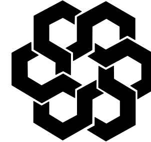

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This document is provided as a convenience to observers at the joint IASB-FASB meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (IASB) or Statements or other pronouncements (FASB).

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

INFORMATION FOR OBSERVERS

IASB/FASB Meeting: **24 April 2007, London**

Project: **Business Combinations II**

Subject: **Cost-benefit Analysis (Agenda Paper 2J)**

PURPOSE OF THIS MEMORANDUM

1. The conceptual frameworks of both Boards include the balance between benefit and cost as a pervasive constraint; both Boards are required to consider whether the perceived benefits derived from the information produced by a standard are expected to exceed the cost of providing it. For both Boards, those assessments are made qualitatively rather than quantitatively. Several years ago, the FASB made a policy decision that it would discuss in a public meeting the steps taken to consider and balance

the benefits and costs of a proposed standard before giving the staff the 'go ahead' to draft a final standard. The purpose of this memo is to:

a. Discuss the perceived benefits and costs of the final business combination and noncontrolling interest standards.

b. Consider whether any of the changes made in redeliberation leads to the need to re-expose the proposed standards.

c. Ask for permission to start the preballoting process.

d. Ask Board members if they plan to dissent to either or both of the standards.

THE BOARDS' ASSESSMENT OF COSTS AND BENEFITS BEFORE ISSUING THE EXPOSURE DRAFTS

2. Before issuing the Exposure Drafts, the Boards concluded that the benefits of the business combinations Exposure Draft and the noncontrolling interest Exposure Drafts (the IASB's IAS 27 amendments and the FASB's ARB 51 replacement) outweighed the costs of implementing and complying with the proposals.[1]

3. In making that initial assessment and after the Exposure Drafts were issued, the Boards took a number of steps to obtain information about the perceived benefits and costs of the proposed standards. Among those steps were:

    a. A meeting with selected financial statement users to discuss proposed changes to the accounting for step acquisitions and noncontrolling interests.

    b. A meeting involving the FASB, representatives of FEI, and the FASB's User Advisory Council to discuss the perceived benefits of major changes proposed in this project.

    c. Field visits with eight preparers primarily aimed at understanding the costs of implementing the proposals (FASB only).

[1] Paragraphs B197–B203 of FASB's business combinations Exposure Draft and paragraphs B53–B56 of the FASB's noncontrolling interest Exposure Draft described the FASB's cost-benefit assessment. The bases for conclusions to the IASB's Exposure Drafts do not have a section that discusses costs and benefits.

d. Five roundtable meetings held by the IASB and FASB to better understand constituents' concerns.

4. The main objective of the project is to develop a single, high-quality standard for accounting for business combinations that could be used for cross-border financial reporting. A common standard would result in entities accounting for business combinations the same way in the United States and internationally. That would improve comparability, level the playing field for entities acquiring businesses in the United States versus internationally, and reduce accounting costs for entities that issue financial statements in accordance with both U.S. GAAP and IFRS. As part of the business combinations projects, the Boards proposed guidance for the accounting for partial and step acquisitions because the existing guidance for those acquisitions is dramatically different in the United States and internationally. That led to a need to address the subsequent accounting and reporting of noncontrolling interests (for which the existing guidance was also dramatically different in the US and internationally). As a result, the Boards proposal converged the guidance for accounting and reporting of noncontrolling interests.

5. To develop common, high-quality Exposure Drafts, the FASB proposed changes to some of its existing requirements, the IASB proposed changes to some of its existing requirements, and, in some cases, the Boards developed new proposals to improve the accounting and reporting of business combinations. Those changes are summarized below:

Changes Proposed by Both Boards

6. One important issue that both Boards addressed is the guidance for accounting for acquisitions or dispositions of noncontrolling interests after control has been achieved. The Boards proposed to require any additional acquisitions or dispositions of shares to be accounted for as transactions

between owners, with no adjustment to goodwill. The proposal simplifies U.S. GAAP requirements and simplifies and clarifies IFRS requirements.

a. Under U.S. GAAP, acquisitions of noncontrolling interests are accounted for by the purchase method. Goodwill is adjusted for the difference between the fair values of the identified assets and liabilities and the consideration transferred at each additional acquisition. Under U.S. GAAP, there is diversity in practice with regard to the accounting for dispositions of noncontrolling interests. They are accounted for as either equity transactions or as transactions with gain or loss recognition.

b. IFRS 3 is silent on this matter. The IASB has identified five methods for accounting for acquisitions that are accepted in practice, including the Statement 141 treatment.

7. Both Boards proposed that all acquisitions be recognized at fair value. Therefore, in a partial and step acquisitions, the acquirer would recognize the fair value of the acquiree (and the goodwill attributable to the noncontrolling interest). That proposal would improve comparability by requiring acquisitions to be accounted for the same way regardless of the percentage of the ownership interest acquired. It also would simplify the accounting for goodwill in a step acquisition. Goodwill would be measured as a residual of the components of the business combination at the acquisition date. Statement 141 and IFRS 3 both require that goodwill be measured as the cumulative difference between the fair value of the identified assets and liabilities and the consideration transferred at each stage of an acquisition.

8. Both Boards proposed expanding the definitions of a *business combination* and a *business* and the scope of the business combination standard so that economically similar transactions and events would be accounted for similarly (by the acquisition method), thereby improving comparability of reported financial information. Those decisions also would eliminate the use of the pooling-of-interests method that some entities are still permitted to apply to some acquisitions (mutual entities, some combinations by contract

alone, and some acquisitions that occur in the absence of a transaction involving the acquirer).

9. Acquisition-related costs such as finder's fees and legal and accounting fees are absorbed into goodwill under IFRS 3 and Statement 141. The Boards proposed that they should be accounted for separately, with the result that those costs generally will be expensed as incurred. That decision would eliminate an inconsistency that currently exists by which direct costs are capitalized but indirect costs are expensed as incurred. Many users support that change for a variety of reasons, among them the view that acquisition costs do not represent an asset.

10. The Boards proposed that all items of consideration be measured and recognized at fair value on the same date—the acquisition date—rather than on various dates. A consequence of establishing a consistent measurement basis (fair value) on a consistent date is that contingent consideration would be measured at fair value on the acquisition date and additional payments for contingent consideration that are lower or higher than the acquisition date fair value are taken to income. IFRS 3 and Statement 141 both allow delayed recognition of those obligations and require that goodwill be adjusted for contingent consideration.

Changes Proposed by the FASB

11. The FASB is proposing several changes to U.S. GAAP that will bring their accounting in line with existing requirements of IFRS 3 and IAS 27. The FASB concluded that these changes provide more useful information. One of the most significant is the proposal that in a partial or step acquisition, the identifiable assets and liabilities be recognized at full fair value rather than at part fair value and part carryover basis. Each identified asset and liability will be measured at fair value at the date the acquirer achieves control of the business. This requirement not only simplifies the accounting for a business combination but it provides a more meaningful measurement basis for

users. Statement 141 currently requires identifiable assets and liabilities to be measured as the sum of the proportionate interest of the fair value of the assets at each step and the proportionate interest of the carryover amount of the noncontrolling interests' portion.

12. The Boards proposed that all items of consideration be measured and recognized at fair value on the same date—the acquisition date—rather than on various dates. As a result, equity instruments issued by the acquirer would be measured on the acquisition date rather than on the agreement date (as is currently required in the United States). Measuring equity securities on the acquisition date simplifies the accounting that is currently required in the United States by EITF Issue No. 99-12, "Determination of the Measurement Date for the Market Price of the Acquirer Securities Issued in a Purchase Business Combination." While some constituents agree that a conceptual argument can be made for differing measurements dates, many supported use of a single date on the basis of simplicity.

13. The proposals would improve the completeness of financial information because more assets acquired and liabilities assumed would be recognized and measured at their fair values at the acquisition date than under Statement 141. For example, at the acquisition date an acquirer would recognize contingencies and IPR&D with no alternative future use. Recognition of those assets and liabilities at fair value would provide more timely, decision-useful information to users than is currently provided by the requirements of Statement 141.

14. The FASB proposed eliminating some existing guidance that is inconsistent with other standards. For example, it proposed eliminating EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," which allows an acquirer to recognize as an assumed liability the expected costs of restructuring the acquiree's operations even though those costs do not meet the definition of a liability at the acquisition date.

Statement 146 precludes an acquirer from recognizing a liability for the expected costs to restructure the acquirer's operations.

15. The FASB proposed that the acquirer recognize the excess in a bargain purchase as a gain rather than allocating the excess to certain identifiable assets. This proposal improves comparability and the faithful representation of reported amounts because the assets are recognized at fair value rather than at other amounts.

16. The FASB proposed that measurement period adjustments would be recognized retrospectively as required by IFRS 3 rather than prospectively as was the current practice under Statement 141. The Boards believed that that provided more decision-useful information without significant costs since the acquirer was required to disclose the effects of allocation period adjustments under Statement 141.

17. IFRS requires that equity interests held by noncontrolling shareholders of a subsidiary be classified in equity in the consolidated financial statements. The FASB proposed requiring noncontrolling interests to be classified as equity to improve comparability internationally, achieve consistency between accounting standards and conceptual definitions, and fill a gap in existing U.S. accounting guidance. U.S. GAAP does not have guidance for classifying noncontrolling interests. The SEC requires registrants to classify noncontrolling interests (currently referred to as minority interests) in the "mezzanine" between liabilities and equity. Entities that are not SEC registrants have a choice and can classify noncontrolling interests as liabilities, as equity, or in the mezzanine.

18. The FASB proposed requiring income attributable to the noncontrolling interests to be reported as part of the income of the group. Currently, there is no guidance for attributing the income to the noncontrolling interests, but it is generally presented as an expense of the group.

Changes Proposed by the IASB

19. The IASB is proposing one change that will align IFRS 3 with U.S. GAAP. IFRS 3 requires that all identifiable intangible assets be recognized separately from goodwill *if they can be measured reliably.* The proposal is to remove the reference to reliability. Although this is a change in wording from IFRS 3, it is not clear that this change will affect the accounting for business combinations under IFRSs. In discussions with auditors and preparers, the staff was told that it was unlikely that there will be any intangible assets that would be recognized under the proposals that are not already recognized under IFRS 3. Nevertheless, it is listed as a change here because some respondents identified this as a significant change from IFRS 3.

How the Boards Sought to Reduce Costs

20. The Board sought to reduce the costs of applying the business combinations standard by (a) requiring that particular assets and liabilities (for example, those related to deferred taxes, pensions, and other postemployment benefits) continue to be measured in accordance with existing accounting standards rather than at fair value and (b) applying its provisions prospectively rather than retrospectively.

21. The Boards sought to reduce the costs of applying the noncontrolling interest standard by precluding retrospective application of the proposals to prior transactions and by requiring adoption of the standard at the beginning of an annual period rather than in the middle of a year.

ASSESSING COSTS AND BENEFITS BEFORE ISSUING THE FINAL STANDARDS

22. The Boards are required to assess costs and benefits again before they issue a final standard. During redeliberations, the staff's memos discussed cost-benefit considerations whenever appropriate. The **appendix** to this memo also includes a table that compares the decisions proposed in the

Exposure Drafts, the changes made in redeliberations, and the staff's assessment of whether those changes increase or reduce the costs. The major changes made in redeliberations would likely make the proposals less costly to preparers. Those changes are:

a. The FASB decided to introduce a *more likely than not* recognition threshold for noncontractual contingencies. That guidance is less restrictive than the proposal in the business combinations Exposure Draft, which proposed recognition of all contingencies that meet the definition of assets and liabilities. It is expected to reduce the cost of application by eliminating the need for acquirers to develop fair value estimates for certain obligations. The FASB compensated for the informational loss from a change in recognition requirements by expanding disclosures in this area.

b. The Boards extended the exception to fair value measurement to all employee benefits rather than just those measured using actuarial assumptions. That change reduces the need for certain fair value measurements and should simplify the accounting for those employee benefit obligations after the acquisition date.

c. The FASB decided to add some supplemental guidance for accounting for share-based payment awards in a business combination. This was in response to constituents' requests for additional guidance. Adding this guidance should reduce confusion and increase comparability.

d. The IASB decided to allow an undue cost or effort exception to recognizing noncontrolling interests at fair value.

e. The IASB decided to adopt the contingent liability guidance that is in IFRS 3 with some modifications (remove the probability recognition criteria). That guidance has a reliability of measurement threshold and is therefore less restrictive than the proposal in the business combinations Exposure Draft. The Exposure Draft proposed recognition of all contingencies that meet the definition of assets and liabilities. This change should reduce the cost of application by eliminating the need for acquirers to develop fair value estimates for those obligations that cannot be measured reliably.

f. The IASB decided to adopt the guidance that was in the FASB's noncontrolling interest Exposure Draft for attributing income to the controlling and noncontrolling interests. That guidance is consistent with what is already required by IAS 27, *Consolidated and Separate*

Financial Statements, but the guidance is more explicit. Thus, adopting that guidance adds clarity without changing practice.

23. The staff believes that the changes made in redeliberation should make it less costly for preparers to apply the proposed standards. The changes were in response to preparers' concerns. The staff believes that the loss of informational usefulness to users should not be significant. As such, if the Boards believes the business combinations and noncontrolling interests Exposure Drafts meet the cost-benefit test, then the staff believes the decisions reached in redeliberations should as well.

Differences That Will Not Be Addressed as Part of the Project

24. The staff believes that a key benefit of the project is the development of an improved and substantially converged standard for accounting for business combinations. While the Boards reached common decisions on most aspects of the accounting and reporting of business combinations and noncontrolling interests, some differences remain. Most of those differences are a consequence of differences in the authoritative literature in other IFRSs and U.S. GAAP. One other difference is the so-called "full goodwill" issue or the measurement basis for noncontrolling interests. The FASB decided those interests should be measured at fair value, while the IASB decided to provide an exception to fair value measurement in certain situations.

25. During redeliberations, the Boards considered an alternative way of addressing the full goodwill issue. They considered changing the focus to measuring any noncontrolling interests at fair value in a partial acquisition. The natural result of measuring the noncontrolling interest at fair value is to recognize the goodwill attributable to the noncontrolling interest (that is, full goodwill). The FASB agreed with the change in focus. The IASB still has concerns about measuring the noncontrolling interest at fair value. To address those concerns, the IASB decided to require that the noncontrolling

interest be measured at fair value unless doing so would impose *undue cost or effort* on the acquirer. That approach is an exception to the fair value measurement principle. As such, the acquirer could measure the noncontrolling interest at its proportionate interest in the identifiable assets and liabilities of the acquiree. The Boards will discuss this difference at the joint meeting in April. (See Memo #57 / Agenda Paper 2I for further discussion.)

26. During redeliberations, the Boards discussed the accounting for an operating lease in which the acquiree is the lessor. The Boards reached different conclusions. The FASB decided that an acquirer should measure and recognize an asset subject to an operating lease at its acquisition date fair value without considering the terms of the operating lease (that is, the acquirer accounts for the above- or below-market value of the lease separately). In contrast, the IASB decided that the fair value of an acquired asset that is subject to an operating lease reflects the favorable or unfavorable terms of the operating lease and a separate asset or liability should not be recognized. The staff believes that that difference would not result in a significant divergence on the acquisition date because the issue is only **where** on the balance sheet to recognize the off-market portion (separately or aggregated with the related asset). The Boards will discuss this issue at the joint meeting and decide whether convergence can be reached. (See Memo #57 / Agenda Paper 2I for further discussion.)

27. The definition of a business combination relies on the definition of *control* for identifying when a business combination has taken place. The IASB's business combination standard will refer to the definition of control in IAS 27 whereas the FASB's business combination standard will rely on the guidance in Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* and FASB Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities.* It is possible that some transactions will be business combinations in accordance with IFRS 3 but not in accordance

with Statement 141(R), and vice versa. Eliminating those differences in scope will require that the Boards agree on a definition of control. The IASB has an active project on consolidations that is expected to change the definition of control in IFRSs. The FASB is monitoring that project.

28. Both the FASB's and the IASB's standards will have fair value as the measurement attribute. However, the IASB's business combination standard will carry forward the definition that is currently used in IFRS 3. The FASB will make a decision on the measurement attribute in the FASB's business combination standard in April. The current proposal is to refer to FASB Statement No. 157, *Fair Value Measurements.* It is possible that the measurement of some assets and liabilities will differ because of the different definitions of fair value. The staff will present to the Boards in April a case study that addresses potential measurement differences. (See the Fair Value Case Study Memo (Memo #52 / Agenda Paper 2A) for further discussion.)

29. The IASB has an active project to revise IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* and address the accounting for what are commonly called contingent liabilities and contingent assets. The FASB has decided to provide guidance for accounting for contingencies as part of its business combinations standard. It is possible that the differences in guidance could result in recognition differences.

30. Even though both standards will require that employment-related benefits and deferred taxes be measured in accordance with other standards, which is an exception to fair value, those amounts are likely to be different because of differences between the relevant IFRS and U.S. GAAP pronouncements.

31. Despite those differences, the staff believes the Boards have developed substantially converged business combination standards. In addition, the

staff hopes that many of the differences will be eliminated in time as the Boards reach further convergence in different projects.

[Paragraphs 32-41 omitted from observer note]

Question 1: Do the Boards agree that the benefits of the business combinations and noncontrolling interest standards outweigh the costs?

Question 2: Do the Boards agree that the business combinations and noncontrolling interests decisions do not require reexposure?

Question 3: Does the staff have permission to begin the preballoting process for the final business combinations and noncontrolling interests standards?

Question 4: Are any Board members planning on dissenting to either or both of the business combinations or the noncontrolling interests final standards?

APPENDIX

#	Changes to current requirements/practice that were proposed in the Exposure Drafts	Changes the Boards made to the Exposure Drafts proposals in redeliberations	Cost-benefit analysis
BUSINESS COMBINATIONS			
Scope			
1	The BC ED proposed to broaden the definition of a *business combination* and a *business* and expand the scope of IFRS 3 and Statement 141 to require that an acquirer use the acquisition method to account for acquisitions (a) of mutual entities, (b) effected in the absence of a transaction involving the acquirer, and (c) by contract alone.	None	Some entities are still using the pooling-of-interests method. Those entities that will now be required to apply the acquisition method will incur additional costs to obtain valuations and account for intangible assets and goodwill after the acquisition date. Before issuing the BC ED, the Boards concluded that the benefits of improved comparability and faithful representation outweigh the costs that those entities will incur. The Boards understand that some entities will incur additional costs to apply the acquisition method. However, the staff believes that much of the information required to account for a business combination by applying the acquisition method is prepared by those entities that are currently applying the pooling-of-interests method. There might be additional costs associated with presenting this information within the financial statements, such as audit costs, but much of the information will already be available to management. The Boards affirmed the BC ED proposals in redeliberations. The staff's assessment is that the benefits associated with eliminating the pooling-of-interests method and requiring a single method, the acquisition method, exceeds the costs to those entities.

#	Changes to current requirements/practice that were proposed in the Exposure Drafts	Changes the Boards made to the Exposure Drafts proposals in redeliberations	Cost-benefit analysis
<u>Measuring the Assets and Liabilities</u>			
2	In a partial or step acquisition, the BC ED proposed that the **identifiable** assets and liabilities be recognized at 100% of their values. *(New requirement for the FASB; already required by IFRS 3.)*	None	Under Statement 141, an acquirer needs to measure the full values of the identifiable assets and liabilities even though they are recognized at part fair value and part carryover basis. Recognizing assets and liabilities at their full amounts rather than at blended amounts will provide users with more useful and representationally faithful information. The information will also be more comparable. This requirement should reduce the costs of compliance for preparers. Rather than tracking valuation layers and obtaining fair value valuations when each traunche of shares is acquired, preparers will only have to get fair value measures once—at the acquisition date. Thus, this change should lead to improved comparability and representational faithfulness within U.S. GAAP. By changing to the IFRS 3 method, most assets and liabilities will be measured under U.S. GAAP and IFRSs on the same basis. This will remedy a significant GAAP difference and will reduce the costs of compliance for U.S.GAAP preparers.
3	In a partial or step acquisition, the BC ED proposed that **goodwill** be recognized at 100% of its measured amount and that goodwill for the NCI be recognized.	The FASB decided to change the focus in redeliberations and require that NCI be measured at fair value, which is consistent with how other equity items are recognized. This change in focus has no significant impact on the BC ED proposals because full	There should be no additional costs associated with measuring and recognizing NCI at fair value and recognizing the full amount of goodwill compared to valuing the acquiree as a whole. Valuation experts have told the Boards that in determining what an entity is willing to pay for a partial interest, the fair value of the acquiree as a whole is measured. There are likely to be some additional costs associated with

#	Changes to current requirements/practice that were proposed in the Exposure Drafts	Changes the Boards made to the Exposure Drafts proposals in redeliberations	Cost-benefit analysis
		goodwill would be the natural result of measuring NCI at fair value. The IASB decided also to change the focus to measuring the fair value of NCI. The IASB, however, decided to allow an exception to measuring the NCI at fair value if it would impose undue cost or effort on the acquirer. In that case, the acquirer would measure the NCI at its proportional interest in the recognized net identifiable assets.	recognizing this value in the financial statements, such as additional audit fees. However, the marginal costs are likely to be low. There also should be no change in costs with performing the goodwill impairment test going forward, since an entity would have to perform the impairment test if only the purchased amount of goodwill is recognized. In fact, performing the goodwill impairment test under the full goodwill method is simpler. Thus, the benefits of comparability and faithful representation come without any additional cost burden. In addition, the IASB has decided to allow an entity to measure the NCI at its proportional interest in the recognized net identifiable assets if measuring it at fair value would impose undue cost or effort.
4	**Valuation allowances:** The BC ED proposed that for assets required to be measured at fair value (including receivables, including loan and finance leases), that recognition of a separate valuation allowance should not be permitted.	None	Preparers do not agree with the proposed guidance and cite practical concerns such as insufficient loan systems, keeping two sets of books, spreadsheet accounting, lack of comparability in reporting key metrics, and difficulty in applying SOP 03-3. The Boards considered those issues in deliberations and carefully reconsidered those concerns again in redeliberations. On-balance, the Boards decided to affirm the proposals in the BC ED because they believed the benefits of relevance and faithful representation outweighed the costs.
5	**Contingencies - IASB**: The IASB's BC ED proposed that an identifiable asset or liability be measured and recognized at fair value at the acquisition date and	Because the IAS 37 project will not issue a standard before the BC standard is issued, the IASB decided to provide interim guidance in the final BC standard.	This is not a significant change from IFRS 3. As such, it should not result in significant additional costs.

#	Changes to current requirements/practice that were proposed in the Exposure Drafts	Changes the Boards made to the Exposure Drafts proposals in redeliberations	Cost-benefit analysis
	subsequently even if the amount of the future economic benefits embodied in the asset or required to settle the liability are contingent (or conditional) on the occurrence or nonoccurrence of one or more uncertain future events.	The IASB decided to retain the existing guidance in IFRS 3 with a few improvements that have been affirmed by the IASB in the IAS 37 redeliberations, such as: 1. Clarifying that only those items that satisfy the definition of an asset or liability should be recognized in a business combination. 2. Removing the probability recognition criterion for liabilities from the business combinations standard. The IASB modified the proposed subsequent accounting and decided that the subsequent accounting would be the same as currently required by IFRS 3.	
	Contingencies – FASB: The FASB's BC ED proposed that assets and liabilities arising from contingencies that are acquired or assumed as part of the business combination should be measured and recognized at their fair value at the acquisition date if the contingency meets the definition of an asset or a liability even if it does not meet the recognition criteria in FASB Statement No. 5, *Accounting for Contingencies.*	The FASB decided to replace the proposal to recognize all contingencies meeting the conceptual elements definitions with the following recognition criteria: 1. The acquirer should recognize and measure at fair value all contingencies that arise from contractual rights or obligations at the acquisition date. 2. The acquirer should recognize	Respondents expressed concerns about knowing when something meets the definition of a liability or asset, reliable measurement, and the costs of initial and subsequent fair value measurements. The FASB addressed the concern about element uncertainty by incorporating the recognition criteria for noncontractual contingencies. The recognition criteria also should address concerns about reliability of measurement since the difficult to measure contingencies are thought to be those for which there is element uncertainty. The FASB carefully considered preparers' concerns about the costs they will incur for initially and subsequently measuring the fair value of

#	Changes to current requirements/practice that were proposed in the Exposure Drafts	Changes the Boards made to the Exposure Drafts proposals in redeliberations	Cost-benefit analysis
	The BC ED also proposed that subsequently: 1. If a contingency otherwise would be in the scope of Statement 5, an acquirer would remeasure the contingency acquired or assumed as part of a business combination at fair value. Changes in the fair value would be recognized in net income. 2. If a contingency is in the scope of another standard, such as Statement 60, the acquirer would subsequently account for that contingency in accordance with that standard.	contingencies that do not arise from contractual rights and obligations on the first date it is **more likely than not** that the contingency meets the definition of an asset or a liability. Those contingencies should be measured at their fair value as of the initial recognition date. Contingencies meeting that recognition criterion at the acquisition date should be included in the initial accounting for the business combination. Contingencies meeting that recognition criterion after the acquisition date should be recognized at that date through a corresponding gain or loss. The FASB affirmed the proposed subsequent accounting.	contingencies. The FASB also considered users' requests for more timely and relevant information about contingencies. The decisions reached in redeliberations should help to balance the requests from users with the concerns of preparers.
6	**Insurance contracts:** The BC ED proposed that insurance and insurance-related contracts should be measured and recognized at fair value. In order to reconcile between the fair value requirement and the amount that would be measured under other GAAP/IFRS, the difference	The FASB affirmed the proposal and clarified that all insurance and insurance-related contracts are in the scope of the guidance. The IASB will discuss insurance contracts at its meeting in April 2007.	The Boards developed this proposal on the basis of cost-benefit concerns. That is, they decided that an entity could recognize an intangible asset for the difference between fair value and the amounts measured under other standards. If the Boards instead required fair value measurement and recognition on the acquisition date, the entity would apply other GAAP or IFRSs subsequently and recognize an immediate loss (or gain).

#	Changes to current requirements/practice that were proposed in the Exposure Drafts	Changes the Boards made to the Exposure Drafts proposals in redeliberations	Cost-benefit analysis
	between the fair value of an insurance contract's assets and liabilities and the current GAAP/IFRS carrying amounts for those contract elements should be accounted for as an intangible asset. *(New requirement for the FASB; already required by IFRS 4.)*		This requirement also will converge U.S. GAAP with IFRS 4.
7	**Intangible assets:** The BC ED proposed that an intangible asset that is *identifiable* (that is, contractual or separable) can be measured with sufficient reliability and should be recognized separately from goodwill. *(Already required in Statement 141; removing the "reliably measurable" criterion is new for the IASB.)*	None	The IASB staff has been told by auditors and preparers that removing the additional "reliable measurement" criterion would not result in additional intangible assets being recognized in a business combination because the identifiability criteria are intended to be a substitute for determining when an intangible asset is reliably measurable. On this basis, there should be no additional cost burden for IFRS preparers.
8	**Assembled workforce:** The BC ED proposed to preclude separate recognition of an assembled workforce. *(Already required in Statement 141;new for the IASB.)*	In redeliberations, the Boards affirmed that proposal. In redeliberations, the Boards also agreed to define an assembled workforce as a collection of employees that allows the acquirer to continue to operate from the acquisition date rather than the intellectual capital of the skilled workforce.	The value of an assembled workforce is measured and used in calculating a value for other intangible assets. The value of the assembled workforce varies depending on how one defines an assembled workforce. The prohibition on recognizing a workforce has no cost implications, although it should reduce costs for some IASB preparers because an entity (1) will not have to spend the time trying to decide if the workforce is separable, (2) will not have to determine the useful life of the workforce, and (3) will not have to separately

#	Changes to current requirements/practice that were proposed in the Exposure Drafts	Changes the Boards made to the Exposure Drafts proposals in redeliberations	Cost-benefit analysis
			test the workforce for impairment (the impairment test for workforce would be part of the goodwill impairment test). In addition, providing a definition of assembled workforce should improve comparability of measurement of other assets within and between IFRSs and U.S. GAAP with either no additional costs or reduced costs.
9	**Research and development assets:** The BC ED proposed that IPR&D assets with no alternative future use would be recognized at fair value at the acquisition date (and not subsequently written off). *(New requirement for the FASB; already required by IFRS 3.)* The IPR&D would be classified as indefinite-lived until the project is completed or abandoned. Then, it would be amortized over its useful life or written off.	The FASB decided to extend that decision to the acquisition of IPR&D assets with no alternative future use outside of a business combination.	This proposal should not result in significant additional costs to preparers **on the acquisition date** because FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method,* currently requires that an acquirer measure the fair value of IPR&D with no alternative future use on the acquisition date. This proposal will result in costs to preparers **after the acquisition date** because they will need to track their progress on the projects to determine if the project has become impaired or whether the project is complete and should be amortized. Users have stated that recognizing IPR&D as an intangible asset provides relevant information and accounting because that asset makes management more accountable. Users understand that the amount recorded after the acquisition date will not equal its fair value, but they believe a subsequent write-off provides at least some qualitative information. The FASB believed that the benefits of relevance and representation faithfulness and the information provided to users outweighed the cost to preparers. In redeliberations, the FASB decided to extend that proposal to IPR&D asset acquisitions to reduce

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			opportunities to structure transactions as asset acquisitions to avoid to requirement in business combinations. Extending the proposal should improve comparability within U.S. GAAP.
10	**Reacquired rights:** The BC ED codified the guidance in existing EITF Issue No. 04-1, "Accounting for Preexisting Relationships between the Parties to a Business Combination," and proposed that an acquirer should recognize a required right in a business combination as a separately identifiable intangible asset. A reacquired right is a right that the acquirer had previously granted to the acquiree to use the acquirer's recognized or unrecognized intangible asset. If the contract giving rise to the reacquired right includes pricing terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer should recognize a settlement gain or loss. *(New requirement for the IASB; already required for the FASB.)*	The Boards affirmed the proposals in the BC ED and decided to include in the final business combinations standard the following additional guidance that: 1. Limits the useful life and the measurement of a reacquired right to the remaining contractual terms of the contract between two parties. Therefore, the acquirer cannot assume any noncontractual renewals in determining the useful life or the value of the reacquired right. 2. If an entity reissues a reacquired right to a third party, the entity should charge any remaining unamortized asset against the proceeds received from the reissued right.	The Boards clarified the guidance proposed in the BC ED during redeliberations, which will make it easier for preparers to apply the guidance.
11	**Restructuring costs:** The BC ED proposed to prohibit the acquirer from recognizing as	None	The Boards considered whether restructuring or exit activities should be recognized as liabilities assumed as part of a business combination. Only present

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	liabilities assumed costs associated with restructuring or exit activities that do not meet the recognition criteria in Statement 146 or IFRS 5. *(New requirement for the FASB; already required by the IFRS 3.)*		obligations to others are liabilities. The Boards decided in deliberations and affirmed in redeliberations that an entity's commitment to an exit or disposal plan, by itself, is not the requisite past transaction or event for recognition of a liability. The Boards believe that restricting the recognition of restructuring liabilities to only those that meet the definition of a liability provides more representationally faithful information. Preparers disagree because they believe that recognizing those costs as liabilities provides more information about how the acquirer intends to use the business. Users have generally been supportive of the Board's proposal. There are no cost implications because the proposed change is about when the restructuring or exit strategies are recognized. The change will align U.S. GAAP with current IFRSs.
12	**Exceptions:** The BC ED proposed particular exceptions to fair value measurement or recognition. Those exceptions are: 1. Operating leases 2. Income taxes 3. Employee benefits 4. Assets held for sale.	The Boards affirmed the exceptions for operating leases, income taxes, and employee benefits in redeliberations. (The Boards also extended the exception for employee benefits to *all* employee benefits, not just those that are actuarially measured.) Instead of having an exception for assets held for sale, the Boards decided to amend Statement 144 and IFRS 5 to change the measurement to *fair value* rather	The Boards believed that the costs of requiring fair value measurement and recognition for operating leases, income taxes, and employee benefits outweighed any benefits that would be received. The Boards affirmed that in redeliberations. For assets held for sale, the Boards decided to eliminate the inconsistency between the *fair value* measurement requirement in business combinations and the *fair value less costs to sell* measurement requirement in IFRS 5 and Statement 144 by amending those standards to make the measurement attribute fair value. There is, obviously, no additional cost burden.

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		than *fair value less costs to sell*. As such, there is no need to have an exception from fair value measurement for assets held for sale.	
13	**Bargain purchases:** The BC ED proposed that in a **bargain purchase**, the acquirer should account for the "excess" by first reducing the goodwill related to that business combination to zero, and then by recognizing any excess in income. *(New requirement for the FASB; similar to the requirements in IFRS 3.)*	The Boards decided to modify and clarify that proposal in redeliberations. The Boards decided that if an acquisition is a bargain purchase, the acquirer should calculate the amount of the gain attributable to the acquirer as the excess of (a) the amounts recognized for the identifiable assets acquired and liabilities assumed and (b) the acquisition-date fair values of the consideration transferred and the amount recognized for any noncontrolling interest in the acquiree.	The decisions reached in redeliberations are clearer and easier to understand and should not result in any additional costs. There is likely to be no impact on costs for IFRS preparers because the accounting is basically the same as that required by IFRS 3. In addition, IFRS and U.S. GAAP will be aligned.
<u>Measuring the Consideration</u>			
14	**Acquisition related costs:** The BC ED proposed that the costs the acquirer incurs in connection with the business combination be accounted for separately from the business combination accounting (generally expensed).	None	Preparers have claimed that expensing those costs rather than capitalizing them results in a loss of information to users about the total cost of acquiring a business. In contrast, users have stated that they believe these costs should be expensed and disclosed clearly, as proposed in the BC ED. The Boards affirmed the proposals in redeliberations.

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15	**Measurement date for equity securities and contingent consideration.** The BC ED proposed that all items of consideration transferred by the acquirer to be measured and recognized at fair value at the acquisition date, including: 1. Equity securities issued by the acquirer *(New requirement for the FASB; already required by IFRS 3.)* 2. Contingent consideration.	None	For the FASB, measuring the fair value of equity securities issued as of the acquisition date is simpler than the current requirements of Issue 99-12. Some believe that measuring those securities on the agreement date provides a better measure of the true value of the business. However, the Boards believed that there were good conceptual arguments in favor of either measurement date. They believed that the acquisition date model was simpler and consistent with the measurement date for the other assets and liabilities. The Boards affirmed that proposal in redeliberations. The Boards believed that measuring the fair value of contingent consideration on the acquisition date should not be overly costly because entities generally determine what they expect to pay for contingent consideration in determining the purchase price. The Boards, therefore, believe that the benefits of relevance and representational faithfulness and the increased information that would be provided to users outweighed the costs. The Boards affirmed the proposal in redeliberations.
16	**Subsequent accounting for contingent consideration:** After the acquisition date, contingent consideration classified as a liability would be remeasured to fair value (or for those in the scope of IAS 37, in accordance with IAS 37) and contingent consideration classified as equity	None	The Boards understood that measuring the fair value of contingent consideration after the acquisition date would result in additional costs to preparers. Preparers will need to measure the fair value of these arrangements or will need to obtain external valuations at each reporting period. However, users have stated that the information they receive under Statement 141 or IFRS 3 is too late to be useful. The Boards, therefore, believed that the benefits of relevance and

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	would not be remeasured.		representational faithfulness and the increased information that would be provided to users outweighed the costs. The Boards affirmed the proposal in redeliberations.
17	**Share-based payment awards:** The BC ED proposed guidance for accounting for acquiree share-based payment awards the acquirer replaces as part of the business combination.	The FASB made slight modifications to the FASB guidance in redeliberations. The FASB also decided to provide additional guidance. The IASB will discuss this issue in April.	Statement 123(R) nullified FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation,* which provided guidance for accounting for stock options issued as part of a business combination, and did not provide any equivalent guidance. Since then, the staff has received numerous questions about how to account for the issuance of share-based payment awards as part of a business combination. Providing this guidance should reduce confusion, which should result in improved comparability across entities. Providing this guidance also should reduce requests for additional implementation guidance.
18	**Preexisting relationships:** The BC ED proposed that effective settlement of a preexisting relationship between the parties to a business combination is a substantively separate transaction that should be accounted for as a settlement separate from the business combination. The proposed guidance for calculating the amount of the effective settlement is based on the guidance in Issue 04-1. *(New for the IASB; already required for the FASB in EITF 04-1.)*	The Boards affirmed the guidance in the proposals for preexisting relationships and decided to clarify the difference between an unfavorable contract and a loss (onerous) contract.	The Boards clarified the guidance proposed in the BC ED during redeliberations, which will make it easier for preparers to apply the guidance.

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Measurement Period			
19	The BC ED proposed that an acquirer retrospectively adjust prior periods for measurement period adjustments. *(New for the FASB; already required by IFRS 3.)*	None	The Boards believed that the benefits of improved comparability and faithful representation outweighed the costs of recasting prior periods. The Boards also noted that entities were required to disclose the effects of allocation period adjustments anyway, so the additional costs to preparers should not be too significant. The Boards affirmed the BC ED proposals. Although preparers will incur some additional costs to recast prior periods for measurement period adjustments, the Boards believe that the benefits of comparability outweigh the costs.
	Transition		
20	The BC ED proposed that: 1. The BC standard be applied prospectively to business combinations for which the acquisition date is on or after the effective date. 2. Retrospective application to acquisitions completed before the standard is applied should not be permitted.	None None	The Boards decided to reduce the costs of compliance by requiring prospective applications and precluding retrospective application of the new requirements. While prospective application reduces comparability, the Boards believed that the costs of retrospective application would be too significant. The Boards affirmed the ED proposals in redeliberations.
	The IASB's BC ED also proposes an exception to prospective application for *contingent liabilities* recognized in a business combination for which the acquisition date is before the application date of the new business combinations standard.	The IASB reconsidered this in redeliberations and decided to not require those liabilities to be reassessed.	This decision should also further reduce the costs of compliance.

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<u>NONCONTROLLING INTERESTS</u>			
<u>Presentation, Classification and Attribution</u>			
21	The NCI ED proposed that NCI in subsidiaries is part of the equity of the consolidated group and should be presented in the consolidated balance sheet within equity, separate from the parent shareholders' equity. *(New for the FASB; already required by IAS 27.)*	None	In the United States, NCI is presented in a variety of ways due to a lack of clear guidance (liability, equity, or mezzanine). Requiring that NCI be presented in a consistent way will improve comparability between IFRS and U.S. GAAP and within U.S. GAAP. There should be no significant preparation costs because there are no new information requirements.
22	The FASB's NCI ED proposed that an acquirer should attribute net income or loss and each component of other comprehensive income between the CI and NCI based on the terms of any contractual arrangements and, absent any arrangements, based on relative ownership interests.	The FASB affirmed this proposal, and the IASB agreed to adopt the same guidance in redeliberations.	This should have no significant impact on preparers since they are already required to attribute net income or loss and other comprehensive income to the CI and NCI. The Boards only decided to provide explicit guidance that clarifies how the attribution should be made. Thus, this proposal should help reduce confusion and improve comparability. Because it reduces uncertainty about application, the staff believes that it reduces compliance costs. Specifically, there is a reduced need to seek advice on the appropriate accounting treatment.
<u>Acquisitions and Dispositions of NCI</u>			
23	The NCI EDs proposed that any acquisitions or dispositions of noncontrolling interests that do not result in a change of control should be accounted for as equity transactions.	None	IFRS does not provide guidance for accounting for acquisitions of NCI. As such, at least five practices have emerged since IFRS 3 was issued. Providing guidance will improve comparability across entities within IFRS and between IFRS and U.S .GAAP.

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			In the United States (and possibly under IFRS), acquisitions of NCI are accounted for by the purchase method, which requires a full valuation each time noncontrolling shares are purchased. By requiring that acquisitions of NCI be accounted for as equity transactions, an entity will not need to measure the fair value of the individual assets and liabilities each time noncontrolling shares are acquired. In the United States, dispositions of NCI are accounted for as either equity transactions or transactions that result in gain or loss recognition. Requiring that such transactions be accounted for in a consistent way will improve comparability. It is unlikely that there are any costs associated with this change. If anything, the costs will likely be lower than they currently are because the proposed treatment is simpler than many of the methods being used in practice.
Loss of Control			
24	The NCI EDs proposed that if a parent loses control of a subsidiary but retains a noncontrolling equity investment in the former subsidiary, the retained noncontrolling equity investment should be remeasured to fair value and the resulting adjustment should be recognized in net	None	The Boards believed that remeasuring the retained interest to fair value would provide more relevant information and the proposal was consistent with the proposals for step acquisitions. Remeasuring the retained interest will have a cost, but the cost should not be significant since the parent should have estimated the fair value of the subsidiary in determining at what price to sell it.

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	income.		
<u>Transition</u>			
25	The NCI EDs proposed that in transitioning to the final noncontrolling interests standards, an entity should apply certain requirements retrospectively and, therefore, should: 1. Reclassify NCI to equity and present it separately from the parent's shareholders' equity. *(New for the FASB; already required by IAS 27.)* 2. Recast consolidated net income/profit or loss so that amounts attributable to the NCI are included. 3. Reattribute consolidated net income/profit or loss and consolidated other comprehensive income/items recognized directly in equity in accordance with the requirements of the standards. 4. Disclose the information required by the standard for all periods presented.	None	The Boards believed that recasting prior-period financial statements for the presentation and disclosure provisions is not overly burdensome and that the benefits of comparability outweighed the costs. The proposed requirements do not require any new computations or measurements. They simply require reclassification of previously measured amounts within the basic financial statements.
26	The NCI EDs proposed that a parent: 1. Reclassify gains or losses recognized in income/profit or loss for **dispositions** of NCI to	The Boards affirmed the transition for **acquisitions.** They also decided to change the proposal for **dispositions** so that acquisitions and dispositions	Under the NCI ED, a disposition would be accounted for as an equity transaction. During initial deliberations, the Boards decided that applying that proposal retrospectively to prior periods would require a relatively simple reclassification and would not be too

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	equity. 2. Not change the accounting for **acquisitions** of NCI.	would be treated the same. Therefore, an acquirer would not change the previous accounting for dispositions of NCI.	difficult or costly. However, in redeliberations, the Boards decided that a less confusing approach would be to treat acquisitions and dispositions the same. The changes from the ED reduce the costs of transition originally proposed.
27	The NCI EDs proposed that a parent not remeasure the assets, liabilities, and NCI of subsidiaries that are less than wholly owned upon application of the NCI standards.	None	Some entities have told the Boards that this proposal will result in a significant cost to them if they acquire additional NCI shares (a significant reduction in equity or APIC). The Boards understand that some entities will recognize reductions in equity. The Boards considered a variety of transition alternatives to try to mitigate this concern and could not develop a better transition alternative to alleviate this cost.