



**International  
Accounting Standards  
Board**

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*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

## **INFORMATION FOR OBSERVERS**

**Board Meeting:**        **February 2006, London**

**Project:**                **Business Combinations II**

**Subject:**                **Overview of February Papers and Next Steps (Agenda Paper 3)**

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## **INTRODUCTION**

1. In January the staff presented to the Boards a draft plan for considering the comment letters received on Phase II of the Business Combinations project. In that draft the staff proposed bringing back to the Boards in February papers on the accounting for partial and step acquisitions, bargain purchases and overpayments and a scope issue on joint ventures.
2. The staff have amended the plan, based on comments made at the January Board meetings and staff discussions. The fundamental change in the deliberation process is to consolidate the discussion of the principles underpinning the proposals at the March [IASB] and early April [FASB] meetings. As a consequence the discussions on partial and step acquisitions have been moved into March.

## **FEBRUARY**

3. The staff are presenting two papers; a paper reviewing the definition of a business combination and a paper confirming that joint ventures remains outside the scope of this project. The paper on bargain purchases has been shifted to March. The CICA staff provided the FASB and IASB staff with a paper that analyzes their concerns about the proposed accounting for bargain purchases. The FASB and IASB staff received that paper just recently. The delay provides the FASB and IASB staff with additional time to incorporate staff comments on the paper received from the Canadian staff.

### ***Joint ventures***

4. The BC ED proposed excluding from the scope of its guidance the formation of joint ventures. In January, the Boards affirmed the staff's view that they could reach an informed decision on this issue based solely on an analysis of comments by respondents. In this meeting the staff are asking the Boards to affirm the decision not to consider the accounting for joint ventures in this phase of the project and, therefore, to exclude the formation of joint ventures from the application of the acquisition method in the business combinations standard.

### ***Definition of a business combination***

5. In January the Boards agreed that the staff should analyse how to resolve respondents' concerns that the definition of a business combination proposed in the Business Combinations Exposure Draft (BC ED) does not include "true mergers". The staff are seeking a decision from the Boards on how they would prefer the staff to structure the definition of a business combination.
6. The staff are not, in this paper, asking the Boards to reconsider which types of transactions or events should result in the application of the acquisition method. The Boards will be given an opportunity to reconsider that issue at a future meeting(s). For example, at a future meeting the Boards will be presented with a comment letter analysis on the application of the acquisition method to mutual entities and cooperatives and asked to consider whether the acquisition method should be required for combinations involving those types of entities. However, the staff believe that it is likely that the Boards will continue to require the application of the acquisition method to transactions or events other than for the typical legal parent – legal subsidiary business combinations.

### **MARCH**

7. The staff will present papers that will ask the Boards to affirm the basic principles on which the proposals are developed. This will include confirming the importance of achieving (and losing) control of an entity, that on achieving control the acquirer should recognise all of the assets acquired (including goodwill) and all of the liabilities assumed and that the measurement attribute for these assets and liabilities is fair value. The staff believe that most of the discussion that follows, over the next few months, will focus on exceptions to those principles.
8. During the January Board meeting, some Board members indicated that they think that the drafting of the principles could be improved. So that the discussion is not distracted by the current wording the March papers will present the principles in very simple terms rather than using the words from the proposed standards. That is to say, the staff are treating the final wording as a drafting issue.

9. The staff also plan to present a discussion of step acquisitions and post-control changes in ownership levels that do not result in the loss of control, since those issues are related to step and partial acquisitions in that they relate to recognizing the acquiree on the acquisition date. And, as indicated above, the paper on bargain purchases and overpayments will be presented.