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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting: **19 April 2007, London**

Project: **Business Combinations II**

Subject: **Disclosures (Agenda Paper 2C)**

PURPOSE OF THE MEETING

1. Throughout redeliberations, the Boards have discussed issues proposed in the Business Combinations Exposure Draft (BC ED) and disclosures related to those issues. The purpose of this memo is to bring the entire package of business combinations disclosures back to the Boards so that they can reconsider:

   a. The cost-benefits and usefulness of the proposed disclosures

   b. Whether further disclosure convergence can be achieved

   c. Whether any disclosures should be added, deleted, or modified.

2. This paper does not discuss the disclosures for the Boards' separate Noncontrolling Interests Exposure Drafts because the Boards reviewed, discussed, and converged (where necessary) those disclosures at their April

2006 Joint Meeting. The Boards will have the opportunity to review those disclosures during the drafting process.

DISCLOSURES PROPOSED IN THE BC ED AND SUMMARY OF COMMENT LETTER RESPONSES

3. The BC ED proposed broad disclosure objectives that were intended to ensure that users of financial statements are provided adequate information to evaluate the nature and financial effects of business combinations. Those objectives are supplemented by specific minimum disclosure requirements. Following are the broad disclosure objectives that were proposed in the BC ED:

    a. The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occur:

        (1) During the period

        (2) After the balance sheet date but before the financial statements are issued. (BC ED, paragraph 71)

    b. The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period relating to business combinations that were effected in the current or previous reporting periods (BC ED, paragraph 75).

    c. The acquirer shall disclose information that enables users of its financial statements to evaluate changes in the carrying amount of goodwill during the reporting period (BC ED, paragraph 77).

4. The staff proposes minor drafting changes to those broad disclosure objectives in the table provided in paragraph 7.

Disclosure Objectives and Minimum Disclosure Requirements

5. Respondents generally agreed with the broad disclosure objectives. However, some respondents stated that the minimum disclosure requirements were excessive (generally preparers), and some respondents requested more disclosures (generally users). Some respondents

disagreed with a specific proposed disclosure or made suggestions because they disagreed with the proposed accounting for that item. Several respondents had specific suggestions for modifying the proposed disclosures, which are summarized in the table provided in paragraph 7 of this memo. This memo includes only suggestions made by respondents that were not analyzed and considered in earlier meetings.

Converging Disclosure Differences

6. The Boards reconsidered the disclosure requirements in IFRS 3, *Business Combinations,* and FASB Statement No. 141, *Business Combinations,* in their deliberations that lead to issuing the BC ED. For some of the disclosures, the Boards decided to converge. However, divergence continues to exist for some disclosures because of differing requirements in current U.S. GAAP versus IFRS (for example, the pro forma disclosures, which are discussed in the table provided in paragraph 7 (72(r)). Few respondents commented on the divergence for those disclosures. A few indicated that they understood the reasons for the differences and agreed with the disclosure differences. Other respondents stated that the Boards should eliminate the remaining disclosure differences. The staff considered any disclosure differences and whether convergence could be achieved in the table provided in paragraph 7.

DISCLOSURE REVIEW

7. The left-hand column provides a summary of the disclosures that the staff believes should be provided in the final business combinations Statement. It is marked for substantive changes (additions/~~deletions~~) from the BC ED, but not for minor drafting changes. The right-hand column provides a description of why the staff is recommending the changes. At the Board meetings, the staff will not go through these disclosures in detail. The staff will ask Board members for feedback about any disclosures they would like to add, modify or delete.

Proposed for the Final Statement	**Reasons for Changes**
71. The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occur: a. **During the current reporting period** b. **After the balance sheet date but before the financial statements are [authorised for issue (IASB)/ issued (FASB)].**	**Affirm**. *¶71 in the BC ED.* Respondents generally agree with this broad disclosure objective. A few respondents stated that disclosures should relate only to business combinations that occur during the reporting period. Some respondents suggested that it might be impracticable to disclose business combinations that occur after the balance sheet date but before the financial statements are issued and that those disclosures should be covered by subsequent event disclosures in AU 560 or IAS 10. The staff notes that there is an impracticability exception (see new paragraph 74) and that this is currently required for material business combinations by Statement 141 and for all business combinations by IFRS 3, unless impracticable. The staff believes this disclosure continues to be relevant and recommends that the Boards affirm it.
72. To meet the objective in paragraph 71, the acquirer shall disclose the following information for each material business combination that occurs during the reporting period:	
a. The name and a description of the acquiree.	**Affirm.** *¶72(a) in the BC ED.* No comments received and no changes recommended.
b. The acquisition date.	**Affirm.** *¶72(b) in the BC ED.* No comments received and no changes recommended.
c. The percentage of voting equity instruments acquired.	**Affirm.** *¶72(c) in the BC ED.* No comments received and no changes recommended.

Proposed for the Final Statement	**Reasons for Changes**
d. The primary reasons for the business combination, including a qualitative description of the components that represent the goodwill recognized ~~factors that contributed to the recognition of goodwill~~.	**Affirm.** *¶72(d) in the BC ED.* Some respondents suggested modifying this disclosure. They believe that since goodwill is calculated as a residual, the factors that contribute to the recognition of goodwill might not be clear other than the cost of the business exceeded the fair value of the identifiable net assets acquired. Paragraph 50 of the BC ED states that "the amount recognized as goodwill includes **synergies and other benefits that are expected from combining the activities** of the acquirer and acquiree" [Emphasis added]. The staff acknowledges that since goodwill is measured as a residual, the amount recognized as goodwill also includes items such as intangible assets that cannot be separately recognized, measurement errors, and differences that result because some assets and liabilities are not recognized at fair value (such as employee benefits). The staff recommends minor drafting changes to clarify that an entity should disclose a qualitative description of the types of items that are included in the goodwill recognized, whether those items are intangibles that cannot be separately recognized, measurement errors, or expected synergies.
e. ~~The acquisition-date fair value of the acquiree and the basis for measuring that value.~~	**Delete:** *¶72(e) in the BC ED.* The staff recommends deleting this disclosure. Since the Boards decided to shift the focus from measuring the fair value of the acquiree to measuring the fair value of the acquirer's interest and the fair value of any noncontrolling interest, this disclosure is no longer relevant. See *new ¶72(n)* which now addresses what this disclosure was intended to convey.

Proposed for the Final Statement	Reasons for Changes
e. The acquisition-date fair value of the consideration transferred, including the <u>acquisition-date</u> fair value of each major class of consideration, such as: (1) Cash (2) Other tangible or intangible assets, including a business or subsidiary of the acquirer (3) Contingent consideration (4) Debt instruments (5) Equity or member interests of the acquirer, including the number of instruments or interests issued or issuable, and the method of determining the fair value of those instruments or interests. (6) ~~The acquirer's previously acquired noncontrolling equity investment in the acquiree in a business combination achieved in stages.~~	**Affirm with one Modification.** ¶*72(f) in the BC ED.* Some respondents suggested deleting the requirement to disclose the fair value of consideration that comprises the acquirer's previously acquired noncontrolling equity investment in the acquiree because they disagreed that an acquirer's previously held investments are part of the consideration transferred. The staff has reflected those comments in developing a draft of the Statement, so deleting that disclosure is consistent with the draft. The staff recommends moving the disclosure about the acquirer's previously acquired noncontrolling equity investment in the acquiree from this disclosure about consideration to the disclosure about step acquisitions *(see new paragraph 72(o))*.
f. <u>For receivables acquired [not subject to the requirements of AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (FASB)], the acquirer shall disclose the receivables' fair value, gross contractual amounts receivable, and the best estimate of contractual cash flows not expected to be collected at the acquisition date. The disclosures shall be provided by major class of receivable, such as loans, direct finance leases [in accordance with FASB Statement No. 113, *Accounting for Leases* (FASB)] and any other material class of receivables.</u>	**Add.** *New disclosure based on decisions reached during redeliberations.* The Boards decided to add this disclosure to communicate information about the credit considerations factored into the valuation of receivables acquired in a business combination.

Proposed for the Final Statement	Reasons for Changes
g. ~~The maximum potential amount of future payments (undiscounted) under the terms of the acquisition agreement. If there is no limitation on the maximum potential amount of future payments, that fact shall be disclosed.~~	**Delete.** ¶*72(h) in the BC ED.* Replaced for decisions reached in redeliberations *(see new 72(g) and 72(i)).*
g. For contingent consideration: (1) The amount recognized at the acquisition date. (2) The nature of the contingent consideration arrangement. (3) An estimate of the range of outcomes (undiscounted) at the acquisition date and the basis for determining the amount of the payment. If there is no limitation on the maximum potential amount of future payments, the acquirer shall disclose that fact and the basis for determining the amount of the payment.	**Add.** ¶*72(h) in the BC ED; modified.* The staff recommends modifying the contingent consideration disclosure in the BC ED based on decisions reached for contingent consideration during redeliberations. *(New paragraph 76(b) describes the proposed disclosures after the acquisition date.)*
h. The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed in the form of a condensed balance sheet (see paragraph AX)	**Affirm.** ¶*72(g) in the BC ED.* No comments received and no changes recommended.
[FASB DISCLOSURE] i. For each acquired contingency (recognized and unrecognized): (1) The amount recognized at the acquisition date or a statement explaining why an amount was not recognized (2) The nature of each recognized or unrecognized contingency acquired (3) An estimate of the range of outcomes	**FASB DISCLOSURE** **Add.** ¶*72(h) in the BC ED; modified.* The staff recommends modifying the contingencies disclosure in the BC ED based on decisions reached for contingencies during redeliberations. **IASB DISCLOSURE** **Modify.** ¶*72(h) in the BC ED; modified.* See paragraphs 8–14 of this memo. *(New paragraph 76(c) describes the proposed disclosures after the acquisition date.)*

Proposed for the Final Statement	Reasons for Changes
<u>(undiscounted) for each recognized or unrecognized contingency or a statement that an estimate of the range cannot be made.</u> **[IASB DISCLOSURE]** i. <u>For each liability recognised for which the amount of the future economic benefits required to settle the liability is conditional on the occurrence or non-occurrence of one or more uncertain future events, the information required in paragraphs 84 and 85 of IAS 37. If such a liability is not recognised because its fair value cannot be measured reliably, the acquirer should disclose:</u> (1) <u>The information required in paragraph 86 of IAS 37 regardless of whether the possibility of outflow is remote</u> (2) <u>The reasons the liability cannot be measured reliably.</u> <u>For each asset recognised for which the amount of the future economic benefits embodied in the asset is conditional on the occurrence or non-occurrence of one or more uncertain future events, the information required in paragraph 89 of IAS 37 regardless of whether the inflow of economic benefits is probable. If such an asset is not recognised because its fair value cannot be measured reliably, the acquirer should disclose the reasons the asset cannot be measured reliably.</u>	

Proposed for the Final Statement	Reasons for Changes
j. The total amount of goodwill that is expected to be deductible for tax purposes.	**Affirm.** *¶78(a) in the BC ED.* No comments received. The staff recommends minor drafting changes.
k. [Paragraph not used (IASB) / If the total amount of goodwill is significant ~~in relation to the fair value of the acquiree~~ and the acquirer is required to disclose segment information in accordance with Statement 131, the amount of goodwill by reportable segment, unless such disclosure is impracticable. For example, if the assignment of goodwill to reporting units as required by Statement 142 has not been completed as of the date the financial statements are issued, disclosure of this information would be impracticable. (FASB)]	**Affirm.** *¶78 in the BC ED.* No comments received. The staff recommends that the FASB affirm with minor drafting changes. Paragraph 134 of IAS 36, *Impairment of Assets,* requires an entity to disclose the aggregate carrying amount of goodwill allocated to each cash-generating unit (or group of units) for which the carrying amount of goodwill allocated to that unit (or group of units) is significant in comparison with the entity's total carrying amount of goodwill, which is similar to the disclosure that would be required for the FASB.
l. If the business combination includes any transactions that are substantively separate from the acquisition of assets and assumption of liabilities that make up the acquiree (see paragraph X)~~In a business combination in which the acquirer and acquiree have a preexisting relationship~~: (1) The nature of ~~the~~ each separate transaction~~preexisting relationship.~~ (2) How the separate transaction was accounted for. (3) The amounts recognized for the separate	**Modify.** *¶72(k) in the BC ED.* One respondent suggested broadening this disclosure to include all transactions that are separate from the business combination rather than just preexisting relationships. The Boards decided to broaden this disclosure during redeliberations.

Proposed for the Final Statement	Reasons for Changes
transaction and the line item in the financial statements where the amounts are recognized. (~~3~~4) ~~The measurement of the settlement amount of the preexisting relationship, if any, and~~If the separate transaction is the effective settlement of a preexisting relationship, the valuation method used to determine the settlement amount. ~~(3) The amount of any settlement gain or loss recognized and the line item in the income statement in which that gain or loss is recognized.~~	
m. In a business combination referred to as a bargain purchase in this IFRS/Statement ~~in which the consideration transferred for the acquiree is less than fair value~~ (see paragraph X): (1) ~~t~~The amount of any gain recognized in accordance with paragraph X and the line item in the income statement in which the gain is recognized~~, and~~ (2) ~~a~~A description of the reasons ~~why~~ the acquirer was able to achieve a gain.	**Affirm.** ¶*72(i) in the BC ED.* No comments received. The staff recommends minor drafting changes.
n. In a business combination in which the acquirer holds less than 100 percent of the equity interests in the acquiree at the acquisition date, t~~T~~he acquisition-date fair value of the noncontrolling interest in the acquiree and the ~~basis~~ valuation techniques and key model inputs used for measuring that value. [If the acquirer determines that the fair value of the noncontrolling interest cannot be measured	**Add.** *New disclosure based on decisions reached during redeliberations (¶72(e) in the BC ED).* During redeliberations, the Boards decided to focus on measuring the fair value of the acquirer's interest in the acquiree and the noncontrolling interest rather than take the approach articulated in the BC ED that proposed that all goodwill be recognized in the consolidated financial statements and that noncontrolling interest be measured and recognized based on its proportional share in the identifiable assets and liabilities plus its share of goodwill (full goodwill).

Proposed for the Final Statement	Reasons for Changes
because doing so would cause undue cost or effort: (1) The reasons fair value cannot be determined without undue cost or effort, and (2) The total gross goodwill related to the acquisition that will be assessed for impairment purposes in accordance with IAS 36, *Impairment of Assets.* (IASB only)]	In March 2007, The IASB decided that if it would cause undue cost and effort to measure noncontrolling interest at fair value, the acquirer would measure noncontrolling interest at its proportionate interest in the identified assets and liabilities of the acquiree. The IASB also decided that in such circumstances, an acquirer would be required to identify and disclose the reasons for not measuring the noncontrolling interest at fair value. The IASB staff also believes that it would be useful to add a disclosure about the total gross goodwill related to the acquisition that will be assessed for impairment purposes in accordance with IAS 36. Entities are currently required to allocate goodwill to cash-generating units, and the staff believes that the acquisition date is the most appropriate time to do this allocation. Therefore, the staff believes the costs of this disclosure are low and requiring this disclosure will add transparency to the financial statements.
o. In a business combination achieved in stages (step acquisition):~~, the amount of any gain or loss recognized in accordance with paragraph 56 and the line item in the income statement in which that gain or loss is recognized.~~ (1) The fair value of the acquirer's previously acquired noncontrolling equity investment in the acquiree~~ in a business combination achieved in stages~~ (2) The amount of any gain or loss recognized for the remeasurement to fair value of the acquirer's previously acquired noncontrolling equity investment in the acquiree (paragraph X) and the line item in the income statement in which that gain or loss is recognized	**Affirm.** ¶*72(j) and 72(f)(6) in the BC ED.* The staff recommends minor drafting changes.
p. The amount of costs incurred in connection with the business combination, the amount recognized as an expense and the line item or items in the income statement in which those expenses are recognized.	**Affirm.** ¶*72(l) in the BC ED.* No comments received (other than those that disagreed with expensing transaction costs) and no changes recommended. In April 2006, the Boards discussed requests received from respondents for information on the acquirer's initial investment in the acquiree. The staff noted

Proposed for the Final Statement	Reasons for Changes
	that the disclosures proposed in the BC ED should provide the information needed to determine the initial investment and recommended that no changes be made to the disclosures. The staff suggested including the following table (or a similar table) in the application guidance to demonstrate how an entity could satisfy the disclosure requirements:

Proposed Disclosure for the Final Statement Paragraph Reference		
	Acquirer's Initial Investment in the Acquiree	CU
72(p)	Acquisition-related costs	1,250
72(e)(1)	Cash	1,000
72(e)(2)	Other tangible assets	400
72(e)(4)	Debt instruments	2,000
72(e)(5)	Equity instruments	5,000
72(e)(3)	Additional consideration expected to be paid	500
72(e)	Total consideration transferred	8,900
72(o)(1)	Fair value of the previously held investment in the acquiree	1,100
	Fair value of acquirer's interest in the acquiree	10,000
	Fair value of identifiable assets acquired and liabilities assumed	
72(h)	Inventory	1,000
72(h)	Property, plant and equipment	9,000
72(h)	Financial assets	3,000
72(h)	Identifiable intangible assets	2,100
72(h)	Financial liabilities	(5,000)
	Fair value of identifiable net assets	10,100

Proposed for the Final Statement	Reasons for Changes
	72(n) Fair value of noncontrolling interest in the acquiree (2,500) 72(h), 72(m)(1) Goodwill (or bargain purchase gain) 2,400 10,000
q. The amounts of revenue and [profit or loss (IASB / net income (FASB)] of the acquiree since the acquisition date included in the consolidated income statement for the reporting period. [Disclosure of this information is only required if the acquirer is a *public business enterprise*[1] (FASB Only)]. If disclosure of any of the information required by this paragraph is impracticable, the acquirer shall disclose that fact and an explanation of why the disclosure is impracticable.	**Convergence opportunity.** ¶*74(a) in the BC ED.* Several respondents suggested eliminating this disclosure requirement. Those respondents believe that many acquirers will not be able to comply with this requirement because the acquirer quickly loses its ability to track the necessary information if the acquirer integrates with the acquiree. Once integration occurs, the revenues and net income of the acquiree cannot be separated from the combined entity. The Boards considered those concerns during initial deliberations and decided to allow an impracticability exception. The FASB would require this disclosure only for public business entities; however, the IASB would require this disclosure for all entities. The reason for this difference is that IFRSs generally do not make the distinction between accounting or disclosures requirements that are for public entities versus nonpublic entities. U.S. GAAP does sometimes make distinctions between the accounting and disclosure requirements for public enterprises such as in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information.* *Does the FASB want to expand this disclosure for all entities rather than only public entities?*
r. The following [supplemental pro forma (FASB)] information: (1) The [revenue and profit or loss (IASB) /	**Convergence opportunity.** ¶*74(b) in the BC ED.* Several respondents suggested that the FASB eliminate or modify this disclosure requirement. A few respondents stated that this disclosure was redundant with the requirement

[1] The term *public business enterprise* is used with the same meaning as in paragraph 9 of Statement 131. [Paragraph 9 of Statement 131 states that "public business enterprises are those business enterprises that have issued debt or equity securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), that are required to file financial statements with the Securities and Exchange Commission, or that provide financial statements for the purpose of issuing any class of securities in a public market."]

Proposed for the Final Statement	Reasons for Changes
results of operations[2] (FASB)] of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. [For this disclosure, *results of operations* means revenue, income before extraordinary items ~~and the cumulative effect of accounting changes~~, net income, and earnings per share. In determining the pro forma amounts, income taxes, interest expense, preferred share dividends, and depreciation and amortization of assets shall be adjusted to the accounting base recognized for each in recording the combination. Pro forma information related to results of operations of periods prior to the combination shall be limited to the results of operations for the immediately preceding period. Disclosure also shall be made of the nature and amount of any material, nonrecurring items included in the reported pro forma results of operations. (FASB Only)] (2) [Paragraph not used. (IASB)] / If comparative financial statements are presented, the *results of operations* of the combined entity for the comparable prior reporting period as though the acquisition date for all business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. [Disclosure of this information is only required if	proposed in ¶74(a) of the BC ED. The Boards considered the concerns noted by respondents during initial redeliberations. The Boards have an opportunity to further converge this disclosure. The staff's analysis/recommendation of whether convergence can be achieved is included for each of the following differences identified between the FASB and IASB: a. **Public entities versus all entities.** As discussed in paragraph ¶72(q), the FASB would require this disclosure only for public entities while the IASB would require it for all entities. The reason for this difference is that IFRSs generally do not make the distinction between accounting or disclosures requirements that are for public entities versus nonpublic entities. U.S. GAAP does sometimes make distinctions between the accounting and disclosure requirements for public enterprises such as in Statement 131. *Does the FASB want to expand this disclosure for all entities rather than only public entities?* b. **"Supplemental pro forma" language.** The FASB would include the words "supplemental pro forma" information to indicate that the information may be unaudited. The staff recommends that the FASB retain that language because it is well understood in practice. c. **Results of operations versus revenue and profit or loss.** The IASB would require disclosure of *revenue and profit or loss* whereas the FASB would require disclosure of *results of operations* (revenue, income before extraordinary items, net income, and earnings per share). The staff believes it might be difficult for the IASB to require disclosure of results of operations because that phrase is not frequently used or defined in IASB literature. Since results of operations includes revenue and net income (which is comparable to revenue and profit or loss required by the IASB), the FASB could easily converge with the IASB by requiring that revenue and net income be disclosed rather than results of operations, although users would

Proposed for the Final Statement	Reasons for Changes
<u>the acquirer is a public business enterprise. (FASB)]</u> If disclosure of any of the information required by this paragraph is impracticable, that fact and the reasons <u>why that disclosure is impracticable</u> shall be disclosed.	lose the information about income before extraordinary items and earnings per share. *Do the Boards want to converge the requirement for* results of operations *(FASB) versus* revenue and profit or loss *(IASB)?* d. **Current and comparable period versus current period only.** The FASB would require that this disclosure be presented for the current period and a comparable prior reporting period (if presented) but the IASB would require the disclosure for the current period only. This requirement was carried forward from APB Opinion No. 16, *Business Combinations,* and Statement 141. During initial deliberations the IASB considered whether to require disclosure of the comparable prior period but decided against it because (a) the resulting information would not be meaningful or relevant if current fair values were pushed back as much as two years and (b) the information would be costly to obtain if the acquiree's results for that period were adjusted to their fair values. The staff notes that the impracticability exception could alleviate the concerns noted by the IASB. *Do the Boards want to converge the requirement for* the current period and comparable period *(FASB) versus* the current period only *(IASB)?*
73. For business combinations that occur during the reporting period that are individually immaterial but material collectively, the acquirer shall disclose the information required by paragraphs 72(e)–(r) in the aggregate.	**Affirm***. ¶73(a) and ¶79(a) in the BC ED.* No comments received.
74. If a material business combination occurs after the balance sheet date but before the financial statements are [authorised for issue (IASB) / issued (FASB)], the acquirer shall disclose the information required by paragraph 72 unless disclosure of any of the information is impracticable. If disclosure of	**Affirm***. ¶73(b) and ¶79(b) in the BC ED.* A few respondents stated that disclosures should only relate to business combinations that occur during the reporting period. Some respondents suggested that it might be impracticable to disclose business combinations that occur after the balance sheet date but before the financial statements are issued and that those disclosures should be covered by subsequent event disclosures in AU 560 or IAS 10. The staff notes

Proposed for the Final Statement	**Reasons for Changes**
any of the information required is impracticable, the acquirer shall disclose that fact and an explanation of why the disclosure is impracticable.	that there is an impracticability exception and that this is currently required for material business combinations by Statement 141 and for all business combinations by IFRS 3, unless impracticable. The staff believes this disclosure continues to be relevant and recommends that the Boards affirm it.
75. The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period relating to business combinations that occurred in the current or previous reporting periods.	**Affirm**. ¶*75 in the BC ED.* No comments received and no changes recommended.
76. To meet the objective in paragraph 75, the acquirer shall disclose:	
a. If <u>the measurement period is still open for particular assets, liabilities, equity instruments or items of consideration, and therefore, </u>the amounts recognized in the financial statements for the business combination have been determined only provisionally: (1) The reasons ~~why~~ the initial accounting for the business combination is not complete. (2) The assets<u>, </u>~~acquired or the~~ liabilities ~~assumed~~, <u>equity instruments, or items of consideration </u>for which the measurement period is still open. (3) The nature and amount of any measurement period adjustments recognized during the reporting period.	**Affirm.** ¶*76(a) in the BC ED.* No comments received. The staff recommends minor drafting changes.

Proposed for the Final Statement	**Reasons for Changes**
~~A reconciliation of the beginning and ending balances of liabilities for contingent consideration and contingencies that are required to be measured to fair value after initial recognition in accordance with paragraphs 26(b)(2) and 36, showing separately the changes in fair value during the reporting period and amounts paid or otherwise settled [in accordance with IAS 37 and IAS 39 (IASB)].~~	**Replace:** ¶*76(b) in the BC ED.* Replaced for decisions reached in redeliberations *(see new 76(b) and 76(c)).*
b. For contingent consideration recognized as part of a business combination: (1) Any changes in the amounts recognized (2) Any changes in the range of outcomes (undiscounted) (3) The reasons for the changes (4) [The valuation techniques and key model inputs used to measure contingent consideration (IASB) / The disclosures required by paragraph 32 of Statement 157. (FASB)] This disclosure is required each period until the contingent consideration is settled.	**Add.** *Replaces* ¶*76(b) in the BC ED.* The staff recommends replacing the disclosure in the BC ED based on decisions reached for contingent consideration during redeliberations.
[FASB DISCLOSURE] c. For each acquired contingency: (1) Changes in the amounts recognized for contingencies (2) Changes in the range of outcomes (undiscounted) for both recognized and unrecognized contingencies (3) The reasons for the changes (4) The disclosures required by paragraph 32 of Statement 157 for each acquired contingency measured to fair value on a	**FASB DISCLOSURE** **Add.** *Replaces* ¶*76(b) in the BC ED.* The staff recommends replacing the disclosure in the BC ED based on decisions reached for contingencies during redeliberations. **IASB DISCLOSURE** **Delete.** ¶*76(b) in the BC ED.* See paragraphs 8–14 of this memo.

Proposed for the Final Statement	Reasons for Changes
<u>recurring basis.</u> <u>This disclosure is required each period until the contingency is settled.</u> **[IASB DISCLOSURE]** c. <u>Paragraph not used.</u>	
d. A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period [as required by Statement 142, as amended. (FASB) / showing separately: (1) The gross amount and accumulated impairment losses at the beginning of the reporting period; (2) Additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with IFRS 5; (3) Adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph X; (4) Goodwill included in a disposal group classified as held for sale in accordance with IFRS 5 and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale; (5) Impairment losses recognised during the reporting period in accordance with IAS 36. (IAS 36 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this	**Affirm.** *¶80 in the BC ED.* No comments received. The staff recommends affirming this disclosure.

Proposed for the Final Statement	Reasons for Changes
requirement); (6) Net exchange <u>rate</u> differences arising during the reporting period in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*; (7) Any other changes in the carrying amount during the reporting period; and (8) The gross amount and accumulated impairment losses at the end of the reporting period.(IASB)]	
e. A description of any discrete event or circumstance that occurred after the acquisition date that resulted in deferred tax assets acquired as part of the business combination being recognized as income within 12 months after the acquisition date (see paragraph X).	**Affirm.** *¶76(c) in the BC ED.* No comments received. The staff recommends affirming this disclosure.
f. [Paragraph not used (FASB) / The amount and an explanation of any gain or loss recognised in the current reporting period that both: (1) Relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or a previous reporting period (2) Is of such a size, nature, or incidence that disclosure is relevant to understanding the combined entity's financial statements (IASB)].	**Convergence opportunity.** *¶76(d) in the BC ED.* A few respondents suggested that the IASB eliminate this disclosure. They stated that the disclosure: • Imposes additional costs and effort in return for questionable benefits. • Is not effective for its apparent purpose of deterring or identifying the use of unreasonable valuations in accounting for a business combination. The staff recommends that the IASB delete this requirement. The relevance of this disclosure has been questioned by respondents, and the FASB considered this disclosure during initial deliberations but decided not the add it. *Does the IASB want to delete this requirement?*
77. If the specific disclosures required by this and other [IFRSs / Statements] do not meet the objectives set out in paragraphs 71<u> and</u> 75~~, or 77~~,	**Affirm.** *¶81 in the BC ED.* No comments received. The staff recommends affirming this disclosure.

Proposed for the Final Statement	**Reasons for Changes**
the acquirer shall disclose any additional information necessary to meet those objectives.	
~~**The acquirer shall disclose information that enables users of its financial statements to evaluate changes in the carrying amount of goodwill during the reporting period.**~~	**Delete:** ¶*77 in the BC ED.* The staff recommends deleting this objective because it is addressed in the second **bold** objective paragraph *(new paragraph 75)*, which addresses subsequent changes.

DISCLOSURES FOR CONTINGENCIES (IASB ONLY)

8. During redeliberations, the Boards discussed the accounting for contingencies[2] separately because the IASB has a separate project on its agenda to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37 project), which is not scheduled to be completed until after the final business combinations standard is issued. Because the FASB does not have such a project, it was able to make decisions about the accounting for contingencies and disclosures as part of the business combinations project. However, the IASB had to decide how to address contingencies during the interim period between when the business combinations standard is issued and when the revised IAS 37 is issued. The IASB decided to carry forward the guidance in IFRS 3 with some improvements based on tentative decisions made during redeliberations of the IAS 37 project.

9. The question for the IASB is whether it also wants to carry forward the existing IFRS 3 disclosures related to contingencies or whether it wants to modify those disclosures.

Existing IFRS 3 Disclosures

10. IFRS 3 refers to IAS 37 for disclosures related to contingent assets and contingent liabilities. The following paragraphs outline the current disclosure requirements.

Disclosures for Recognized Contingent Liabilities

11. In IFRS 3, an acquirer recognizes a contingent liability in a business combination if its fair value can be measured reliably. For contingent liabilities that are recognized in a business combination, an acquirer is required to

[2] For convenience, this section refers to an asset acquired or liability assumed for which the amount of the future economic benefits embodied in the asset or required to settle the liability is conditional on the occurrence or non-occurrence of one or more uncertain future events as a "contingency" a "contingent asset" or a "contingent liability". Those terms will not appear in the IASB's final business combinations standard.

disclose the following as required by paragraphs 84 and 85 of IAS 37 for each class of provision:

84 For each class of provision, an entity shall disclose:

(a) the carrying amount at the beginning and end of the period;

(b) additional provisions made in the period, including increases to existing provisions;

(c) amounts used (ie incurred and charged against the provision) during the period;

(d) unused amounts reversed during the period; and

(e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

85 An entity shall disclose the following for each class of provision:

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;

(b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Disclosures for Unrecognized Contingent Liabilities

12. If an acquirer does not recognize a contingent liability as part of the business combination because its fair value cannot be measured reliably, the acquirer is required to disclose the following as required in paragraph 86 of IAS 37:

86 Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect, measured under paragraphs 36–52 [a best estimate approach];

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement.

Disclosures for Contingent Assets

13. Paragraph 10 of IAS 37 defines a contingent asset as "a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the entity". Both IFRS 3 and IAS 37 prohibit the recognition of contingent assets. IFRS 3 does not require any disclosures related to contingent assets; however, paragraph 89 of IAS 37 requires the following disclosure:

> Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the balance sheet date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36–52 [a best estimate approach].

Staff Analysis and Recommendation

14. The staff recommends that the IASB carry forward the disclosures related to contingencies required by IFRS 3 (which refers to IAS 37), with the following modifications:

   a. If a contingent liability cannot be measured reliably, the acquirer should disclose the reasons that the contingent liability cannot be measured reliably. The acquirer should also disclose the information in paragraph 86 of IAS 37 regardless of whether the possibility of any outflow is remote.

   b. If a contingent asset that meets the definition of an asset in the *Framework* cannot be measured reliably, the acquirer should disclose the reasons that the contingent asset cannot be measured reliably. The acquirer should also disclose the information required in paragraph 89 of IAS 37 regardless of whether the inflow of economic benefits is probable.

15. The staff believes that further modifications should be made as part of the IAS 37 project.

QUESTIONS FOR THE BOARDS

General

16. *Do Board members object to any of the staff's proposed changes to the disclosures?*

Convergence

17. *Does the FASB want to expand the disclosure in paragraphs 72(q) and 72(r) to include all entities rather than only public entities?*

18. *Do the Boards want to converge the requirement in paragraph 72(r) for* results of operations *(FASB) versus* revenue and profit or loss *(IASB)?*

19. *Do the Boards want to converge the requirement in paragraph 72(r) for* the current period and comparable period *(FASB) versus the* current period only *(IASB)?*

20. *Does the IASB want to delete the requirement in paragraph 76(f) to disclose particular information about the amount and an explanation of any gain or loss recognized in the current period?*

Contingencies (IASB Only)

21. *For contingency disclosures, does the IASB agree with the disclosures proposed by the staff?*