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INFORMATION FOR OBSERVERS

Board Meeting: **Joint IASB-FASB Meeting, 27 April 2006, London**

Project: **Business Combinations II**

Subject: **Consideration Transferred and Fair Value in a Business Combination (IASB Agenda Paper 2A/FASB Memorandum #14)**

PURPOSE OF THIS MEMO

1. The purpose of this memo is to explore whether the revised definition of *fair value* and the recent redeliberations in the Fair Value Measurements project affect the presumption in the Exposure Draft, *Business Combinations* (BC ED), that the consideration transferred in an arm's-length exchange for an acquired interest (the transaction price) is the best evidence of fair value of that interest.

2. The staff is not asking the Boards to make any decisions at this time. Rather, the Boards should use this memo as initial discussion material on the appropriateness of using the fair value of the consideration transferred in a business combination (transaction price) as a measure of the fair value of the

acquired interest and/or the acquiree as a whole. This memo is the first in a series that will discuss related issues, including measuring the acquisition-date fair value of the consideration transferred (for example, the measurement date for equity securities issued as consideration). The staff will bring back issues related to measuring the consideration transferred beginning in May 2006. Similarly, this memo does not address issues related to measuring the acquisition-date fair value of the assets acquired and liabilities assumed.

3. For simplicity, the staff assumes for the purpose of the discussion in this memo that the consideration transferred has a readily determinable fair value, as is the case with cash consideration.

BACKGROUND

4. Paragraph 20 of the BC ED states that:

> Business combinations are usually arm's-length exchange transactions in which knowledgeable, unrelated willing parties exchange equal values. Therefore, in the absence of evidence to the contrary, the exchange price (referred to as consideration transferred …) paid by the acquirer on the acquisition date is presumed to be the best evidence of the acquisition-date fair value of the acquirer's interest in the acquiree….

5. In March 2006, the Boards considered the evidential presumption as part of affirming the definitions, assertions, presumptions and principles that form the basis for the proposals.[1] That presumption is:

> The acquisition-date fair value of the consideration transferred by the acquirer is presumed to be the best evidence of the fair value of the interest acquired.

6. The presumption that the consideration transferred is the best evidence of fair value of the acquired interest was intended to be consistent with the earlier definition of fair value that was exposed in the FASB's Exposure Draft, *Fair Value Measurements* (Fair Value Measurements ED), in June 2004. That definition stated:

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[1] FASB Memo #8, IASB Agenda Paper 0603b02a

> Fair value is the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties.

7. The FASB has since redeliberated the Fair Value Measurements ED and has revised the definition of fair value. Currently, that revised definition states:

> Fair value is the price that would be received for an asset or paid to transfer a liability in a transaction between market participants at the measurement date.

8. Consistent with the revised fair value definition, the Fair Value Measurements project clarified that the fair value of an asset or liability represents an *exit price*, which is the price that would be received for the asset, or paid to transfer the liability, from the perspective of a market participant (seller) that holds the asset or liability. In contrast, a transaction price paid to acquire an asset or received to assume a liability represents an *entry price*. Conceptually, those prices are different. However, the FASB acknowledges in the Fair Value Measurements project that in many situations the entry price and fair value (exit price) will be the same.[2] The question is whether the revised definition of fair value and the conclusions reached in redeliberating the Fair Value Measurements ED should affect or change the presumption in the BC ED that the consideration transferred in an arm's-length exchange for an acquired interest (the transaction price) is the best evidence of the fair value of that interest in the absence of evidence to the contrary.

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[2] The minutes from the FASB's March 15, 2006 Board meeting state the following:

> Ms. MacDonald explained that the FVM Working Draft establishes that for an asset or liability that is acquired or assumed in an exchange transaction, the transaction price (an entry price) should be presumed to represent the fair value of the asset or liability (an exit price) at initial recognition of the asset or liability. She recommended that the [FASB] clarify that, in many situations, the transaction price will represent the fair value of the asset or liability, but not presumptively, to more clearly convey the requirement for an exit price (versus an entry price). She stated that the related guidance would refer to the examples of factors an entity should consider in determining whether a transaction price represents fair value included in the audience handout.
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> All [FASB] Board members agreed with the staff recommendation. Ms. Schipper pointed out that the examples referred to by the staff are not intended to be an all inclusive listing of all such examples and, therefore, should be clearly presented as examples (Paragraphs 6 and 7).

Fair Value Measurement Objective in the BC ED

9. Although the transaction price presumption in the BC ED relates to the fair value of the *acquired interest,* the fair value measurement objective in the BC ED is to measure the fair values of the assets acquired and liabilities assumed. To achieve that objective, the BC ED proposed that the acquirer:

(a) Measure and recognize the acquisition-date fair value of the *identifiable* assets acquired and liabilities assumed with limited exceptions (paragraph 28, paraphrased).

(b) Measure the acquisition-date fair value of the acquiree, as a whole, to calculate the goodwill related to the acquisition (paragraph 19, paraphrased).

10. In a business combination, the acquirer recognizes the acquiree by recognizing the assets acquired and liabilities assumed. The reason the BC ED proposes that an acquirer measure the fair value of the acquiree as a whole is to calculate the amount of goodwill that should be recognized in the business combination. Goodwill is an exception to the fair value measurement principle because it is measured as a residual (the difference between the fair value of the acquiree and the fair value of the identifiable assets acquired and liabilities assumed). The staff noted in the Business Combinations Principles paper in March 2006:

> At the beginning of the project the Boards were working with the assumption that the total amount recognised by an acquirer should be based on the fair value of the acquiree as a whole, at the acquisition date. As a principle, however, it is unlikely to be as helpful in developing the requirements as the principles expressed in this paper. To illustrate this point, consider a requirement that all assets and liabilities of the acquiree be recognised by the acquirer at their pre-acquisition date carrying amounts with the exception of goodwill, which would be recognised as the difference between the fair value of the acquiree as a whole and the net carrying amount of the assets and liabilities recognised. This requirement is consistent with recognising the fair value of the acquiree as a whole. Any requirements would be consistent with this principle, as long as there is a 'plug' that causes the total net recognised amounts to equal the fair value of the acquiree as a whole.[3]

[3] Paragraph 51, FASB Memo #8, IASB Agenda Paper 0603b02a.

11. In discussing the issue of whether the consideration transferred is the best evidence of the fair value of the acquiree as a whole, it is important to consider the ways in which a business combination can occur:

(a) *An 100 percent acquisition*—An acquisition in which the acquirer acquires 100 percent of the equity interests or the net assets of a business at the acquisition date.

(b) *A partial acquisition*—An acquisition in which the acquirer acquires a controlling portion, but less than 100 percent, of the equity interests of a business at the acquisition date.

(c) *A step acquisition*—An acquisition in which the acquirer acquires a controlling portion of the equity interests of a business in several transactions (over time). On the acquisition date, the acquired asset (equity interest) is by itself often a noncontrolling interest in the acquiree. However, the acquirer already holds an existing noncontrolling interest in such an acquisition. Therefore, on a cumulative basis, the acquirer achieves a controlling interest.

12. As described earlier, paragraph 20 of the BC ED states that "in the absence of evidence to the contrary, the exchange price (referred to as consideration transferred …) paid by the acquirer on the acquisition date is presumed to be the best evidence of *the acquisition-date fair value of the acquirer's interest in the acquiree*" (emphasis added). The BC ED intentionally proposed that acquirers should have some latitude in deciding how best to measure the fair value of the *acquiree, as a whole*. That is because a business combination can occur in many ways, and in many of those situations, the consideration transferred will not be representative of the fair value of the *acquiree as a whole*. For example:

(a) In a partial or step acquisition, the consideration transferred for a partial interest is likely representative of the fair value of the *interest acquired*, but not representative of the fair value of the acquiree, as a whole. However, the consideration transferred for a partial interest will likely be one piece of information that is used to measure the acquiree, as a whole.

(b) In a business combination effected through the exchange of privately held shares, the consideration transferred may be less reliably measurable than the acquiree.

(c) In a business combination that occurs through the lapse of minority veto rights, no consideration would be transferred on the acquisition date and the fair value of the acquiree would have to be measured directly.

13. The staff observes that the objective of the BC ED was to use the consideration transferred, if possible, to measure the fair value of the acquiree, as a whole, (or at least to measure the fair value of the interest acquired) for purposes of calculating goodwill. That is because the Boards believed that using the consideration transferred, if possible, was simpler, reduced the costs of applying the standard, and most likely was the best measure of the fair value of the acquiree (or the interest acquired in the acquiree).

14. The remainder of this memo is based on some of the recent deliberations in the Fair Value Measurements project and reflects situations in which the consideration transferred might or might not differ from the fair value of the acquiree (or the fair value of the interest acquired). This memo also suggests the different alternatives the Boards might consider.

TRANSACTION PRICE AND FAIR VALUE IN A BUSINESS COMBINATION

15. In the Fair Value Measurements project, the FASB acknowledges that in many situations (but not presumptively) the transaction price represents the fair value of the asset or liability at its initial recognition. However, the following are examples in which the *entry price* (transaction price) might differ from the *exit price*:

(a) The market in which the transaction occurs is different from the market in which the reporting entity would sell or otherwise dispose of the asset or transfer the liability.

(b) The unit of account represented by the transaction price is different from the unit of account of the asset or liability measured at fair value.

(c) The transaction occurs under duress or the seller is forced to accept the price in the transaction because of urgency.

(d) The transaction is between related parties.

16. This list of examples will be included in the FASB's Fair Value Measurements Statement. This list is not exhaustive; it reflects those circumstances that would be routinely considered in determining whether the

transaction price represents fair value. The staff believes that the presence of any of those examples might constitute evidence that the consideration paid is not the fair value of the interest acquired. Each of those examples is considered below.

Example One: Could the market in which the business combination occurs be different from the market in which the reporting entity would sell or otherwise dispose of the acquired interest?

17. In the Fair Value Measurements project, the FASB concluded that a fair value measurement reflects a transaction between market participants in the *principal market* for the asset or liability or, when no single market represents a principal market, in the *most advantageous market* for the asset or liability, considered from the perspective of the reporting entity that holds the asset or liability.[4] The *principal market* is the market with the greatest volume or level of activity for the asset or liability. The *most advantageous market* is the market that maximizes the net amount that would be received for the asset and minimizes the net amount that would be paid to transfer the liability.

18. Therefore, when a transaction occurs in a market other than the principal market (or the most advantageous market) for the asset or liability, considered from the perspective of the entity that holds the asset or liability, the transaction price is not fair value. In that case, the entry market where the reporting entity acquired the asset or incurred the liability differs from the exit market where the entity would sell or otherwise dispose of the asset or transfer the liability. For example, consider the retail (customer) market versus the dealer market in measuring the fair value of a derivative instrument. The transaction price received by the reporting entity in the retail (entry) market would likely differ from the price at which the derivative instrument could be laid-off to a market participant in the dealer (exit) market.

[4] At its March 15, 2006 meeting, the FASB decided to remove references to "reference market" from the fair value definition and elsewhere within the Fair Value Measurements Statement because it created confusion in determining how the reference market concept should be applied. Instead, the FASB decided to clarify the reference market principle in the context of the principal market or, in the absence of a principal market, the most advantageous market in which the entity would sell or otherwise dispose of the asset or transfer the liability.

19. There are two types of markets where business combinations can occur: the stock market or the mergers and acquisitions (M&A) market. These two markets have different characteristics. For example:

> The stock market is the market for minority interests in common stock. The principal buyers and sellers are individuals, mutual funds and financial institutions. The market is highly liquid, individual investment horizons may be short, and risk tolerances can be greater than in illiquid markets. Financing is often readily available from banks and brokers at short-term money rates. Investors are generally passive. Individual investments are usually purchased as part of diversified portfolios, which leads to greater tolerance for risk.
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> The [mergers and acquisitions] market is a market for whole companies. The principal buyers…and sellers are controlling stockholders, corporations and [leveraged buyout] houses. The market is illiquid; as a result, individual investment horizons tend to be longer. Risk tolerances in the short term tend to be lower than in a liquid market. Transactions are financed using long-term debt from banks, insurance companies, mezzanine funds, equity of large corporations, and private equity funds. [Mergers and acquisitions] investors take an active role in managing their companies.[5]

20. The majority of business combinations occur in the M&A market either as 100 percent acquisitions or, to a lesser extent, as partial or step acquisitions. However, a business combination can occur in the stock market by acquiring equity interests from multiple noncontrolling shareholders. Two examples of business combinations occurring in the stock market by acquiring equity interests from multiple noncontrolling shareholders are:

(a) A "tender offer" (U.S.) or an "offer to the market" (IASB)—….a public, open offer by an entity to buy stock from the existing stockholders of a publicly traded corporation under specific terms in effect for a specific period…..In a tender offer, the stockholders of the targeted company are asked to tender or surrender their stock holdings for a stated value (usually higher than the current market price or at premium) subject to the tendering of a minimum and maximum number of shares. For instance, if a corporation's stock were trading at a value of $1/share, an acquirer might offer $1.15/share to its shareholders

[5] Mark Lee, "Control Premiums and Minority Discounts: the Need for Specific Economic Analysis", *Shannon Pratt's Business Valuation Update* (August 2001), as quoted in Shannon Pratt, *"Business Valuation Discounts and Premiums"*, John Wiley & Sons, Inc., New York, 2001.

on the condition that 51% of shareholders agree (Wikipedia definition).

(b) A hostile takeover—….occurs when a company attempts to buy out another whether the management of the target company likes it or not. A hostile takeover can usually occur only through publicly traded shares, as it requires the acquirer to bypass the board of directors and purchase the shares from other sources. This is difficult unless the shares of the target company are widely available and easily purchased (i.e., they have high liquidity)…. (Wikipedia definition).

100 Percent Acquisitions (Equity Interests or Net Assets)

21. The staff believes that for 100 percent acquisitions, which are the majority of acquisitions, the entry market virtually would always be the same as the exit market. For example:

(a) A purchase from a single shareholder of a 100 percent interest or the net assets of a business that was acquired in the M&A market likely would be sold in the M&A market in a single (exit) transaction because of the size of the holding and because of the higher price that would be realized for the prerogatives of control attached to such an interest.

(b) A purchase of a 100 percent interest or the net assets of a privately-held business that was acquired in the M&A market also would be sold in the M&A market since it cannot be sold in the stock market.

22. Therefore, in the above circumstances, where the consideration transferred is readily measurable, such consideration is likely to be representative of the fair value of the acquiree as a whole, considering that the entry market for the acquired interest (the acquiree as a whole) would be the same as at the exit market.

Partial and Step Acquisitions

23. In a partial or step acquisition, the consideration transferred will not relate to the acquiree as a whole, but to a partial controlling or noncontrolling interest. As such, the consideration transferred will likely be one piece of information that is used to measure the fair value of the acquiree. However, to the extent that information is used, it may be necessary to establish whether the acquisition-date fair value of the consideration transferred is the

best evidence of the acquisition-date fair value of the *acquired interest* (less than 100% in a partial or step acquisition).

24. Similar to 100 percent acquisitions, the staff believes that for the majority of partial and step acquisitions the entry market would be the same as the exit market. For example:

(a) A purchase of a 60 percent interest from a single shareholder that was acquired in the M&A market would likely be sold in the M&A market in a single (exit) transaction because of the size of the holding and because of the higher price that would be realized for the prerogatives of control attached to such an interest.

(b) A purchase of a 60 percent interest in a privately-held business from a single shareholder that was acquired in the M&A market also would be sold in the M&A market since it cannot be sold in the stock market.

25. However, the staff believes that there might be circumstances in less than 100 percent acquisitions where the entry market might not be the same as the exit market. For example, if the acquired controlling interest was acquired in a tender offer/offer to the market, the controlling interest *in the aggregate* might be sold in the M&A market rather than the stock market because a higher price *might* be obtained in the M&A market.[6] The staff says "might" because in a hostile takeover or a tender offer/offer to the market, the acquirer typically pays a premium per share over the market price of an individual share. Therefore, the price paid in the stock market might approximate or even exceed the price that would be received in the M&A market. Regardless, the exit market might differ from the entry market in those situations in which a controlling interest was acquired from multiple noncontrolling shareholders.

26. The staff believes that there might be circumstances in step acquisitions where the entry market might not be the same as the exit market. In a step acquisition, the purchase of the noncontrolling interest that results in

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[6] The staff believes that hostile takeovers and tender offers/offers to the markets generally fall into the category of partial or step acquisitions. That is because it is unlikely that all shareholders of a publicly traded company will accept the offer, which would make such a

the acquirer obtaining control of the acquiree can take place either in multiple transactions from noncontrolling shareholders in the stock market or in a single transaction in the M&A market. The acquired noncontrolling interest might be sold by the reporting entity in either one of those two markets. The exit market may depend on, for example, the size of the holding and on whether the entity is privately held.

Staff Observation

27. In summary, the staff believes that the entry market might not be the same as the exit market in a step acquisition or when a business combination occurs by acquiring equity interests from multiple noncontrolling shareholders such as in a tender offer/offer to the market or a hostile takeover. In those situations, the staff believes that the consideration transferred might <u>not</u> be the best evidence of the fair value of the acquired interest in the aggregate.

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business combination a partial acquisition or a step acquisition (if the acquirer had a previously acquired interest).

Example Two: Does the unit of account represented by the transaction price in a business combination differ from the unit of account for the asset or liability measured at fair value?

28. Based on the discussions in the Fair Value Measurements project, a multiple-element transaction is, for example, one in which:

(a) The asset or liability measured at fair value is only one of the elements of the transaction for which the transaction price was paid.

(b) The transaction price includes transaction costs.

(c) The unit of account represented by the transaction price is otherwise different from the unit of account of the asset or liability measured at fair value.

What Does the Transaction Price Measure in a Business Combination?

100 Percent Acquisitions (Equity Interests or Net Assets)

29. As described earlier, the BC ED proposed that the acquirer:

(a) <u>Measure</u> and <u>recognize</u> the acquisition-date fair value of the identifiable assets acquired and liabilities assumed with limited exceptions (paragraph 28, paraphrased).

(b) <u>Measure</u> the acquisition-date fair value of the acquiree, as a whole, to calculate the goodwill related to the acquisition (paragraph 19, paraphrased).

30. From the above discussion it follows that:

(a) The acquirer would measure the acquisition-date fair value of the acquired business, as a whole. In that regard, in a 100 percent acquisition, the consideration transferred (adjusted for transaction costs, etc.) is for the acquired business as a whole, in a **single-element transaction**.

(b) The business in turn comprises assets and liabilities. The acquirer would then measure and recognize the acquisition-date fair value of the acquired assets and liabilities (with limited exceptions).

In this step, it would be inappropriate to use the consideration transferred for the business as a whole to measure the fair value of any individual acquired asset or liability or any particular group of acquired assets or liabilities. That is because the acquired assets and liabilities comprise multiple elements purchased in the transaction. The consideration transferred in a

100 percent acquisition is paid for the business as a whole, that is, for the sum of all assets and liabilities.

31. Therefore, in an 100 percent acquisition (equity or net assets), where the consideration transferred is readily measurable, the consideration transferred is presumptively the fair value of the acquiree as a whole, considering that the transaction price is paid for the acquired business as a whole in a single-element transaction.

Partial and Step Acquisitions

32. As observed earlier, in a partial or step acquisition, the consideration transferred is not for the acquiree as a whole, but for a partial controlling or noncontrolling interest. As such, the acquisition-date fair value of the consideration transferred will likely be one piece of information that is used to measure the acquiree. However, to the extent that information is used, it may be necessary to establish whether the consideration transferred is the best evidence of the acquisition-date fair value of the acquired interest (less than 100 percent in a partial or step acquisition).

33. In that regard, similar to the analysis of 100 percent acquisitions, in a partial or step acquisition the consideration transferred is for the acquired controlling or noncontrolling interest in a **single-element transaction**. The acquired interest, in turn, represents a claim on a portion of the underlying assets and liabilities of the business. However, it would be inappropriate to use the consideration transferred for the acquired interest to measure the fair value of any individual acquired assets or liabilities or any particular group of acquired assets or liabilities or portions thereof because (the claims on portions of) the acquired assets and liabilities comprise multiple elements purchased in the transaction.

Transaction Price

All Acquisitions

34. The BC ED proposes that the "[c]osts the acquirer incurs in a business combination (also called acquisition-related costs) are not part of the consideration transferred in exchange for the acquiree" (paragraph 27).[7] Those costs generally would be required to be expensed as incurred. The BC ED also proposes that the acquirer "assess whether any portion of the transaction price (payments or other arrangements) and any assets acquired or liabilities assumed or incurred are not part of the exchange for the acquiree." (paragraph 69). The foregoing adjustments ensure that the transaction price paid is free of elements unrelated to the exchange for the acquiree in all acquisitions.

Partial and Step Acquisitions

35. The staff observes that in some situations involving partial or step acquisitions (for example, a tender offer/offer to the market), the transaction price in a business combination might represent an accumulation of the prices paid in transactions with multiple noncontrolling shareholders over a period of time. In that case, the transaction price would reflect the sum total of prices for multiple noncontrolling interests, which are a different unit of account from the aggregate acquired interest. The staff acknowledges that acquirers may view such arrangements as a single transaction, price them as a block, and offer the same per share consideration to all potential sellers. However, such acquisitions comprise multiple transactions, and the price that may be acceptable to each noncontrolling shareholder may not be acceptable to the seller of an interest of the same aggregate amount. As a result, it appears that when the unit of account based on which the transaction price in a business combination is derived (for example, a number of noncontrolling interests) is different from the unit of account measured at fair value (for example, a controlling interest) an independent fair value measurement of the acquired interest should be performed. That issue is *directly* related to the

preceding issue (Example One) which discusses situations in which the entry market and the exit market for equity interests might differ. The two are related because typically noncontrolling interests (as a unit of account) are acquired in the stock market while controlling interests (as a unit of account) are sold in the M&A market. In fact, different entry and exit markets may exist for an acquired interest *because of* the different unit of account in which the interest was accumulated, when compared to the unit of account of the aggregate interest acquired at the measurement date that would be sold by the reporting entity.

Staff Observation

36. In summary, the staff believes that the unit of account represented by the transaction price might differ from the unit of account of the acquired interest in a partial or step acquisition only in rare circumstances (when a business combination occurs by acquiring equity interests from multiple noncontrolling shareholders such as in a tender offer/offer to the market or a hostile takeover).[8] Therefore, the staff believes that a business combination that occurs by acquiring equity interests from multiple noncontrolling shareholders might constitute evidence that the consideration transferred is <u>not</u> the best evidence of the fair value of the acquired interest in the aggregate.

Example Three: Did the business combination occur under duress or was the seller forced to accept the price in the transaction because of urgency?

37. A business combination that occurs under duress or in which the seller is forced to accept a price because of urgency would fall outside the definition of fair value (both with respect to the revised and the earlier fair value definitions). In such a business combination, there is persuasive evidence that the consideration transferred (the entry price) is <u>not</u> the fair value of the acquired interest (the exit price).

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[7] Refer to FASB Memo #15/IASB Agenda Paper 2B for the staff's analysis of accounting for acquisition-related costs.

[8] The staff notes that this memo does not address how the transaction price paid for a partial interest would be used to measure the fair value of the whole business. The staff will bring that issue back to the Boards at a later meeting.

38. In their deliberations of bargain purchases, the Boards observed that unlike a typical business combination, an economic gain is inherent in a bargain purchase. Therefore, conceptually, an acquirer should recognize a gain at the acquisition date. Implicit in that conclusion is the recognition that the consideration transferred in a bargain purchase does not reflect the fair value of the acquired interest because a different (higher) price would be realized by the reporting entity in a transaction not affected by duress or urgency. However, the Boards decided that if the fair value of the acquirer's interest in the acquiree exceeds the acquisition-date fair value of the consideration transferred for that interest, the acquirer should reduce to zero any goodwill related to that acquisition and then recognize any remaining excess as a gain on the acquisition date. Therefore, the only time an acquirer would recognize a gain would be if the acquisition-date fair value of the net identifiable assets exceeds the acquisition-date fair value of the consideration transferred. From that decision, it appears that the Boards have chosen to use the consideration transferred (transaction price) rather than a fair value measurement of the acquiree.

Example Four: Is the business combination between related parties?

39. Similar to a business combination occurring under duress, a business combination occurring between related parties also would fall outside the definition of fair value (both with respect to the revised and the earlier fair value definitions).[9] The staff believes that a business combination occurring between related parties constitutes evidence that the fair value of the consideration transferred is <u>not</u> the best evidence of the fair value of the acquired interest.

40. The staff notes that in a business combination between related parties an acquirer might pay *less or more* than what the acquired interest is worth, which, conceptually, should result in the recognition of a *gain or a loss*. The

[9] The staff notes that business combinations between entities under common control, which are a subset of related party business combinations, are outside the scope of the Business Combinations project.

staff notes that recognition of a gain or a loss seems to conflict with the Boards' decision for bargain purchases and overpayments.

Staff Analysis

41. The staff believes that, consistent with the Fair Value Measurements project, in many (or, in this context, most) cases:

(a) In an 100 percent acquisition, the consideration transferred is presumptively the acquisition-date fair value of the acquiree, as a whole.

(b) In a less than 100 percent acquisition, the consideration transferred is presumptively the acquisition-date fair value of the interest acquired and that the fair value of the interest acquired likely will be used as one piece of information in measuring the fair value of the acquiree as a whole.

42. However, as described in paragraph 15, the FASB's Fair Value Measurements Statement will include four examples in which the entry price might differ from the exit price. In the staff's view, it seems that a business combination might occur under any one of those examples. For example:

(a) The market in which a business combination occurs might be different from the market in which the acquirer would sell or otherwise dispose of the aggregate acquired interest.

(b) The unit of account represented by the consideration transferred might be different from the unit of account of the acquired interest in the aggregate.

(c) A business combination might occur under duress or a seller might be forced to accept a price because of urgency.

(d) A business combination might occur between related parties.

43. *Do the Boards agree with the staff's analysis of how the latest thinking in the Fair Value Measurements project would affect the transaction price presumption in the Business Combinations project?*