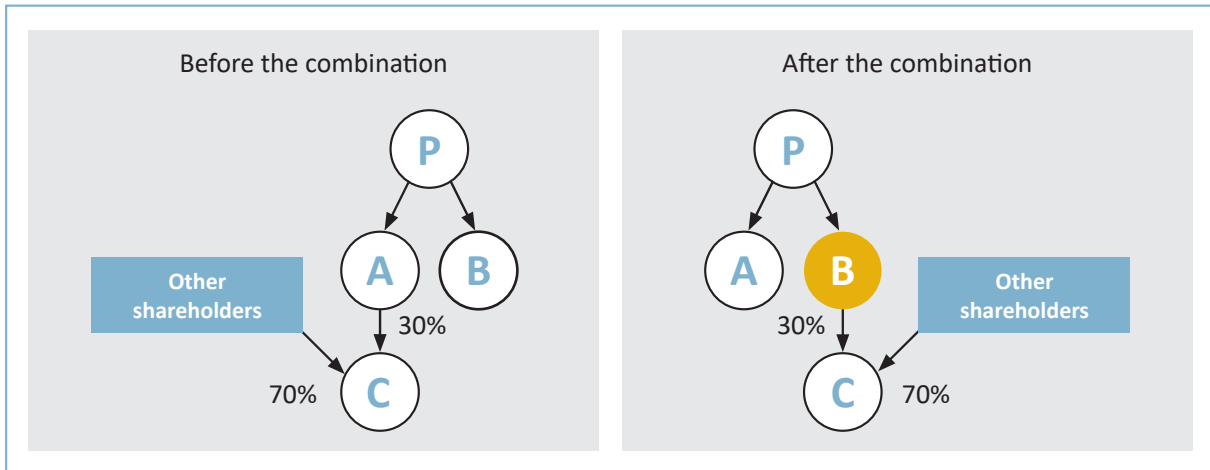


B.6 In this transaction, the transfer of Company C to Company B results in Company B receiving an asset, not a business. Therefore, this transaction is outside the scope of the project.

Example 2—A transfer of an associate

B.7 In Example 2, Company A has an investment in an associate, Company C. Company A transfers its investment in Company C to Company B. Companies A and B are controlled by Company P.

Diagram B.2—A transfer of an associate

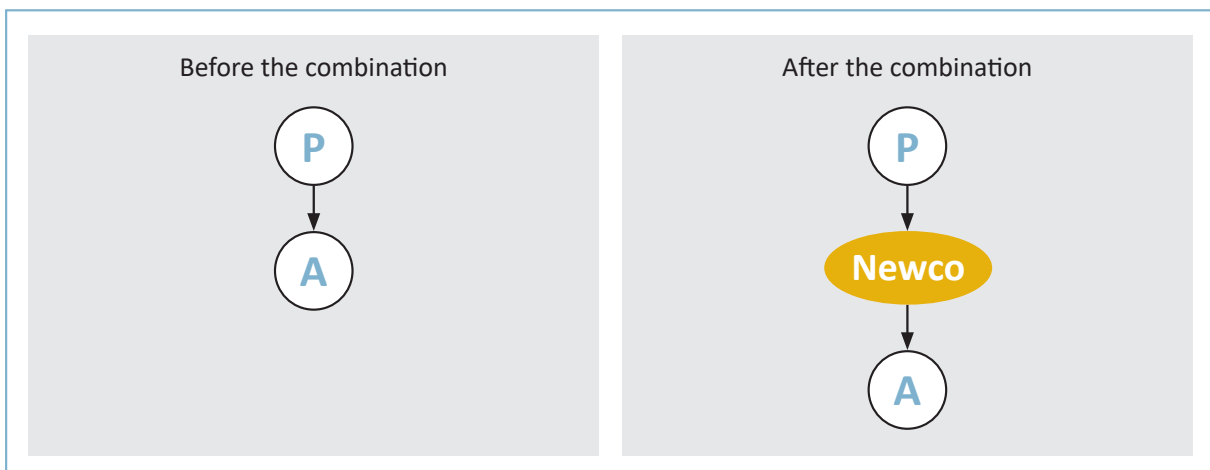


B.8 In this transaction, Company B receives an asset—an investment in an associate, Company C—not a business. Therefore, this transaction is outside the scope of the project.

Example 3—A transfer of a business that may not meet the definition of a business combination

B.9 In Example 3, Company A is controlled by Company P. Company P forms a new company, Newco, and transfers control of Company A to Newco.

Diagram B.3—A transfer of a business that may not meet the definition of a business combination

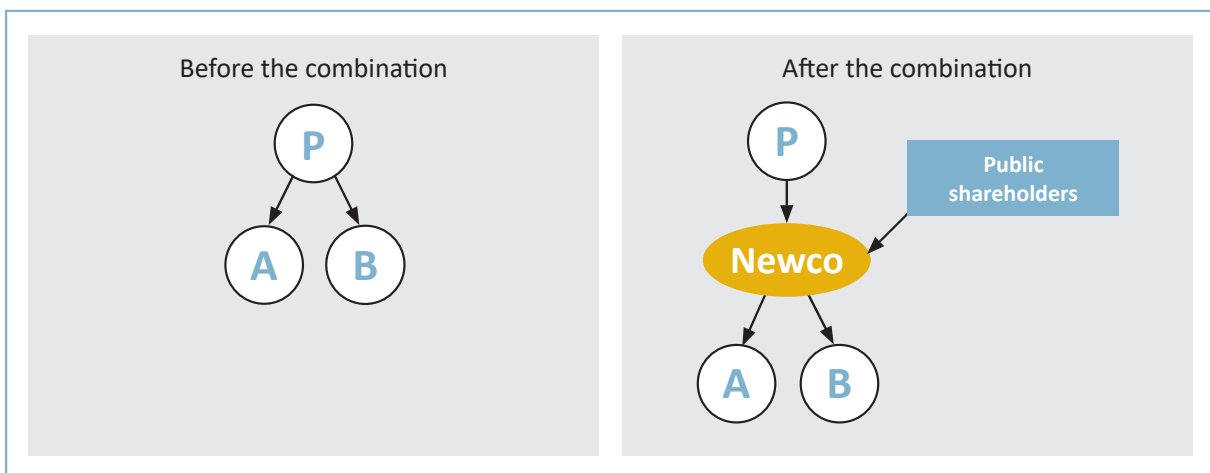


B.10 IFRS 3 *Business Combinations* defines a **business combination** as a transaction or other event in which an acquirer obtains control of one or more businesses.⁴⁹ Paragraph B18 of IFRS 3 limits the circumstances when a new company formed to effect a business combination can be identified as the acquirer. If Newco cannot be identified as the acquirer in the ‘combination’ of Newco and Company A, the only other possible ‘acquirer’ in that ‘combination’ would be Company A—that is, the transaction would be viewed as Company A acquiring Newco (rather than the other way around). However, because Newco is a newly established company, it could be just a legal shell that does not have a business. If Newco does not have a business, the transaction would not meet the definition of a business combination. Nevertheless, the transaction involves a transfer of a business, Company A, under common control. Therefore, applying the Board’s preliminary view, the transaction is within the scope of the project.

Example 4—A combination that is conditional on an external sale in an initial public offering

B.11 In Example 4, companies A and B are controlled by Company P. In preparation for an initial public offering, Company P forms a new company, Newco. Control of Companies A and B is transferred to Newco, but that transfer is conditional on the success of the initial public offering of **shares** in Newco. If that offer is successful, Company P will lose control of Newco, Company A and Company B.

Diagram B.4—A combination that is conditional on an external sale in an initial public offering



B.12 In this situation, questions might arise about whether Company P’s control of Newco is ‘transitory’ and, therefore, whether the combination of Newco with companies A and B is a **business combination under common control** as described in IFRS 3. Nevertheless, applying the Board’s preliminary view, the combination is within the scope of the project.

⁴⁹ Appendix A of IFRS 3.

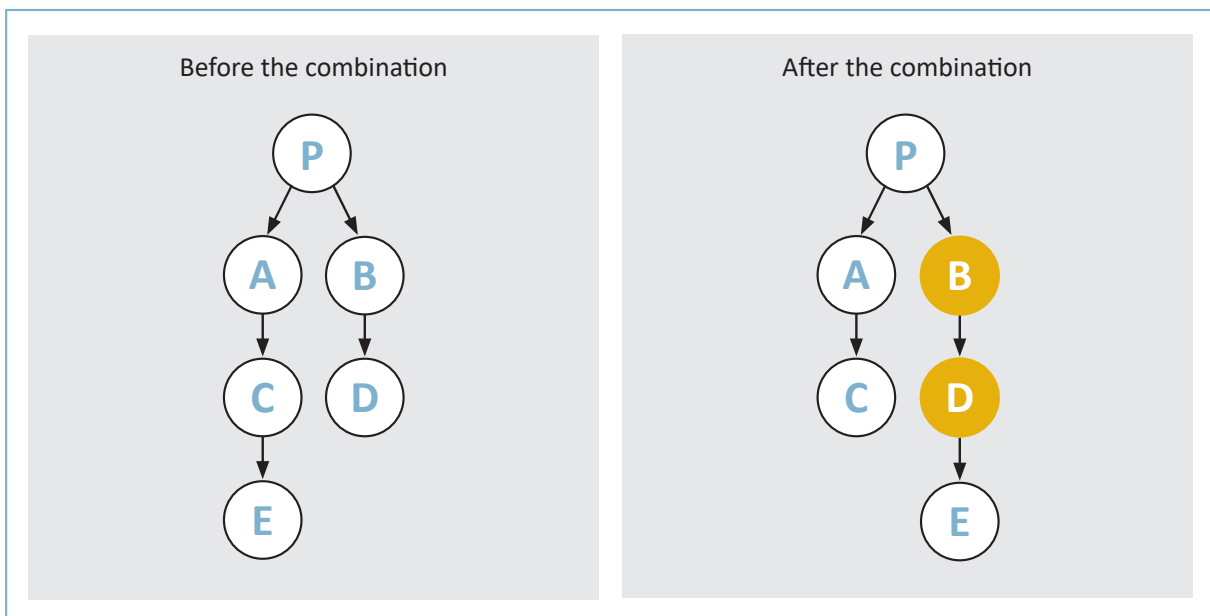
Which company's reporting?

B.13 Paragraphs 1.17–1.19 explain that the project is considering possible reporting requirements for a receiving company in a business combination under common control. However, the term 'receiving company' refers not only to the immediate receiving company in the combination. It also refers to those parent companies (if any) of that immediate receiving company that did not control the **transferred company** before the combination. Example 5 illustrates a business combination under common control in which there is more than one receiving company.

Example 5—A combination with more than one receiving company

B.14 In Example 5, companies A, B, C, D and E are all ultimately controlled by Company P. Control of Company E is transferred from Company C to Company D. After the combination, Company E's immediate parent is Company D, whose immediate parent is Company B.

Diagram B.5—A combination with more than one receiving company



B.15 Companies B and D are both receiving companies in the combination because the combination resulted in both companies gaining control of Company E—Company D now controls Company E as its immediate parent, and Company B now controls Company E through its control of Company D. Accordingly, possible reporting requirements explored by the Board in this project would apply to both companies B and D. They would not apply to any of the other companies.

Which types of financial statements?

B.16 Paragraphs 1.20–1.23 explain which types of financial statements prepared by the receiving company would be subject to possible reporting requirements explored by the Board in this project.

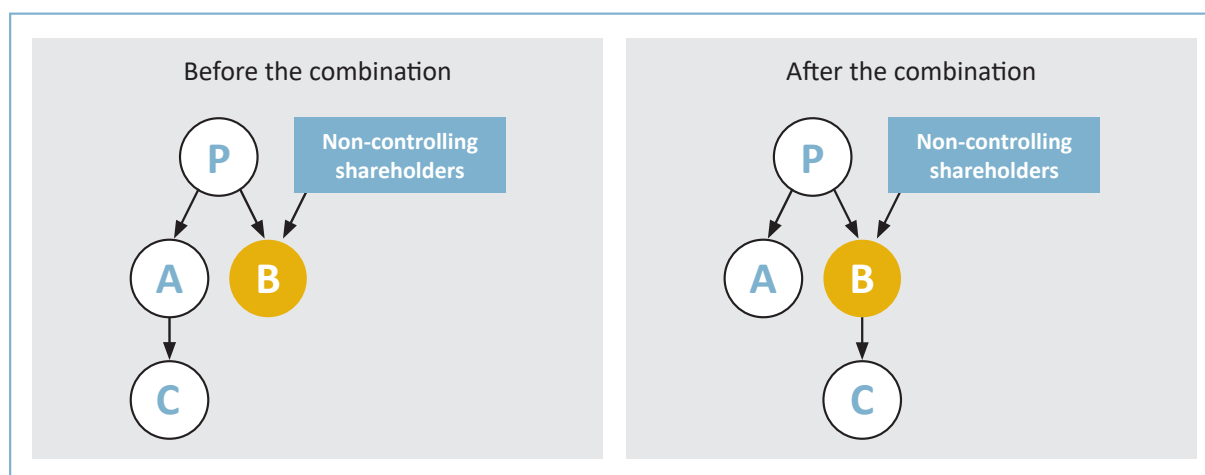
- B.17 Specifically, for the transfer of a company, those possible reporting requirements:
- (a) would apply to the receiving company's consolidated financial statements.
 - (b) would *not* apply to the receiving company's separate financial statements. As discussed in paragraph 1.23, the project is not addressing how the receiving company should report in its separate financial statements an investment in a subsidiary received in a business combination under common control.
- B.18 Furthermore, if the combination involves the transfer of an unincorporated business, those possible reporting requirements would apply as follows:
- (a) if the receiving company has subsidiaries, those requirements would apply to both consolidated and separate financial statements of the receiving company.
 - (b) if the receiving company does not have any subsidiaries, but has an investment in an associate or a joint venture, those requirements would apply to both individual and separate financial statements of the receiving company.
 - (c) if the receiving company does not have any subsidiaries, associates or joint ventures, those requirements would apply to the individual financial statements of the receiving company.⁵⁰

⁵⁰ Separate financial statements are those that report a company's investments in subsidiaries, joint ventures and associates at cost or by applying one of the other methods permitted by IAS 27 *Separate Financial Statements*. The term 'individual financial statements' is sometimes used to refer to the financial statements of a company with no subsidiaries.

Appendix C—Measuring distributions from equity

- C.1 Section 3 sets out the Board’s preliminary view that it should not develop a requirement for the **receiving company** to identify, measure and recognise a distribution from equity when applying the **acquisition method** to a **business combination under common control**.
- C.2 If the Board were, nevertheless, to require the receiving company to identify and recognise a distribution, it would need to consider how the receiving company should measure that distribution. This appendix discusses two possible approaches:
- measuring a distribution as the excess of the fair value of the consideration transferred over the fair value of the acquired **business** (the fair-value-based approach) (paragraphs C.6–C.8); and
 - measuring a distribution by applying the requirements on testing goodwill for impairment in IAS 36 *Impairment of Assets* (the impairment-based approach) (paragraphs C.9–C.10).
- C.3 This Appendix uses a simple example of a business combination under common control illustrated in Diagram C.1 to explain how those possible approaches would apply.

Diagram C.1—A business combination under common control



- C.4 In the example in Diagram C.1, control of Company C is transferred from Company A to Company B. Suppose that:
- the fair value of Company C’s identifiable assets and liabilities is CU90;⁵¹
 - the fair value of Company C’s business is CU100; and
 - the fair value of the consideration paid by Company B is CU130 (see Diagram C.2).

⁵¹ The amount of CU90 is an aggregate net amount that comprises: (a) the total fair value of the assets; minus (b) the total fair value of the liabilities.

- C.5 Applying the acquisition method, the receiving company, Company B, will measure goodwill as a residual amount—the excess of the fair value of the consideration paid over the fair value of the identifiable acquired assets and liabilities.⁵² In this example, this residual amount is CU40 (CU130 minus CU90). If the consideration paid of CU130 includes a distribution from equity, a requirement to measure that distribution would entail finding a way to divide the excess consideration of CU40 between that distribution and goodwill. Paragraphs C.6–C.10 outline two possible approaches considered by the Board. Paragraph C.11 includes a diagram that summarises these two approaches.

The fair-value-based approach

- C.6 The fair-value-based approach would require the receiving company, Company B, to measure:
- (a) a distribution from equity as the excess of the fair value of the consideration paid (CU130) over the fair value of the acquired business (CU100). That excess is CU30 in the example in Diagram C.1; and
 - (b) goodwill at the excess of the fair value of the acquired business (CU100) over the fair value of the identifiable acquired assets and liabilities (CU90). That excess is CU10 in the example in Diagram C.1.
- C.7 As discussed in paragraph 3.5, in a **business combination** between unrelated parties, goodwill reflects both:
- (a) the fair value of the pre-existing goodwill in the acquired business; and
 - (b) the price paid for any synergies expected from the combination.
- C.8 In contrast, the fair-value-based approach would limit the initial measurement of goodwill to the first element—the fair value of the pre-existing goodwill in the acquired business. The receiving company would therefore, in effect, include the price paid for any synergies expected from the combination in measuring the distribution from equity, not in measuring goodwill. Accordingly, this approach would understate goodwill and overstate the distribution from equity if the consideration paid includes a price paid for expected synergies (see Diagram C.2). Also, this approach would typically involve significant measurement uncertainty and be costly to apply, because it would require the receiving company to measure the fair value of the acquired business.

⁵² Paragraph C.5 summarises requirements explained more precisely in paragraph 32 of IFRS 3.

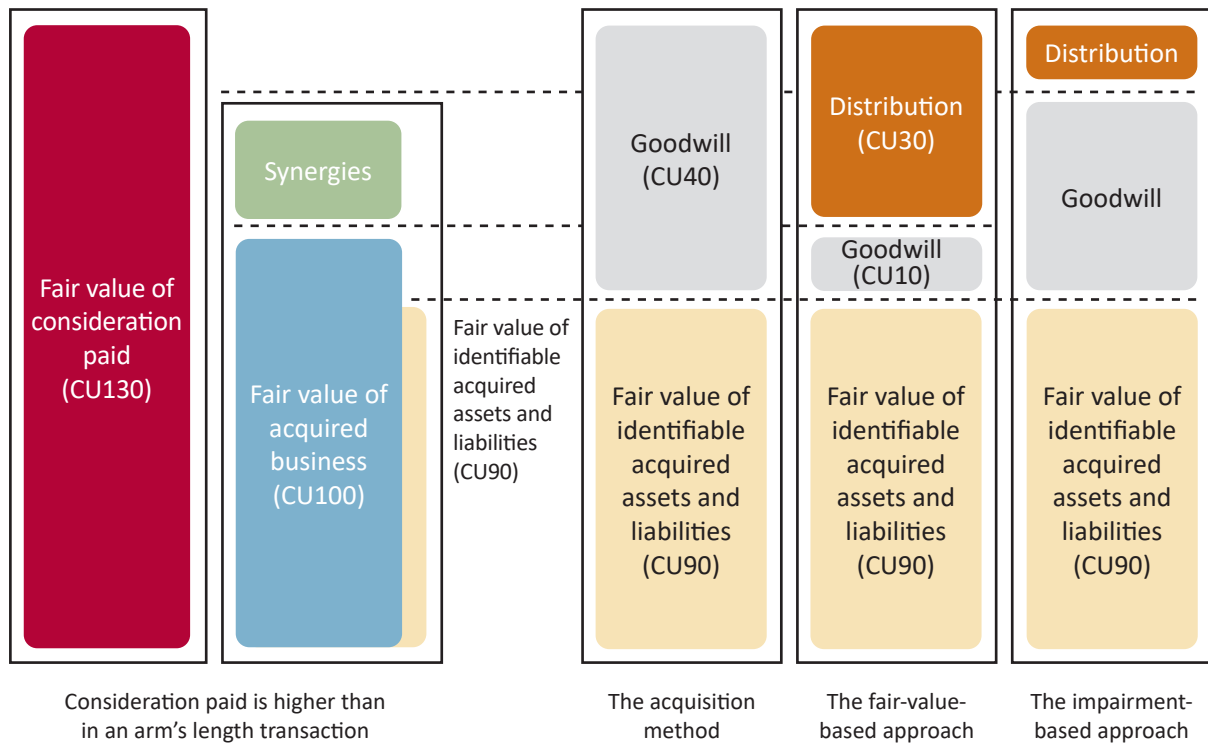
The impairment-based approach

- C.9 The impairment-based approach would build on the requirements in IAS 36 on testing goodwill for impairment. Hence, unlike the fair-value-based approach, this approach would not introduce a new type of measurement or require the receiving company to measure the fair value of the acquired business. Instead, it would use the goodwill impairment test as a means of allocating the excess consideration paid in a business combination under common control over the fair value of the identifiable acquired assets and liabilities (CU40 in the example in Diagram C.1) between goodwill and a distribution from equity. The impairment-based approach would require the receiving company, Company B, to:
- (a) apply the goodwill impairment test at the combination date;
 - (b) measure goodwill at the recoverable amount calculated in the impairment test; and
 - (c) treat any excess goodwill over that recoverable amount as a distribution from equity rather than as an impairment loss.
- C.10 However, this approach might not allow the receiving company to identify appropriately which portion of the consideration paid is a distribution from equity rather than goodwill. This portion is difficult to identify because the goodwill impairment test requires allocating goodwill to cash-generating units and does not measure the recoverable amount of goodwill directly.⁵³ If the recoverable amount of the cash-generating unit containing an allocation of goodwill exceeds the book value of that unit, no impairment loss and no distribution from equity would be identified and recognised, even if goodwill is in fact not recoverable (see Diagram C.2).

Summary of the two approaches

- C.11 Diagram C.2 illustrates how the fair-value-based approach and the impairment-based approach would work in theory. It assumes that:
- (a) the consideration paid is higher than the consideration that would have been paid in an arm's length transaction between unrelated parties;
 - (b) the fair value of the acquired business can be estimated without significant measurement uncertainty; and
 - (c) the goodwill impairment test is able to measure the excess of the consideration paid over the sum of (i) the fair value of the acquired business, and (ii) the price that would have been paid for expected synergies in an arm's length transaction between unrelated parties.

⁵³ In the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*, the Board expressed the preliminary view that significantly improving the effectiveness of the impairment test for goodwill at a reasonable cost is not feasible.

Diagram C.2—Possible approaches to measuring a distribution from equity

C.12 As discussed in Section 3, the Board has reached the preliminary view that it should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a business combination under common control. The Board did not discuss which, if any, of the two approaches discussed in paragraphs C.6–C.10 it should propose if it were to require companies to recognise a distribution from equity.



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Snapshot

Business Combinations under Common Control

This Snapshot provides an overview of the Discussion Paper *Business Combinations under Common Control* published by the International Accounting Standards Board (Board).

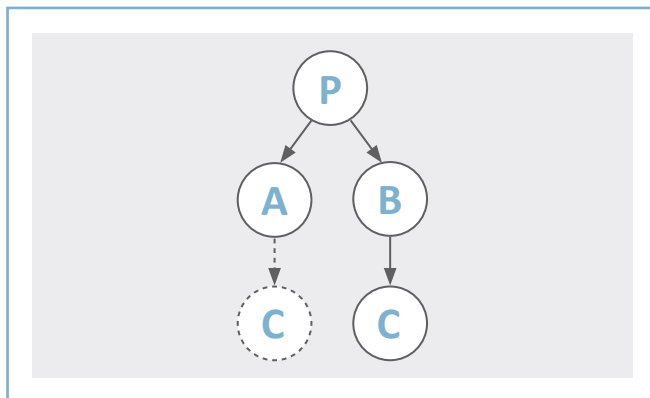
The Board's objective:	To explore possible reporting requirements for business combinations under common control that would reduce diversity in practice, improve transparency in reporting these combinations and provide users of financial statements with better information.
Project stage:	The Board has published a Discussion Paper that sets out its preliminary views. The Board is seeking comments on: <ul style="list-style-type: none">• the selection of the measurement method;• how to apply each measurement method; and• the disclosure of information about these combinations.
Next steps:	The Board will consider the comments received on the Discussion Paper before deciding whether to develop an exposure draft containing proposals to implement any or all of its preliminary views.
Comment deadline:	1 September 2021

Why is the Board undertaking this project?

What are business combinations under common control?

Business combinations under common control are mergers and acquisitions involving companies within the same group. Diagram 1 shows a simple example of a business combination under common control. Companies A, B and C are all controlled by the same party, Company P. Company C is transferred from Company A to Company B.

Diagram 1—A business combination under common control



What problem is the project trying to solve?

IFRS 3 *Business Combinations* sets out reporting requirements for business combinations and requires the use of the acquisition method. However, no IFRS Standard specifically applies to business combinations under common control.

As a result of this gap in IFRS Standards, companies report these combinations in different ways. In some cases, they use the acquisition method. That method measures the assets and liabilities received in the combination at fair value and recognises goodwill. In other cases, companies use a book-value method. That method measures those assets and liabilities at their existing book values. There is a variety of book-value methods used in practice. Furthermore, companies often provide little information about these combinations.

The project is considering whether and when the acquisition method and a book-value method should be used for business combinations under common control to provide users of financial statements with better information about these combinations.

What has the Board heard?

Diversity in practice makes it difficult for investors to understand the effects of these transactions and to compare companies that undertake them.

These combinations are common in many countries around the world, particularly in emerging economies.

Developing reporting requirements for these combinations should be a priority. Listed companies and those preparing for listing are a particular concern.

What is the scope of the project?

The project focuses on filling the gap in IFRS Standards.

Which transactions?

The project is considering transfers of businesses under common control. In Diagram 2, Company C is a business, and its transfer is therefore within the scope of the project. The project is not considering transfers of assets under common control or transfers of companies that do not have a business.

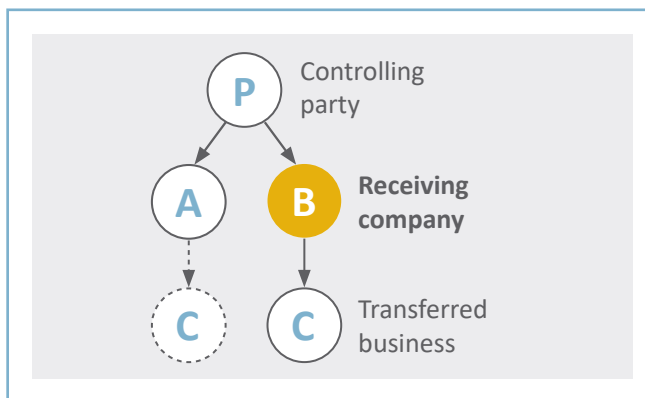
Which company?

The project is considering reporting by the receiving company. In Diagram 2, the receiving company is Company B. The project is not considering reporting by other parties affected by the transaction.

Which financial statements?

The possible reporting requirements explored in the project will typically affect the receiving company's consolidated financial statements only.

Diagram 2—Illustrating the scope of the project



The possible reporting requirements explored in this project would apply, for example, to receiving companies that are listed on a stock exchange and to those preparing for listing.

Users of financial statements

This project focuses on the information needs of users of the receiving company's financial statements who must rely on that company's financial statements for much of the information they need. Such users are the receiving company's existing non-controlling shareholders, potential shareholders, and its lenders and other creditors.

The project does not seek to address the controlling party's information needs. In Diagram 2, the controlling party is Company P. The controlling party controls the receiving company and, therefore, can direct that company to provide the information the controlling party needs. It does not need to rely on the receiving company's financial statements for that information.

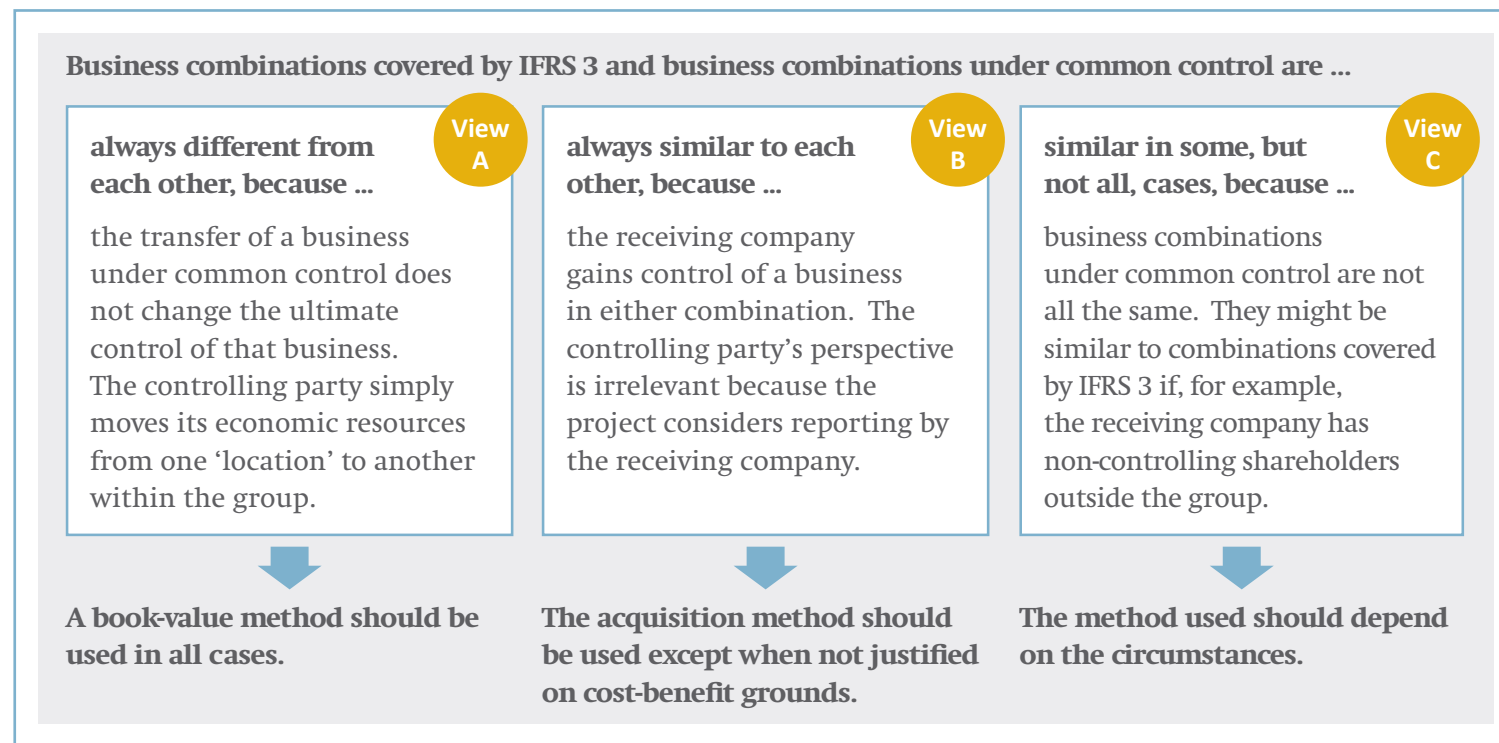
When to apply each method—introduction

How did the Board reach its preliminary views?

The Board considered:

- whether and when business combinations under common control are similar to business combinations covered by IFRS 3;
- what information would be useful to investors and other users of the receiving company's financial statements;
- the trade-off between the costs and the benefits of providing particular information; and
- whether particular approaches would be complex, or could create opportunities to structure transactions to achieve a particular accounting outcome.

What has the Board heard?



The Board's view is that one size does not fit all—for some business combinations under common control, the acquisition method should be used, and for the others a book-value method should be used.

When to apply each method—outside shareholders

Combinations that affect non-controlling shareholders

Diagrams 3 and 4 illustrate a business combination and a business combination under common control that affect non-controlling shareholders of the receiving company. In both scenarios, Company B gains control of Company C. As a result, non-controlling shareholders acquire an ownership interest in the economic resources transferred in the combination in both scenarios. From the point of view of both the receiving company and those shareholders, the transactions are similar.

The users of the receiving company's financial statements are also similar in both scenarios and comprise its existing non-controlling shareholders, potential shareholders, and its lenders and other creditors. Because both the combinations are similar and the users of the financial statements are similar, the users' information needs about these combinations are similar too.

The Board's view is that the acquisition method should be used for combinations that affect non-controlling shareholders, subject to the cost-benefit trade-off.

Diagram 3—Non-controlling shareholders: Combination covered by IFRS 3

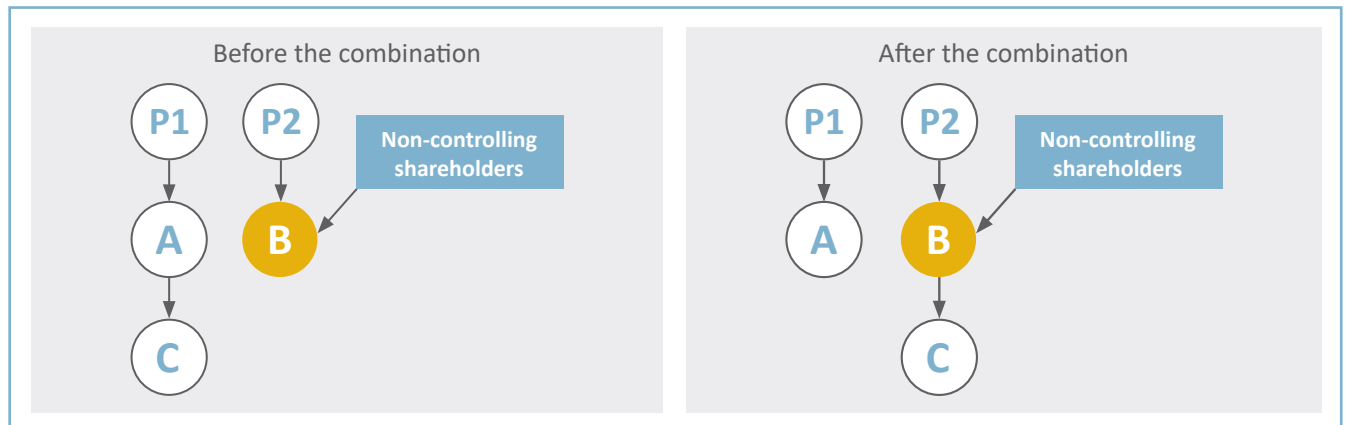
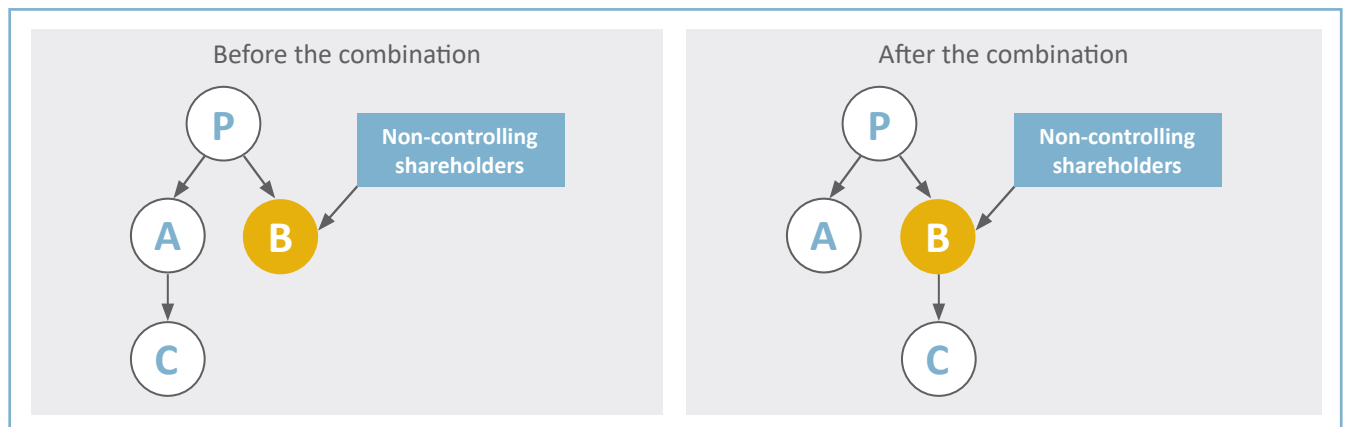


Diagram 4—Non-controlling shareholders: Common control



When to apply each method—costs and benefits

What has the Board heard?

The acquisition method should be applied only if the ownership interest of non-controlling shareholders is ‘substantive’.

The costs of applying the acquisition method might not be justified when those shareholders have only a ‘small’ ownership interest.

If all of the receiving company’s shareholders are its related parties, the costs of applying the acquisition method might not be justified.

Opportunities to structure transactions to achieve a particular accounting outcome might arise if the acquisition method is required for *all* combinations that affect non-controlling shareholders.

Receiving company’s shares are publicly traded

The Board’s view is that the costs of applying the acquisition method would be justified for publicly traded companies. Typically, listing requirements or capital market regulations would:

- prevent the listing of a ‘small’ number of shares; and
- limit how many shares can be held by the company’s related parties.

Therefore, the Board’s view is that publicly traded receiving companies should be required to apply the acquisition method.

Receiving company’s shares are privately held

The Board’s view is that the costs of applying the acquisition method might not always be justified for privately held companies and is therefore suggesting special conditions for such companies, namely:

An optional exemption—a privately held receiving company would be *permitted* to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use that method and they have not objected.

A related-party exception—a privately held receiving company would be *required* to use a book-value method if all non-controlling shareholders are related parties of the company.

The Board is not suggesting that the related-party exception to or the optional exemption from the acquisition method should apply to publicly traded companies. However, the Board is seeking feedback about whether (and, if so, how) the exception or the exemption should also apply to such companies.

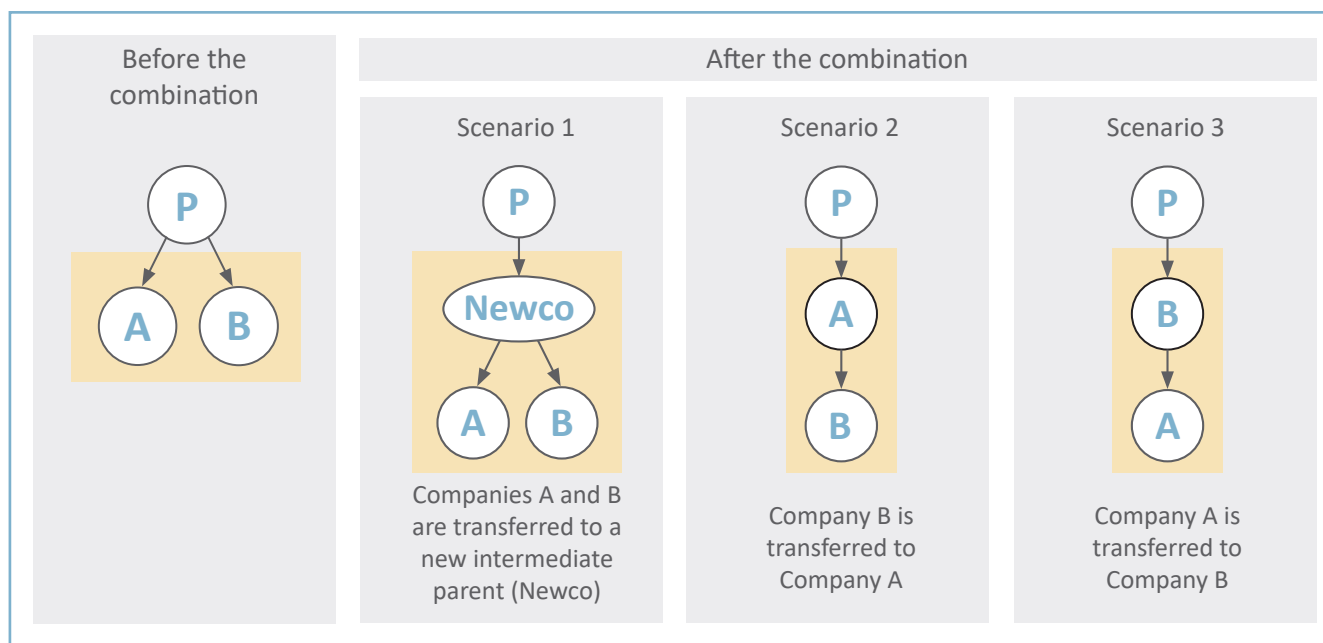
When to apply each method—no outside shareholders

Combinations that do not affect non-controlling shareholders

In Diagram 5, the controlling party, Company P, decides to restructure its wholly-owned subsidiaries, companies A and B, in preparation for an initial public offering. It could undertake that restructuring in various ways. However, in all scenarios potential shareholders would be investing in the same economic resources, as indicated by the shaded area in Diagram 5.

A book-value method would provide useful information about these combinations to potential shareholders of the combining companies, because the information produced by that method does not depend on how the combination is structured. A book-value method would also avoid the difficulties that could arise if the acquisition method was applied to combinations that do not affect non-controlling shareholders. For example, it would avoid the need to decide which company is the 'economic' acquirer. That decision is fundamental in applying the acquisition method but could be difficult to make for combinations illustrated in Diagram 5.

Diagram 5—Group restructuring in preparation for an initial public offering



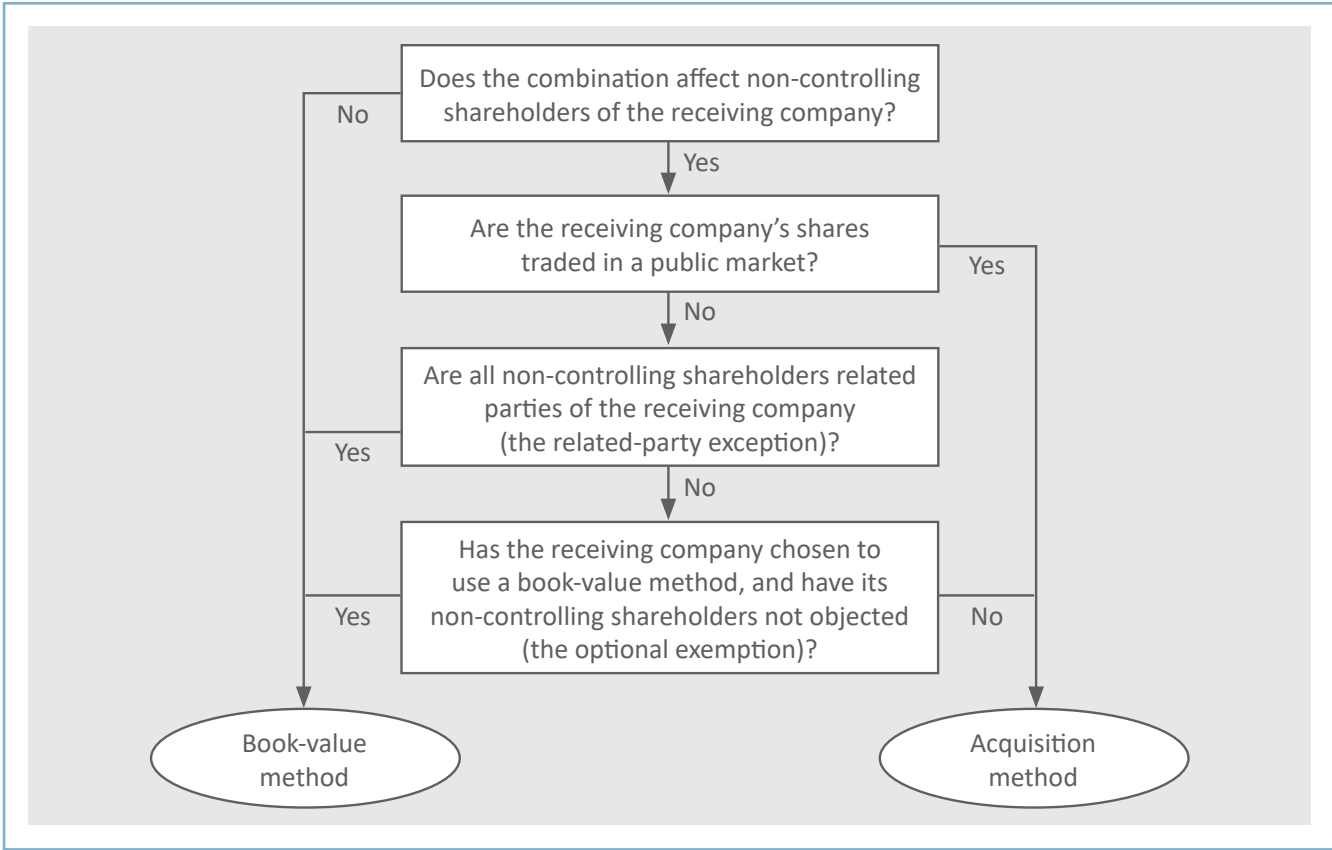
The Board's view is that a book-value method should be applied to business combinations under common control that do not affect non-controlling shareholders of the receiving company.

When to apply each method—in summary

Diagram 6 summarises the criteria that would determine when a receiving company should use the acquisition method and when it should use a book-value method. All those criteria are objective and designed to produce similar outcomes in similar circumstances, while taking into account cost-benefit considerations.

The Board’s view is that its suggested approach would not be unduly complex, because both methods are already in use. Furthermore, all of the criteria for selecting the method are based on conditions already used in IFRS Standards. For example, IFRS Standards describe a public market and define related parties. The condition used in the optional exemption is also used in IFRS Standards for exempting privately held companies from particular requirements in specified circumstances.

Diagram 6—Summary of the Board’s preliminary views



How to apply the acquisition method

A recap of the acquisition method

The acquisition method set out in IFRS 3 assumes that the consideration paid in the combination is negotiated at arm's length and reflects the fair value of the acquired business and the price paid for any synergies expected from the combination.

The acquisition method measures the assets and liabilities received in the combination at fair value.¹ The difference between the fair value of those assets and liabilities and the fair value of the consideration paid is recognised as goodwill. In an arm's length transaction, goodwill is expected to comprise, as illustrated in Diagram 7A:

- goodwill that exists in the acquired business. It is measured as the difference between the fair value of that business as a whole and the fair value of its assets and liabilities.
- the price paid for the expected synergies.

In a rare case of a bargain purchase, a gain is recognised in the statement of profit or loss. The gain is equal to the difference between the fair value of the consideration paid and the fair value of the assets and liabilities received.

What is the issue?

In principle, the Board's view is that the acquisition method should be applied just as set out in IFRS 3. However, in a business combination under common control, the consideration paid might not have been negotiated. Instead, it might have been set by the controlling party. If that consideration differs from the consideration that would have been paid in an arm's length transaction, that difference suggests that the combination includes an additional component that is not present in a combination between unrelated parties—a distribution from, or a contribution to, the receiving company's equity, as illustrated in Diagrams 7A and 7B.

Diagram 7A—Consideration paid is higher than in an arm's length transaction

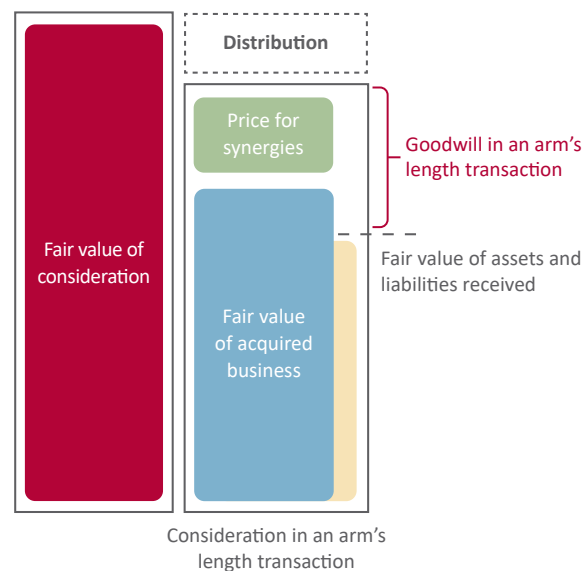
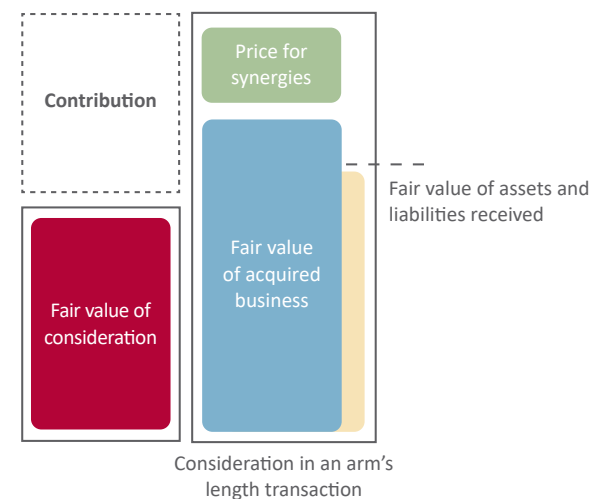


Diagram 7B—Consideration paid is lower than in an arm's length transaction



¹ The acquisition method recognises all identifiable assets and liabilities acquired in a business combination.

How to apply the acquisition method (continued)

Should the receiving company identify, measure and recognise a distribution from, or a contribution to, equity in a business combination under common control when the acquisition method is used?

What has the Board heard?

A distribution or a contribution is unlikely to occur in a transaction that affects non-controlling shareholders.

A distribution would be difficult to measure. An 'overpayment' can also occur in a business combination covered by IFRS 3 and is not reported separately.

Investors need information about how the transaction price was set so that they can make their own assessments.

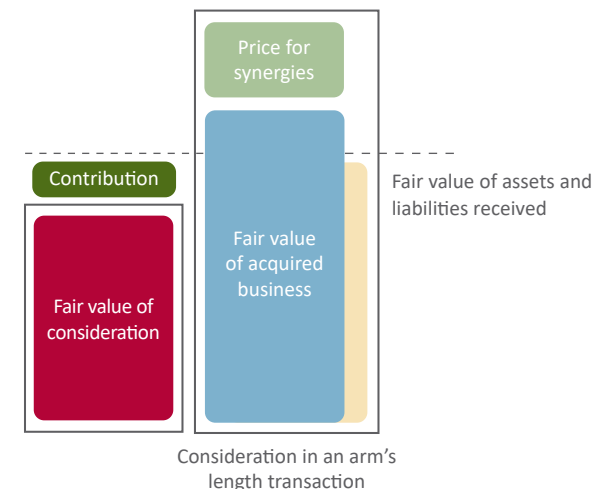
Should a distribution from equity be recognised?

The Board's view is that the receiving company should not be required to identify, measure and recognise a distribution from equity. Instead, the receiving company should disclose information about the terms of the combination, including how the transaction price was set. Any 'overpayment' would be included in goodwill that would be subject to impairment testing, just as occurs in reporting a business combination covered by IFRS 3.

Should a contribution to equity be recognised?

The Board's view is that the receiving company should recognise a contribution to equity if the fair value of the assets and liabilities received in a business combination under common control exceeds the fair value of the consideration paid, as illustrated in Diagram 8—instead of recognising that difference as a gain on a bargain purchase in the statement of profit or loss, as required by IFRS 3.

Diagram 8—Measuring a contribution to equity



How to apply a book-value method

What is the issue?

A book-value method is not described in IFRS Standards. In practice, a variety of book-value methods are used. The Board's view is that IFRS Standards should prescribe a single book-value method.

The Board focused on how the receiving company should:

- measure the assets and liabilities received;
- measure the consideration paid;
- report the difference between those amounts; and
- provide pre-combination information.

The Board also considered what disclosures a company should provide when it applies a book value method.

How to measure the assets and liabilities received?

In practice when applying a book-value method, companies sometimes measure the assets and liabilities received using their book values reported by the transferred company. In other cases, they use the book values reported by the controlling party.

Those book values would typically be identical if the controlling party has controlled the transferred company since the creation of that company. However, those book values could differ if, for example, the transferred company has previously been acquired from a party outside the group.

The Board's view is that the receiving company should measure the assets and liabilities received at their book values reported by the transferred company.

How to measure the consideration paid?

In practice when applying a book-value method, companies sometimes measure the consideration paid at fair value. In other cases, they measure the consideration paid at book value—or, in case of the consideration paid in the receiving company's own shares, at their par value or a nominal value.

The Board's view is that the consideration paid should be measured as follows:

- If consideration is paid in assets—at the book values of those assets.
- If consideration is paid by incurring a liability—at the amount determined on recognition of that liability applying IFRS Standards.

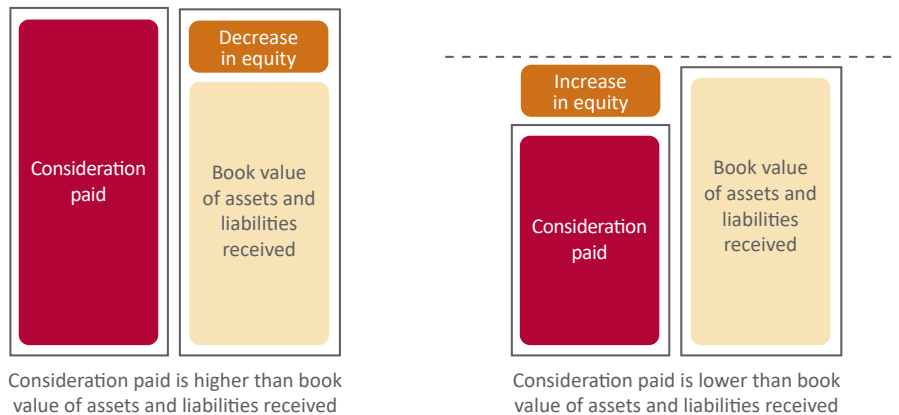
The Board's view is that it should not prescribe how the consideration paid in the receiving company's own shares should be measured.

How to apply a book-value method (continued)

How to report the difference between the consideration paid and the assets and liabilities received?

The Board's view is that the difference between the consideration paid and the assets and liabilities received should be recognised in equity, as illustrated in Diagram 9. This approach is consistent with current practice.

Diagram 9—Illustrating a book-value method



Consideration paid is higher than book value of assets and liabilities received

Consideration paid is lower than book value of assets and liabilities received

How to provide pre-combination information?

In practice when applying a book-value method, companies sometimes include the transferred company in their financial statements from the combination date and do not restate pre-combination information.

In other cases, companies include the transferred company in their financial statements from the beginning of the comparative period and restate pre-combination information.

The Board's view is that the receiving company should include the transferred company in its financial statements from the date of combination and, hence, should not restate its pre-combination information.

What information to disclose?

The Board's view is that:

- some, but not all, of the disclosure requirements in IFRS 3 are appropriate when applying a book-value method; and
- the receiving company should disclose the amount recognised in equity for the difference between the consideration paid and the book value of the assets and liabilities received, and the component, or components, of equity that includes that difference.

How to apply each method—in summary

	How to apply the acquisition method?	How to apply a book-value method?
	Generally, the acquisition method should be applied as set out in IFRS 3.	IFRS Standards would specify a single book-value method.
How to measure the assets and liabilities received?	Measure the assets and liabilities received at their fair values.	Measure the assets and liabilities received at their existing book values reported by the transferred company.
How to measure the consideration paid?	Measure all forms of the consideration paid at fair value.	In general, measure the consideration paid at book value (the Board would not prescribe how to measure the consideration paid in own shares).
How to report the difference between those amounts?	Recognise any such difference as goodwill or, in rare cases, as a contribution to equity instead of as a gain in the statement of profit or loss.	Recognise any such difference as a decrease or increase in equity.
How to provide pre-combination information?	Include the transferred company from the combination date, without restating pre-combination information.	Include the transferred company from the combination date, without restating pre-combination information.
What information to disclose?	<ul style="list-style-type: none"> • Disclose all information required by IFRS 3. • Provide information about the terms of the combination, including how the transaction price was set. 	<ul style="list-style-type: none"> • Disclose some, but not all, information required by IFRS 3. • Provide information about the difference between the consideration paid and the assets and liabilities received.

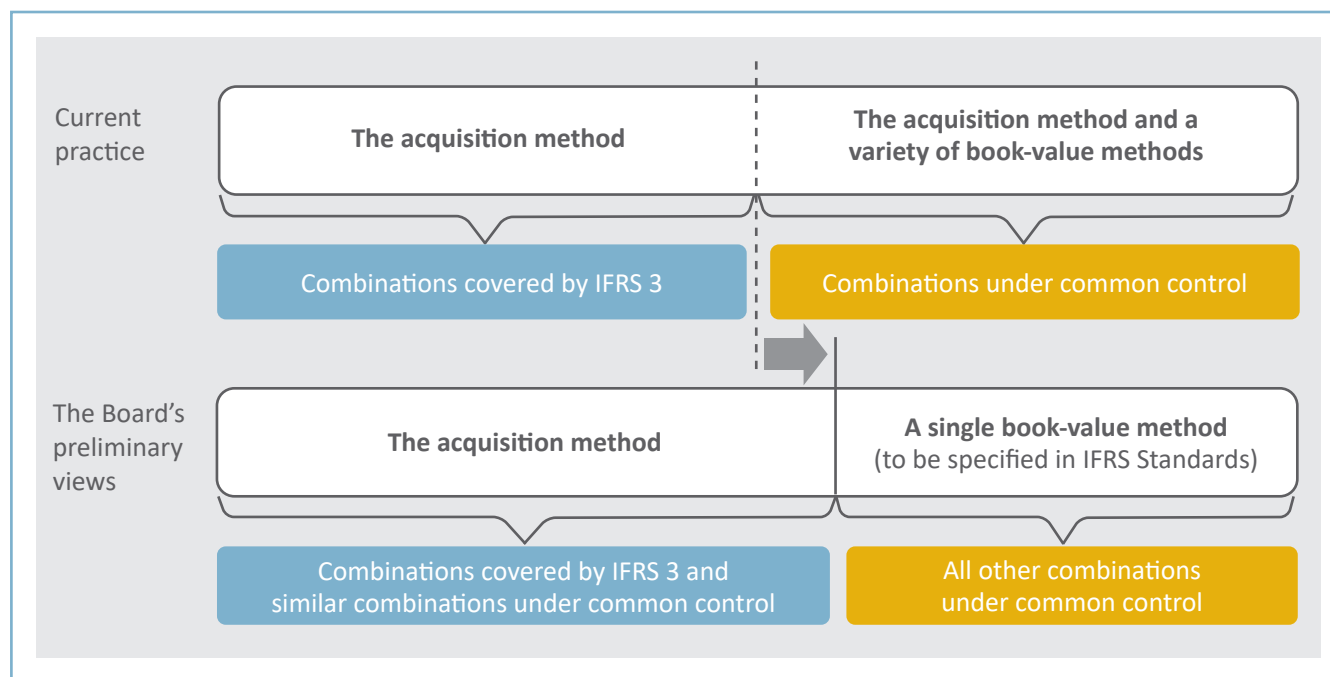
The effects of the Board's preliminary views

If the Board confirms its preliminary views and they are implemented, diversity in practice would be reduced, transparency in reporting would be improved and users of financial statements would receive better information because:

- the acquisition method would be applied both to business combinations covered by IFRS 3 and to similar business combinations under common control when the benefits of applying that method outweigh the costs;
- IFRS Standards would specify which method should be applied in which circumstances, so that companies undertaking similar transactions would apply the same accounting policies; and
- IFRS Standards would specify a single book-value method, thus eliminating the diversity caused by the variety of book-value methods currently used.

The overall effects of the Board's preliminary views are illustrated in Diagram 10.

Diagram 10—The overall effects of implementing the Board's preliminary views



Further information

The deadline for comments on the Discussion Paper is 1 September 2021.

All parties are invited to respond to the questions in the Discussion Paper. The Board will welcome responses even if respondents do not comment on all questions.

To stay up to date with the latest developments in this project and to sign up for email alerts, please visit www.ifrs.org/projects/work-plan/business-combinations-under-common-control/.

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EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

**Policy Approach to
Developing the Suite of
PBE Standards**

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Accounting Standards Board from 1 October 2020

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Preface

1. In May 2013, the New Zealand Accounting Standards Board (NZASB) issued the PBE Standards – a new suite of standards for Tier 1 and Tier 2 public benefit entities. That initial set of standards, developed in accordance with the External Reporting Board’s (XRB Board’s) *New Zealand Accounting Standards Framework*, can be regarded as the “foundation suite” of PBE Standards. It is expected that the foundation suite will be enhanced and developed over time.
2. This *Policy Approach to Developing the Suite of PBE Standards* (the PBE Policy Approach) has been developed by the XRB Board and the NZASB to assist the NZASB in making consistent decisions when developing the suite of PBE Standards i.e. when considering enhancements and developments to the suite of PBE Standards in the future.
3. While primarily based on International Public Sector Accounting Standards, the foundation suite of PBE Standards was developed using a range of source standards: International Public Sector Accounting Standards, selected NZ IFRSs and domestic standards developed within New Zealand. Developments are likely to arise from each of these sources as changes are made to the international standards and as issues specific to New Zealand emerge.
4. Without a policy such as this, it would be possible for significant fluctuations in the NZASB’s approach to developing the suite of PBE Standards to emerge over time. This PBE Policy Approach therefore provides constituents with some certainty about the likely future direction of the suite of PBE Standards, and provides a basis for assessing proposals for changes to the PBE Standards as they are issued by the NZASB. It also assists constituents to understand the likely implications of future changes to the suite of PBE Standards for public benefit entities (PBE) groups containing for-profit entities (commonly referred to as “mixed groups”).

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Summary

The Development Principle

In accordance with the *New Zealand Accounting Standards Framework*, the primary purpose of developing the suite of PBE Standards is to better meet the needs of the PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:

- (a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit (NFP) PBEs, including public sector PBE groups and NFP groups, than would be the case if the development was not made; and
- (b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:
 - (i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS[®] Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;¹
 - (ii) *relevance to the not-for-profit or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;
 - (iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);
 - (iv) *the impact on mixed groups*; and
- (c) In the case of a potential development arising from the issue of a new or amended IFRS Standard that is relevant to PBEs, the IPSASB's likely response to the change (e.g. whether the IPSASB is expected to develop an IPSAS on the topic in an acceptable timeframe).²

Application of the Development Principle

The PBE Policy Approach includes a series of rebuttable presumptions in applying the development principle:

- (a) The NZASB will adopt a new or amended IPSAS.
- (b) When the IASB issues an IFRS Standard on a new topic and there is no IPSAS on that topic, the NZASB will not include that IFRS Standard in the suite of PBE Standards, unless the topic is applicable to PBEs and the IPSASB is not expected to develop a new standard on the same topic in an acceptable timeframe.
- (c) In considering the impact on PBE Standards from a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB will consider the factors in the development principle in determining

¹ This policy refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS[®] Standards, IFRIC[®] Interpretations and IASB[®] papers).

² In this policy document, the term "acceptable timeframe" is considered from the perspective and expectations of users and preparers of PBE financial reports (including those that are mixed groups). The length of time that constitutes an acceptable timeframe will depend on the facts and circumstances in each case based on consideration of the factors in the development principle.

whether to initiate the development of a related change to the PBE Standards ahead of the IPSASB. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change and whether the IPSASB will address the change in an acceptable timeframe.

- (d) The NZASB will not incorporate minor amendments to an NZ IFRS into the equivalent PBE Standard in advance of the IPSASB considering the change. However, the NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS.
- (e) In determining whether to initiate the development of a domestic standard for inclusion in the PBE Standards, the NZASB will first consider whether there is an international pronouncement addressing the relevant issue that is applicable in the New Zealand context, or whether an international pronouncement is expected to be developed within an acceptable timeframe.

1. Introduction

1. The PBE Policy Approach addresses the NZASB's approach to developing and enhancing the suite of PBE Standards. References to PBEs in this Policy include references to all PBEs: public sector PBEs and NFP PBEs, and public sector PBE groups and NFP PBE groups.
2. Triggers for possible changes to the PBE Standards are likely to come from three sources:
 - (a) the IPSASB issuing a new IPSAS or a change to an existing IPSAS (section 4.1);
 - (b) the IASB issuing a new IFRS Standard or a change to an existing IFRS Standard (section 4.2); and
 - (c) domestic developments within New Zealand, including both exogenous events such as changes to the legislative framework and endogenous events where the NZASB considers that developments are warranted (section 4.3).
3. The PBE Policy Approach considers the implications of the *New Zealand Accounting Standards Framework* for developing the suite of PBE Standards and identifies an approach to be taken for each of the triggers for possible changes to PBE Standards.

2. Basis for Development of PBE Standards

4. The multi-standards approach in the *New Zealand Accounting Standards Framework* (issued in April 2012 and updated in December 2015) is designed to better meet the needs of users of the financial statements of PBEs.³ Accounting Standards for Tier1 and Tier 2 entities are based on IPSAS.
 57. An explicit part of the multi-standards approach is the adoption of a set of accounting standards for PBEs other than one based on IFRS.
 58. The only set of international accounting standards, other than IFRS, is IPSAS. IPSAS provides a better basis for PBE reporting for entities in Tier 1 and Tier 2 than does IFRS because it is developed for a wider set of users, notably service recipients as well as resource providers.
 59. The XRB also considers that IPSAS is a credible set of standards. The historical concerns about IPSAS had been the lack of a conceptual framework and the lack of independent governance arrangements for IPSASB (at least compared to those applying to the IASB). These concerns have been addressed by both the IPSASB and the International Federation of Accountants (IFAC – the IPSASB’s parent body). The IPSASB issued its conceptual framework *General Purpose Financial Reporting by Public Sector Entities* in late 2014 and an independent governance body for the IPSASB has been established for the first time in 2015.
 60. However, the XRB continues to consider that it is premature to adopt “pure” IPSAS (in the way that NZ IFRS reflects “pure” IFRS). This is because, among other matters, the IPSAS is developed for public sector entities and the requirements are not always appropriate for not-for-profit entities or do not necessarily fit with the New Zealand regulatory environment. Moreover, IPSAS does not currently represent a complete set of standards. Therefore, a set of PBE Standards has been developed that uses IPSAS as their base. PBE Standards modify IPSAS for any recognition, measurement or disclosure matters considered inappropriate in New Zealand. Such modifications are only made where the IPSAS requirement in question has a material impact on the financial position or performance being reported, and that impact would adversely detract from the financial statements’ usefulness to users.
 61. Since the adoption of the initial Accounting Standards Framework, the XRB, in conjunction with its sub-Board, the New Zealand Accounting Standards Board (NZASB), has developed (and issued in September 2013) a *Policy Approach to Developing the Suite of PBE Standards* [footnote omitted]. The Policy Approach establishes an approach, based on a “development principle” and a series of “rebuttable presumptions”, which are used by the NZASB to determine whether, and when, to make changes to PBE Standards.
 62. PBE Standards include other relevant standards (including domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS.
 63. The PBE Standards are also modified to make them relevant, applicable and understandable to the not-for-profit sector preparers and users. Some modification is desirable to enhance their usefulness in the not-for-profit context.

(*New Zealand Accounting Standards Framework*, paragraphs 57–63)
5. The PBE Policy Approach uses the term “development” to encompass any change to the suite of PBE Standards.
6. In considering the appropriateness of potential developments of the suite of PBE Standards, it is necessary to consider these developments in the context of the *New Zealand Accounting Standards Framework*, including the impact of any

³ The New Zealand Accounting Standards Frameworks is available at <https://www.xrb.govt.nz/reporting-requirements/accounting-standards-framework/>

developments on the quality of the financial reporting arising from those standards and the trade-off between the benefits of improvements in the quality of the resulting financial reports and the associated costs.

2.1 Quality of Financial Reporting

7. The suite of PBE Standards is designed to meet users' needs by providing high quality financial reporting by PBEs. It follows that any development of PBE Standards should aim to improve the quality of financial reporting. The quality of financial reporting relies on meeting the needs of users of PBE general purpose financial reports (including financial statements), while endeavouring to ensure that the costs arising from a development do not outweigh the benefits.
8. In this context, high quality financial reporting is assessed by reference to the conceptual framework for PBEs, with primary emphasis on the objective of financial reporting and then the qualitative characteristics. A standard is more likely to lead to higher quality financial reporting if it adheres closely to the conceptual framework.
9. The categories of users of financial statements of PBEs and for-profit entities are different. Paragraph 1.2 of the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 NZ *Conceptual Framework*) identifies users of financial statements as suppliers of resources to the entity, and notes that the decisions that they make are related to providing resources to the entity.
10. In contrast, paragraphs 2.1–2.4 of the *PBE Conceptual Framework* (the New Zealand equivalent of the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*) considers a wider group of users of financial reports, being resource providers and service recipients and their representatives, and notes that information is needed for both accountability and decision-making purposes.
11. A development of the suite of PBE Standards will improve the quality of financial reports prepared in compliance with PBE Standards if it improves the accounting for specific transactions by better meeting the objective of financial reporting and the associated qualitative characteristics of financial reporting.
12. Further, high quality financial reporting depends on consistent treatment of similar transactions. For example, it would usually be inappropriate to require different measurement for similar liabilities in similar circumstances. As a result, any development of PBE Standards (including the conceptual framework for PBEs) should ensure that the suite is maintained as a coherent whole.
13. It follows that any developments should ensure that the needs of users are better met than they were prior to the development. Alternatively, the cost-benefit test (see next section) may be met where the needs of users are equally as well served, with a consequent benefit in some other way such as a reduction in the costs of preparing the financial statements.

2.2 Costs and Benefits

14. In considering a potential development of the suite of PBE Standards, the primary purpose and benefit is to improve the information provided to users of PBE financial reports.
15. Benefits need to be considered in relation to the suite of PBE Standards as a whole, in addition to the implications for a specific area of financial reporting. The benefit of aligning the PBE Standards with NZ IFRS to the extent possible is that this will reduce differences between the financial statements of PBEs and for-profit entities. This benefit is particularly relevant to entities that are members of mixed groups and users of PBE financial statements whose familiarity with financial statements arises from experience in the for-profit sector.⁴ However, for other preparers that are not part of a mixed group, there may be additional preparation costs as a result of changes in accounting standards that might not otherwise arise.
16. The PBE Standards are largely based on IPSAS in accordance with the *New Zealand Accounting Standards Framework* and, therefore, careful consideration is required before making any change to a PBE Standard based on an IPSAS in circumstances other than as a consequence of the IPSASB issuing a new or amended IPSAS (as discussed further below in paragraph 30). In addition, the benefit of using IPSAS to the extent possible is that IPSAS are a suite of standards that comprise a coherent package. It also reduces standard-setting costs as the IPSASB documents are readily available for application in New Zealand with little additional work. Reducing the time spent on setting the base standards releases resources for working with the international standard setters and for necessary domestic projects.
17. In developing a coherent suite of PBE Standards, it will generally be relatively low cost to add additional guidance for all PBEs, or for sub-groups of PBEs such as NFP entities. However, it is expected that recognition and measurement requirements will be common to all PBEs. Further, using recognition and measurement requirements developed from a number of sources creates the potential for inconsistencies within the suite of PBE Standards, such as applying different measurement requirements to similar liabilities. Care should be taken to minimise the impact of such inconsistencies, if they cannot be eliminated.
18. At times, there is a tension between reducing the costs borne by preparers within mixed groups – that is the elimination of differences between PBE Standards and NZ IFRS that are not sector specific – and improving the suite of PBE Standards taken as a whole. This Policy takes the view that reducing the costs on preparers within mixed groups should be considered to the extent that these costs can be reduced whilst meeting the needs of the wider range of users of financial statements of public sector PBEs and NFP PBEs (including public sector and NFP groups) through a complete and coherent suite of PBE Standards.

⁴ For the purposes of the PBE Policy Approach, a mixed group is a PBE group that includes at least one material for-profit subsidiary where that for-profit subsidiary applies accounting policies that differ from those of the mixed group and that may need to be adjusted under the consolidation standards.

3. The Development Principle

19. In accordance with the *New Zealand Accounting Standards Framework*, the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:⁵
- (a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP PBEs, including public sector PBE groups and NFP PBE groups, than would be the case if the development was not made; and
 - (b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:
 - (i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;
 - (ii) *relevance to the NFP or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;
 - (iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);
 - (iv) *the impact on mixed groups*; and
 - (c) In the case of a potential development arising from the issue of a new or amended IFRS Standard that is relevant to PBEs, the IPSASB's likely response to the change (e.g. whether the IPSASB is expected to develop an IPSAS on the topic in an acceptable time frame).
20. The NZASB will need to exercise judgement in balancing the factors in the development principle on a case-by-case basis. In many cases, there will need to be a trade-off between the benefits of improvements in the quality of the resulting financial reports and the associated costs. This policy provides a basis for making such a trade-off decision; it cannot replace the application of judgement by the NZASB when applying the development principle.

⁵ In applying the development principle and rebuttable presumptions in this policy document, the NZASB will consider the costs and benefits of initiating a new development and the relevance of a topic to PBEs based on consultation with constituents.

4. Application of the Development Principle

21. The following sections are designed to assist with the application of the factors in the development principle on a case-by-case basis. They consider, in turn, potential developments of the suite of PBE Standards that might arise from developments in IPSAS and NZ IFRS as well as addressing issues that might arise within New Zealand. Although the PBE Policy Approach treats each of these developments separately, it is likely that specific developments will need to be considered from a number of perspectives. For example, the NZASB may have planned to continue to update PBE IAS 34 *Interim Financial Reporting* in line with developments of NZ IAS 34 *Interim Financial Reporting* to retain consistent interim reporting across all sectors (section 4.2). However, if the IPSASB were to issue a standard addressing interim reporting, this new IPSAS would be considered as a development resulting from an enhancement to IPSAS (section 4.1).

4.1 New or Amended IPSAS

22. There is a rebuttable presumption that the NZASB will adopt a new or amended IPSAS.

23. This rebuttable presumption is based on the expectation that the IPSASB's due process has considered the needs of the wide range of users of public sector financial statements in developing and issuing a new or amended IPSAS.⁶ Therefore, it is presumed that a new or amended IPSAS will lead to higher quality financial reporting by PBEs in New Zealand in accordance with factors (a) and (b) of the development principle, in the absence of reasons to the contrary (refer to paragraph 25).

Amending a new or amended IPSAS

24. Depending on the circumstances, it may be appropriate to amend a recently issued new or amended IPSAS in the process of adoption in New Zealand. Examples of possible amendments include:
- (a) improving the quality of the IPSAS in the New Zealand context by, for example, adding guidance or making changes to enhance the clarity and consistency of the requirements to enable public sector PBEs and NFP PBEs to apply the standard consistently;⁷
 - (b) adding guidance to assist NFP PBEs in applying the standard, given that the standard has been developed for application by public sector PBEs;
 - (c) amending as necessary to reduce any significant costs for mixed groups in the New Zealand context, to the extent that these costs can be reduced while

⁶ The rebuttable presumption is also based on the XRB's understanding of the IPSASB's strategic focus – that is, the development of high-quality financial reporting standards and guidance for the public sector.

⁷ For example, amendments of this nature may be necessary where the guidance in IPSAS does not fully address certain transactions that are prevalent for New Zealand PBEs.

still meeting the needs of users of PBE financial statements (see paragraph 18);⁸

- (d) amending as necessary to maintain the coherence of the suite of PBE Standards;
- (e) excluding options that are not relevant in the New Zealand context; or
- (f) amending the scope of an IPSAS if the IPSAS conflicts with a legislative requirement, or a legislative requirement addresses the same issue for public sector entities. However, in these circumstances, it may be appropriate to adopt the IPSAS for NFP PBEs.

Rebutting the presumption and not adopting a new or amended IPSAS

25. Depending on the circumstances, it may be appropriate to rebut the presumption in paragraph 22 and thereby not adopt a new or amended IPSAS, or part(s) thereof. Given that PBE Standards are based primarily on IPSAS, a decision to rebut the presumption is expected to occur only in exceptional circumstances. Examples of such circumstances include where the NZASB has significant concerns that, in the New Zealand context:
- (a) adoption of a new or amended IPSAS would not be either appropriate or relevant (based on the development principle); and
 - (b) the costs of adoption of a new or amended IPSAS would outweigh the benefits to users of PBE financial reports.⁹
26. In the event that the presumption to adopt a new or amended IPSAS is rebutted, this will require the NZASB to report to the XRB Board:
- (a) its decision and rationale for the decision, including reference to the relevant factors of the development principle; and
 - (b) what, if any, action(s) it plans to take in relation to the new or amended IPSAS, for example, whether a domestic standard will be developed and whether parts of the new or amended IPSAS will be incorporated into that domestic standard.

4.2 New or Amended NZ IFRS

27. The issuance of a new or amended NZ IFRS will require the NZASB to consider whether to initiate a development of the PBE Standards in the following circumstances:¹⁰

⁸ The significance of any costs to mixed groups will be assessed through constituent outreach activities and any amendments will be weighed up against other factors in the development principle.

⁹ As discussed in paragraphs 14–18 and giving consideration to the factors in the development principle, the primary benefit of a potential development to the suite of PBE Standards is to improve the information provided to users of PBE financial reports and to promote higher quality financial reporting by PBEs.

¹⁰ An amendment to an NZ IFRS can fall into more than one of the above categories, for example, an NZ IFRS on a new topic might also result in changes to other NZ IFRS that fall into category (a) and/or (c).

- (a) an IFRS Standard that the IPSASB has used as the basis for an IPSAS is changed;¹¹
- (b) the IASB issues an IFRS Standard on a new topic; and
- (c) there is a change to an NZ IFRS that has been used as the basis for a PBE Standard.¹²

4.2.1 *An IFRS Standard that the IPSASB has used as the basis for an IPSAS is changed*

28. As noted earlier, the PBE Standards are primarily based on IPSAS. In turn, many IPSAS are primarily based on IFRS Standards. Examples of such standards are PBE IPSAS 16 *Investment Property* and PBE IPSAS 17 *Property, Plant and Equipment*, which are based on IAS 40 *Investment Property* and IAS 16 *Property, Plant and Equipment*, respectively. Accordingly, there are likely to be many instances in which a new or amended NZ IFRS relates to a topic covered by an existing IPSAS standard that has been incorporated into the PBE Standards.
29. **In considering a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB will consider the factors in the development principle in determining whether to initiate a development of the PBE Standards. Particular emphasis in this case needs to be placed on the IPSASB’s likely response to the change, including whether the IPSASB is expected to address the change in an acceptable timeframe.**
30. Given the rebuttable presumption in paragraph 22 that any IPSAS issued by the IPSASB will be included in the PBE Standards, there are considerable potential costs and risks associated with “getting ahead of the IPSASB”. Therefore, the NZASB needs to decide whether to develop a PBE Standard ahead of the IPSASB or to wait for the IPSASB’s response. If the issue is already on the IPSASB’s active work plan, the NZASB would normally wait for the IPSASB to complete its work, unless the NZASB is of the view that there is an urgent need for action in New Zealand or the NZASB is of the view that the IPSAS is unlikely to be appropriate in the New Zealand context.
31. **Furthermore, in the case of limited-scope amendments or amendments to an NZ IFRS that the NZASB considers are minor, there is a rebuttable presumption that the change should not be incorporated into the equivalent PBE Standard in advance of the IPSASB considering the change.** This is because minor amendments are less likely to meet the cost-benefit test,

¹¹ This includes instances where an IFRS Standard that the IPSASB has used as the basis for an IPSAS has been superseded by a newly issued IFRS Standard.

¹² NZ IFRS that the NZASB has included in the suite of PBE Standards are:

- PBE IFRS 3 *Business Combinations* (subsequently superseded by PBE IPSAS 40 *PBE Combinations*)
- PBE IFRS 4 *Insurance Contracts* and PBE IFRS 17 *Insurance Contracts* (the latter applies to NFPs only)
- PBE IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*
- PBE IAS 12 *Income Taxes* (and amendments based on NZ IFRIC 23 *Uncertainty over Income Tax Treatments*)
- PBE IAS 34 *Interim Financial Reporting*
- NZ IFRIC 12 *Service Concession Arrangements* and NZ-SIC 29 *Service Concession Arrangements: Disclosures* (which are the basis for PBE FRS 45 *Service Concession Arrangements: Operator*).

particularly when the potential costs and risks associated with getting ahead of the IPSASB are taken into account. However, the NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS.

32. Where there is a major change to an IFRS Standard for which there is an existing IPSAS and where the IPSASB is unlikely to address the change in an acceptable time frame, the NZASB could either develop a domestic modification to the PBE Standard or assist the IPSASB to develop an IPSAS. Options for assisting the IPSASB include offering to provide staff resources for the IPSASB or partnering with the IPSASB to update a specific IPSAS in the light of the major change. It may be more effective to assist the IPSASB because any uncertainties about the IPSASB's approach to the issue will be resolved sooner rather than later. However, the level of effort required to develop an IPSAS based on an IFRS Standard for international use is likely to be significantly higher than developing a PBE Standard based on an IFRS Standard or its equivalent NZ IFRS for use in New Zealand. The IPSASB's due process, multi-constituency reach and less regular meetings leads to a standards development process for the IPSASB that is more time consuming and complex.

4.2.2 *The IASB issues an IFRS Standard on a new topic*

33. An example of a new topic is where the IASB is considering issuing a standard on rate-regulated activities.
34. **When the IASB issues an IFRS Standard on a new topic and there is no IPSAS on that topic, there is a rebuttable presumption that the NZASB will not include the new IFRS Standard in the suite of PBE Standards, unless the topic is relevant to PBEs and the IPSASB is not expected to develop a new standard on the same topic in an acceptable timeframe.**
35. As noted below in paragraph 37, some NZ IFRS-based standards were included in the suite of PBE Standards when it was first developed. After the initial introduction of the suite of PBE Standards, the NZASB has applied the rebuttable presumption that an IFRS Standard on new topic where there is no IPSAS is not included in the suite of PBE Standards, as discussed above. This approach is consistent with the *New Zealand Accounting Standards Framework*, which provides that IPSAS should be used as the primary basis for developing PBE Standards.
36. In considering whether to rebut the presumption that the NZASB will not include a new IFRS Standard in the suite of PBE Standards, the NZASB should:
 - (a) firstly, consider whether the new IFRS Standard is relevant to PBEs and if so, whether the IPSASB is expected to develop a new standard on the same topic in an acceptable timeframe; and
 - (b) secondly, consider other factors in the development principle to assess the costs and benefits of including the new IFRS Standard in the suite of PBE Standards.

4.2.3 An NZ IFRS that the NZASB has included in the suite of PBE Standards is changed

37. The NZASB has included selected NZ IFRS-based standards in the suite of PBE Standards (see footnote 12). These NZ IFRS-based standards were first added when the suite of PBE Standards was initially developed to maintain current practice for specific topics not addressed by IPSAS (for example, accounting for insurance contracts and interim reporting). Subsequently, additional NZ IFRS-based standards have been added to the suite of PBE Standards (for example, PBE IFRS 17 *Insurance Contracts*) when a new NZ IFRS standard addresses a topic that is relevant to PBEs and the IPSASB is not expected to develop a new standard on the same topic in an acceptable timeframe.
- 38. In considering a change to an NZ IFRS-based standard that is included in the suite of PBE Standards, the NZASB shall consider the factors in the development principle in determining whether to initiate a development of the PBE Standards.**
39. However, in situations where there is no equivalent IPSAS on the topic and the IPSASB is not expected to create such a standard in the foreseeable future, the IPSASB's likely response to the change would be less relevant. This will impact on the overall assessment of the costs and benefits of including the NZ IFRS development in the PBE Standards. This is because the potential problems associated with "getting ahead of the IPSASB" (as discussed in paragraph 30 above) are less likely to arise.
40. An implication of this policy is that those PBE Standards based on an NZ IFRS (see footnote 12) may need to be updated or replaced to align with the current equivalent NZ IFRS.

4.3 Domestic Developments

41. Domestic developments include developing standards or amendments to standards to meet specific requirements in New Zealand.
42. The suite of PBE Standards contains standards directly addressing issues relevant to New Zealand, including PBE FRS 42 *Prospective Financial Statements*, PBE FRS 43 *Summary Financial Statements* and PBE FRS 48 *Service Performance Reporting*. Further domestic standards may be developed where a need arises when an issue of importance in New Zealand is not addressed in a standard issued by the IPSASB (section 4.1) or the IASB (section 4.2).
- 43. In determining whether to initiate the development of a domestic standard for inclusion in the suite of PBE Standards, the NZASB will consider the factors in the development principle. Assuming the NZASB determines that the development of a domestic standard would improve the quality of financial reporting by PBEs, the NZASB will first consider whether there is an international pronouncement addressing the relevant issue that is applicable in the New Zealand context, or whether such an international pronouncement is expected to be developed within an acceptable timeframe.**

44. The *New Zealand Accounting Standards Framework* presumes that the NZASB will use international standards or guidance as a starting point for developing PBE Standards rather than developing domestic standards whenever possible, for a range of reasons, including:
- (a) the quality derived by an international due process;
 - (b) the prospect of international comparability; and
 - (c) the limited resources available for the domestic development of standards.
45. It follows that the NZASB will develop domestic standards or guidance that result in a material improvement in information available to users of financial statements when:
- (a) there is no other source of material available internationally; or
 - (b) the available international guidance is not targeted specifically towards addressing New Zealand issues.