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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting: **February 2006, London**

Project: **Business Combinations II**

Subject: **Definition of a Business Combination (Agenda Paper 3B)**

INTRODUCTION

1. 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". This paper:

    a. outlines respondents' concerns about the proposed definition of a business combination,

    b. summarises previous Board discussions of the definition of a business combination,

    c. proposes several approaches for addressing respondents' concerns, and

    d. asks the Boards to select one of those approaches.

2. In this phase of the project the Boards are (1) improving and converging the guidance on how to apply the acquisition method of accounting for a business combination and (2) identifying which types of transactions and events should result in the application of the acquisition method in the business combinations standard. One of the decisions reached in this phase was to include within the scope of the acquisition method business

combinations that occur through means other than a purchase of net assets or equity interests and business combinations between mutual entities.[1] By taking this step the Boards have decided to extend the application of the acquisition method to a wider set of activities than is currently the case under either IFRS 3 *Business Combinations* or FASB Statement No. 141, *Business Combinations*, such as combinations by contract alone (including dual listed corporation structures and stapling transactions), combinations between mutuals and combinations between cooperatives. 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.

3. Accordingly, the purpose of this paper is to seek direction from the Boards on how best to structure the definition of a business combination in response to comments that the definition proposed in the BC ED might not include some transactions or events that should result in the application of the acquisition method.

CONCERNS ABOUT THE PROPOSED DEFINITION OF A BUSINESS COMBINATION

4. Through analysis of comment letters and discussions with Board members, the staff have identified several issues with the scope of the BC ED, the proposed definition of a business combination and the related guidance on identifying the acquirer.

5. The scope paragraph in the BC ED states, “An entity shall apply this [Statement/IFRS] when accounting for business combinations…” (paragraph 2). The BC ED defines a business combination as “a transaction or other event in which an acquirer obtains control of one or more businesses” (paragraph 3(e)). Control is defined in the BC ED by referring to the definition of control in IAS 27 *Consolidated and Separate Financial Statements* or the definition of a controlling financial interest in the FASB’s Non-Controlling Interests

[1] See the January 2006 IASB Agenda Paper 6.

Exposure Draft (NCI ED). Taken together, these paragraphs could be read as limiting the scope of the BC ED to transactions or other events in which an **acquirer obtains control** of one or more businesses.

6. However, the BC ED also requires application of the acquisition method to those rare combinations, if they exist, in which one of the combining entities does not obtain control of the other combining entity (paragraph BC32 of the IASB's BC ED)[2]. Several respondents to the BC ED noted this inconsistency between the proposed definition of a business combination and paragraph BC32. Some respondents stated that the proposed definition excludes "true mergers" or "mergers of equals" from the scope of the guidance in the BC ED. The London Society of Chartered Accountants response was representative of those respondents. They stated:

> We believe that the definition in IFRS 3 should be retained: 'the bringing together of separate entities or businesses into one reporting entity'. The proposed definition does not take into account of what companies might believe to be, or try to present as true mergers. While we agree that all business combinations should be accounted for using the purchase method and that, inter alia, an acquirer must be identified, the proposed definition would appear to exclude true mergers from the standard's scope and opens up an area of unnecessary debate between preparers and auditors. [CL #150]

7. In addition, the proposed definition of a business combination might exclude transactions that some constituents might consider to be "business combinations" or "the combining of businesses" such as joint ventures and combinations involving entities under common control. However, those transactions are excluded from the scope of the proposed standard.

8. The BC ED also includes guidance on identifying the acquirer in a business combination when that determination cannot be made using the guidance on control in IAS 27 or the FASB's NCI ED and FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. For example, the guidance states that in the case of a reverse acquisition, the acquirer is the entity whose equity interests have been acquired and the issuing entity is the acquiree. This indicates that transactions can exist

[2] Paragraph BC32 of the IASB's BC ED states:

> Even though the new definition focuses on control, all business combinations included in the scope of IFRS 3 are within the scope of the draft revised IFRS 3. Like IFRS 3 and SFAS 141, the proposed IFRS will continue to require the acquisition method to be applied to those rare combinations, if any, for which one of the combining entities does not obtain control of the other combining entity. However, the Board noted that it is committed to exploring in a future phase of its Business Combinations project whether the 'fresh start' method might be applied to these combinations.

where the legal ownership or control of an entity might not be the same as the economic control that the IFRS 3 and SFAS 141R proposals are based on. The staff are concerned that this could imply that reverse takeovers, for example, are outside of the scope of the proposed definition of a business combination because they do not result in an acquirer obtaining control of a business (as control is defined by reference to IAS 27 or the FASB's NCI ED). Because the Boards have decided that those transactions should be accounted for by applying the acquisition method under the BC ED, it is important that it is clear that the transactions are in the scope of the business combinations standard.

BACKGROUND ON THE PROPOSED DEFINITION OF A BUSINESS COMBINATION

9. In Phase II of the business combinations project, the Boards discussed the definition of a business combination at the following meetings:

    a. The IASB's December 2004 (Agenda Paper 2A), November 2004 (Agenda Paper 8B) and February 2003 (Agenda Paper 2B) meetings

    b. The FASB's 24 November 2004 and 26 February 2003 meetings

10. The following paragraphs summarise the development of the proposed definition of a business combination by the IASB, by the FASB, and jointly by the IASB and FASB.

IASB Discussions

11. The proposed definition of a business combination ("a transaction or other event in which an acquirer obtains control of one or more businesses") is narrower than the definition in IFRS 3. A business combination is defined in paragraph 4 of IFRS 3 as "the bringing together of separate entities or businesses into one reporting entity".

12. The IFRS 3 Basis for Conclusions explains that:

> BC7 The Board [IASB] concluded that the definition of a business combination should be broad enough to encompass…all transactions or other events in which separate entities or businesses are brought together into one economic entity, regardless of the form of the transaction. In developing ED 3 and the ensuing IFRS, the Board [IASB] considered the following description contained in the US Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 141 *Business Combinations* (SFAS 141):

> a business combination occurs when an entity acquires net assets that constitute a business or acquires equity interests of one or more other entities and obtains control over that entity or entities. (paragraph 9)

> BC8 The Board [IASB] was concerned whether the above description would, in fact, encompass all transactions or other events in which separate entities or businesses are brought together into one economic entity. That concern stemmed from the use of the term 'acquires' in the above description, and its implication that a business combination is always the result of one entity acquiring control of one or more other entities or businesses, ie that all business combinations are acquisitions. The Board [IASB] concluded that it should not rule out the possibility of some transaction or other event occurring or being structured in which separate entities or businesses are brought together into one economic entity, but without one of the combining entities acquiring control of the other combining entities or businesses. Therefore, the Board decided to develop a more general definition.

13. Initially the IASB did not plan to reconsider the definition of a business combination in phase II of the business combinations project. However, the decision to develop a single standard on accounting for business combinations prompted the IASB to reconsider it, given that it was an area of divergence for the Boards (see discussion below under **Joint IASB/FASB Discussions**).

14. The IASB decided to narrow the definition of a business combination because the IFRS 3 definition could be read to include circumstances in which there may not be an economic event or transaction that triggers a business combination. Consequently, there may not be a change in an economic entity per se. Rather, a business combination could take place when entities or businesses are brought into one reporting entity. This could occur when, for example, an individual decides to prepare combined financial statements for all or some of the entities that he or she controls. The IASB concluded that a business combination should be described in terms of an economic event rather than in terms of consolidation accounting.

FASB Discussions

15. The definition of a business combination proposed in the BC ED ("a transaction or other event in which an acquirer obtains control of one or more businesses") is broader than the definition in Statement 141. A business combination is defined in paragraph 9 of Statement 141 as follows:

> For purposes of applying this Statement, a *business combination* occurs when an entity acquires net assets that constitute a business or acquires equity

> interest of one or more other entities and obtains control over that entity or entities. This Statement does not address transactions in which control is obtained through means other than an acquisition of net assets or equity interest. . . . [Footnote references omitted.]

16. Paragraph B23 of Statement 141 explains that at that time:

> The Board [FASB] affirmed the decision it made in developing the 1999 Exposure Draft that [Statement 141] would not address transactions, events, or circumstances that result in one entity obtaining control over another entity through means other than the acquisition of net assets or equity interests. Therefore, [Statement 141 did] not change current accounting practice with respect to those transactions. For example, if a previously unconsolidated majority-owned entity is consolidated as a result of control being obtained by the lapse or elimination of participating veto rights that were held by minority stockholders, a new basis for the investment's total carrying amount is not recognized under current practice. Instead, only the display of the majority-owned investment in the consolidated financial statements is changed. The majority-owned entity is consolidated rather than reported as a single investment accounted for by the equity method. That treatment is consistent with the practice for accounting for step acquisitions, in which a parent obtains control of a subsidiary through two or more purchases of the investee-subsidiary's stock. . . .

17. In February 2003, the FASB decided to broaden the definition of a business combination as follows:

> For purposes of applying this Statement, a *business combination* occurs when an entity[X] obtains control[Y] over a business[Z] or businesses through the acquisition of its net assets or its equity interests, or through other means.
>
> ---
>
> [X] This Statement applies to a business enterprise, a new entity formed to complete a business combination, or a mutual enterprise, each of which is referred to herein as an entity. That term can refer to any of the various forms in which the participants in a business combination may exist. However, a new entity formed to complete a business combination would not necessarily be the acquiring entity.
>
> [Y] Control is generally indicated by "ownership by one company, directly or indirectly, of over 50 percent of the outstanding voting shares of another company" (ARB No. 51, Consolidated Financial Statements, paragraph 2, as amended by FASB Statement No. 94, Consolidation of All Majority-owned Subsidiaries), although control may exist in other circumstances.
>
> [Z] EITF Issue No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business," provides guidance on determining whether an asset group constitutes a business.

18. The FASB made this revision because it concluded that the accounting for a change in control resulting in the acquisition of a business should not differ based on the means in which control is obtained. Therefore, the FASB decided to expand the definition of a business combination to make it applicable to all transactions or other events that result in

an entity obtaining control of a business, not only those in which an acquirer purchases the net assets or equity interests of a business. Without this revision, the Statement 141 definition would have resulted in some events being accounted for as business combinations under international guidance, but not under U.S. GAAP (e.g. a change in control through the lapse of minority veto rights or an entity repurchasing some of its own shares would have been a business combination under IFRS 3, but not under Statement 141).

19. At that February 2003 FASB meeting, the FASB also considered using the definition of a business combination in IFRS 3 ('the bringing together of separate entities or businesses into one reporting entity'). However, the FASB decided not to adopt that definition. First, it was not clear in the IFRS 3 definition that the entity brought into the reporting entity had to be a business. Secondly, the FASB decided that the IFRS 3 definition was too broad for its purposes and inconsistent with the conclusions reached at the time it issued Statement 141:

> The Board concluded that "true mergers" or "mergers of equals" are nonexistent or so rare as to be virtually nonexistent, and many respondents agreed. Other respondents stated that even if a true merger or merger of equals did occur, it would be so rare that a separate accounting treatment is not warranted. They also stated that developing the criteria necessary to identify those transactions simply would be a continuation of the same problems and potential for abuse evidenced by Opinion 16….The Board further observed that respondents and other constituents were unable to suggest an unambiguous and nonarbitrary boundary for distinguishing true mergers or mergers of equals from other two-party business combinations and concluded that developing such an operational boundary would not be feasible….[Statement 141, paragraph B42]

20. The FASB decided to focus on *control* being the factor that triggers a business combination because it was consistent (1) with the notion that control is the factor that triggers the requirement to prepare consolidated financial statements, (2) the view of some FASB members that a change in control is a "remeasurement" event, which supports expanding the application of the acquisition method to transactions that are not "purchases" in the traditional sense, and (3) the basis for excluding common control transactions from the standard. In addition, the FASB did not want to raise false expectations on the part of its constituents that it would reconsider the fresh-start alternative as part of this project.

Joint IASB/FASB Discussions

21. The staff identified the definition of a business combination as an issue when drafting the joint BC ED. In phase II of the project, the IASB had not reconsidered the definition in IFRS 3 ("the bringing together of separate entities or businesses into one reporting entity"). The FASB had agreed to define a business combination as "a transaction or other event in which an acquirer obtains control over one or more businesses".

22. In November 2004, the staff asked the Boards whether they wanted to explore developing a converged definition of a business combination before the joint ED was issued or whether they wanted to expose their separate definitions. The IASB expressed a preference for developing a new definition of a business combination if it could be done quickly and not delay the issuance of the joint Exposure Draft. As a second choice, the IASB stated that it would adopt the FASB definition that was developed in phase II if the FASB decided against developing a new definition.

23. Before the FASB's November 2004 meeting, the staff distributed a memo to the FASB that outlined the following two new alternatives for defining a business combination:

    a. A business combination is a transaction or event that brings one or more businesses into a reporting entity by means of obtaining control or otherwise.

    b. A business combination is any transaction or event that results in the initial inclusion of a business in the financial statements of an acquirer.

24. The staff and FASB Board members identified advantages and disadvantages of each of the proposed definitions. Neither the staff nor the FASB could come to agreement on any one definition. Because the FASB believed that a new definition could not be developed quickly and because a majority still preferred the FASB's definition, the FASB decided to retain the definition of a business combination that it had developed earlier in the project.

25. In December 2004, the IASB decided to adopt the FASB's definition of a business combination. Although the IASB intended its definition of a business combination to be broader than transactions in which one entity obtains control of another (or others), IFRS 3, like SFAS 141, requires a single method to be applied in accounting for all business combinations in its scope—the acquisition method. Paragraph BC38 of IFRS 3 states:

> The Board [IASB] concluded that even if 'true mergers' exist and were to be accounted for using a method other than the purchase method, suitable non-arbitrary and unambiguous criteria would be needed to distinguish those transactions from business combinations in which one entity obtains control of another entity (or entities). The Board [IASB] observed that such criteria do not exist at present and, based on the history of the pooling of interests method, would be likely to take considerable time, and be extremely difficult, to develop. The Board [IASB] also noted that:
>
> (a) one of its primary aims in the first phase of the project is to seek international convergence on the method(s) of accounting for business combinations.
> (b) permitting more than one method of accounting for combinations would create incentives for structuring transactions to achieve a desired accounting result, particularly given that the different methods (ie the purchase method and the pooling of interests method) produce significantly different accounting results.
> (c) true mergers, assuming they exist, are likely to be rare.
> (d) it does not follow that the pooling of interests method is the appropriate method of accounting for true mergers, assuming they exist. For the reasons outlined in paragraphs BC50-BC53, the Board concluded that in no circumstances does the pooling of interests method provide information superior to that provided by the purchase method, and that if true mergers were to be accounted for using a method other than the purchase method, the 'fresh start' method was likely to be more appropriate than the pooling of interests method.

IFRS 3 also excludes formations of joint ventures from its scope. As a result, the FASB's proposed definition of a business combination and the IFRS 3 definition in conjunction with the scope exclusion for joint ventures would result in the same transactions or events being accounted for as business combinations using the acquisition method.

STAFF ANALYSIS AND RECOMMENDATION

26. To address concerns that the BC ED definition of a business combination might not include some transactions or events that the Boards intend to result in the application of the acquisition method, the staff present three alternatives for the Boards to consider.

   a. Alternative A—broaden the definition of a business combination and scope out some types of transactions from application of the acquisition method.

   b. Alternative B—develop a more descriptive definition of a business combination.

   c. Alternative C—retain the BC ED definition of a business combination and provide supplemental guidance that clarifies that particular transactions for which some argue do not result in one entity obtaining control of another are still business combinations.

27. The paragraphs that follow describe the three alternatives in more detail. The staff request that Board members not focus on the wording used to demonstrate the alternative approaches. Although the staff value comments on the wording, the staff's first priority is to get input from the Boards on which of the alternatives they would like the staff to pursue. The staff will address specific wording and drafting issues in more detail after the Boards have decided on a general approach. The staff also remind the Boards that they will have an opportunity to reconsider which transactions should result in the application of the acquisition method at a future meeting. The purpose of this meeting is to decide on an approach for structuring the definition of a business combination.

Alternative A—Broaden the definition of a business combination and scope out some types of transactions from application of the acquisition method

28. One alternative is to develop a broad definition of a business combination and then identify which types of business combinations should be excluded from the business combinations standard (specifically, the formation of joint ventures, combinations involving only entities or businesses under common control, and in the US, combinations between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization).[3]

29. For example, the Boards could define a business combination as follows:

> A business combination is a transaction or other event in which one or more businesses are brought into a reporting entity.

The standard then would state:

> This [IFRS/Statement] applies to all business combinations, except:
>
> (a) formations of joint ventures
>
> (b) combinations involving only entities or businesses under common control
>
> (c) combinations between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization (FASB only).

As a result, the same types of transactions would result in the application of the acquisition method under Alternative A and the BC ED.

[3] This does not preclude the application of the acquisition method to those transactions if that is determined to be appropriate when the accounting for those transactions is considered more broadly outside of this phase of the business combinations project.

30. Although the requirement to obtain control would be removed from a broader definition of a business combination, the staff note that the importance of control in the application of the acquisition method would not change. In fact, the staff would not expect changes to the guidance on the application of the acquisition method under Alternative A to be significant. The following example illustrates the type of change that would be needed:

> 10 An acquirer shall be identified in every business combination that results in the application of the acquisition method ~~for all business combinations~~.

Advantages of Alternative A

31. One advantage of Alternative A is that the broader definition of a business combination makes it clear that "true mergers", reverse acquisitions, and combinations by contract alone (including dual listed corporation structures and stapling transactions) are included in the scope of the business combinations standard. The staff acknowledge that some Board members do not believe that true mergers exist. Whether or not they exist, this definition would at least eliminate the argument put forward by some constituents that they do not have to apply the acquisition method if their business combination is a true merger.

32. The staff also note that developing a broad definition and then limiting recognition or application through additional criteria is consistent with other recent Board discussions. In the conceptual framework project, the Boards are considering broad definitions of assets and liabilities and then will narrow down which assets and liabilities should be recognised through additional recognition criteria.

33. In addition, the broader definition of a business combination would include joint ventures, combinations involving entities under common control, and other transactions that constituents might consider to be "business combinations" or "the combining of businesses". Alternative A would clarify that even though constituents might consider those transactions to be business combinations, the transactions are placed outside the scope of the business combinations standard through the development of exceptions.

Disadvantages of Alternative A

34. One potential disadvantage of Alternative A is that the definition of a business combination would not reflect the importance of control in the application of the

acquisition method. Another disadvantage is that approach also implies that some transactions that meet the definition of a business combination might be accounted for other than by applying the acquisition method. That is to say, excluding some types of transaction suggests that the Boards might develop a different accounting method for particular types of business combinations even though they are, by definition, business combinations.

Alternative B—Develop a more descriptive definition of a business combination.

35. A second alternative is to develop a more descriptive definition of a business combination. In the BC ED, a business combination is defined as "a transaction or other event in which an acquirer obtains control of one or more businesses". Other paragraphs in the ED then clarify that "true mergers", reverse acquisitions, and combinations by contract alone should result in the application of the acquisition method. Under Alternative B, a more descriptive definition of a business combination would be developed so that all transactions that should result in the application of the acquisition method in the business combinations standard are included explicitly in the definition of a business combination.

36. Under Alternative B, the definition of a business combination would be structured as follows:

> A business combination is a transaction or other event in which an acquirer:
>
> a. obtains control of one or more businesses (control would continue to be defined by reference to IAS 27 or the FASB's NCI ED); or
>
> b. can be identified using the guidance in paragraphs XX-XX of this IFRS/Statement and is deemed to obtain control of one or more businesses.

37. Part (b) of the definition would encompass transactions which are business combinations that should result in the application of the acquisition method, but that do not fit neatly into part (a) of the definition (for example, true mergers, reverse acquisitions, and combinations by contract alone). As in the BC ED, the standard would include guidance on identifying the acquirer in a business combination and state that:

> All business combinations shall be accounted for by applying the acquisition method.

38. In addition to the definition, the Boards could then provide scope exclusions in the standard that exclude the formations of joint ventures, combinations involving only

entities or businesses under common control, and in the US, combinations between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization. As a result, the same types of transactions would result in the application of the acquisition method under Alternative B and the BC ED.

Advantages of Alternative B

39. Alternative B is responsive to respondents' concerns that some transactions that result in the application of the acquisition method under the BC ED are not included in the BC ED definition of a business combination because they do not result in one entity **obtaining control** of a business.

40. In addition, Alternative B would allow the Boards to acknowledge that there may be legal and contractual differences between the typical parent-subsidiary relationship and other types of business combinations. For example, the *legal* structures of combinations involving mutual entities or stapling transactions may differ from those of "plain vanilla" business combinations. The Boards could acknowledge that they recognise these differences, but still consider that the acquisition method is the most appropriate method for accounting for these events because the transactions are *economically* similar. Thus, Alternative B would be responsive to comments received from mutuals and cooperatives that their business combinations are legally or contractually different from some other business combinations.

41. This approach also avoids trying to force a general accounting definition of a business combination on different legal and contractual events and transactions. That is to say, it acknowledges those differences but the conclusion is that they are all business combinations for financial reporting purposes.

Disadvantage of Alternative B

42. The staff acknowledge that Alternative B is the most difficult of the alternatives to implement. Some constituents who argue that their business combination is a true merger and that no one entity has obtained control might also argue that they cannot identify an acquirer based on the criteria in the BC ED. The guidance on identifying the acquirer would need to be carefully drafted to clarify that an acquirer must be identified in those transactions that entities might try to portray as true mergers. In presenting examples of

the types of transactions caught by part (b) of the definition, the staff would need to ensure the definition avoids being perceived as a checklist.

Alternative C—Retain the BC ED definition of a business combination and provide supplemental guidance that clarifies that particular transactions for which some argue do not result in one entity obtaining control of another are still business combinations.

43. A third alternative is to retain the definition of a business combination that is in the BC ED and add guidance that clarifies that particular transactions which some argue do not meet the definition do, in fact, meet that definition. The definition in the BC ED is "a business combination is a transaction or other event in which an acquirer obtains control of one or more businesses." The transactions that some argue do not meet that definition of a business combination are:

   a. True mergers or mergers of equals (including combinations between mutual entities) and some control by contract transactions such as stapling transactions and dual listed corporation structures. Some argue that these do not meet the definition because no entity obtains control of the other.

   b. Reverse acquisitions. Some argue that these do not meet the definition. The definition of a business combination is based on control as defined in IAS 27 and ARB 51. Under IAS 27 and ARB 51, a parent controls a subsidiary. However, in a reverse acquisition, the legal parent is the entity that is acquired and controlled by the legal subsidiary.

44. In the following paragraphs, the staff have shown how the paragraphs in the BC ED could be modified to implement Alternative C.

> 4. **A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.**
>
> 5. <u>Every business combination results in one entity obtaining control of a business…</u>
>
> 6. ….An acquirer might obtain control of an acquiree:
>   e. ….By <u>exchanging or </u>issuing equity interests….
>   g. By contract alone<u>, such as in a stapling transaction or dual listed corporation structure</u> ….
>
> 7. A business combination may be structured in a variety of ways for legal, taxation, or other reasons. ~~Accordingly, t~~The provisions of this [IFRS/Statement] apply equally to business combinations in which:

a. One or more businesses are merged with or become subsidiaries of an acquirer
<u>b. Two or more businesses or mutual entities are merged into a reporting entity</u>
<u>c. The legal parent is acquired by the legal subsidiary (a reverse acquisition)….</u>

Advantages of Alternative C

45. That type of guidance would clarify that those transactions entities might have tried previously to portray as true mergers would be in the scope of the business combinations standard. It also is consistent with the Boards previous discussions where they acknowledged that true mergers either do not exist or are so rare that they do not warrant differential accounting.

46. Alternative C also is an opportunity to educate constituents rather than to create a definition that continues their misunderstandings. Constituents seem to be confused about what the Board means when it discusses control. When the Boards discuss control, they discuss it at the management and board of director level and not the shareholder level. Many mutuals and cooperative respondents stated that they are different from traditional businesses because there is no change in control when mutuals or cooperatives combine since they have a one member, one vote structure both before and after a "merger." However, when the Boards discuss a change in control, they do not mean at the shareholder level, they mean at the management level. After mutuals and cooperative combine, the management or board of director structure changes and that is what we look to when identifying the acquirer.

Disadvantages of Alternative C

47. Alternative C would not provide a satisfactory answer for those respondents who believe that true mergers exist. Constituents still might argue that true mergers still fall outside the definition of a business combination and thus are not in the scope of the business combinations standard. But the staff believe that this disadvantage can be alleviated through supplemental guidance in the standard.

[Paragraphs 48-53 not reproduced in the observer notes]

QUESTION FOR THE BOARDS

54. At the February IASB meeting and 1 March FASB meeting, the staff will ask the Boards the following question:

    Which of the alternatives do the Boards support?