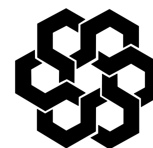

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International Accounting Standards Board

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

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

INFORMATION FOR OBSERVERS

Board Meeting:	**21 March 2007, London**
Project:	**Business Combinations II**
Subject:	**Non-controlling Interests (Agenda Paper 2A)**

Introduction

1. In December 2006 the IASB tentatively decided, notwithstanding supporting the principle of measuring all of the components of a business combination at fair value, that non-controlling interests (NCI) should not be measured at fair value at the acquisition date. The preference was expressed for measuring NCI as its proportionate interest in the identified assets and liabilities.[1]

2. The FASB is strongly in favour of measuring NCI at fair value (6-1). It is the staff's understanding that the FASB is unlikely to move to a method that measures NCI as a proportion of the acquiree's identifiable net assets. Therefore a decision by the IASB not to measure NCI at fair value would result in final business combinations standards that are not converged.

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[1] For reference purposes, Appendix A summarises the background of the Board's decision to shift the focus from goodwill to NCI.

3. As a result, the IASB asked the staff to explore whether it might be possible to minimise the loss of comparability caused by having an exception in the proposed revised IFRS 3 *Business Combinations* but not in the proposed FASB Statement No. 141(R), *Business Combinations.*

4. The staff held small group meetings with Board members during February to gain a better understanding of their concerns in relation to measuring NCI. The analysis in this paper is based on the input received in those discussions.

Minimising the loss of comparability

5. In the staff's view, the first step in assessing how to minimise the loss of comparability caused by having an exception is to identify the main differences in outcome that occur when NCI is measured as a proportionate interest in the identifiable net assets rather than at fair value. These differences are:

   (a) ***Goodwill***: The amount of goodwill recognised in a business combination on initial recognition is likely to be lower if NCI is not measured at fair value. Post-acquisition goodwill is accounted for through an impairment test. Whether a goodwill impairment exists does not depend on how much goodwill is recognised initially; however, any goodwill impairment loss recognised by the group will be that related only to the controlling interest.

   (b) ***NCI***: The amount of NCI recognised in a business combination on initial recognition is likely to be lower if NCI is not measured at fair value. Post-acquisition, NCI is allocated its share of profits and losses. Any subsequent acquisition of some (or all) of the NCI by the controlling interests will cause any difference between NCI measured as a proportionate interest in the identifiable net assets and NCI measured at fair value at the initial acquisition date to be transferred from NCI to the controlling interest at the subsequent acquisition date.

6. Several of the Board members who disagreed with the principle of measuring NCI at fair value, or supported making an exception, questioned the decision usefulness of both NCI and goodwill regardless of the measurement attribute. The staff assumes that those Board members would place less weight on concerns about differences in these items.

7. For those Board members who have concerns about comparability, this section analyses two ways in which the loss of comparability might be minimised:

   (a) *Permit* an entity to measure NCI at fair value, perhaps on the basis that the entity might assess that the benefits of doing so exceed the cost. The result would be a choice of measurement basis for NCI.

   (b) Modify the accounting for subsequent transactions between the controlling and non-controlling interests by adjusting the goodwill and NCI upwards immediately prior to the transaction.

Permit fair value

8. The staff considered whether an entity should be permitted to recognise NCI at fair value if it concluded that there is a net benefit to the entity. This might occur when, for example, the NCI is publicly traded and its fair value is relatively easily determinable.

9. Requiring that all IFRS financial statements show NCI as its proportionate interest in the net identifiable assets would reduce comparability between financial statements prepared in accordance with IFRSs and financial statements prepared in accordance with US GAAP. Until the reconciliation requirement is removed by the US SEC, registrants that file under both US GAAP and IFRSs would need to maintain two parallel records if the IASB's version of the final standard requires that NCI be measured as its proportionate interest in the acquiree's identifiable net assets. Allowing IFRS preparers to measure NCI at fair value would remove this burden. The counter argument is that permitting alternative accounting methods could lead to a loss of comparability between IFRS financial statements.

10. More fundamental, perhaps, is the view in the Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information* that permitting alternative accounting methods for the same transaction or other events is undesirable. Alternatives diminish comparability and may diminish other desirable qualities as well, for example, faithful representation and understandability. Furthermore, permitting alternative accounting methods for the same transaction bears the risk of creating incentives for accounting arbitrage.

11. The staff therefore believes there are several trade-offs the Board should consider. There is the matter of comparability—within IFRSs and with US GAAP—and there is the matter of introducing accounting alternatives. The question is deciding how much weight each factor should be given. There are unique factors about the accounting for goodwill and NCI that cause the staff to place less weight on the potentially reduced comparability of goodwill and NCI than they might otherwise have done. These factors are:

    (a) Goodwill will be measured in a business combination as a residual. There are other differences in the way some assets and liabilities will be measured under the IFRS and US GAAP versions of the proposed standard. Accordingly, even if NCI is measured at fair value the amount recognised for goodwill in a business combination by applying the IFRS version of the standard might be different from the amount recognised by applying the US GAAP version.

    (b) The accounting for impairments is different between IFRSs and US GAAP. This means that even if the boards were converged on the initial measurement of NCI the subsequent accounting for the impairment of goodwill is so different that the benefits of converging on this item in a business combination are lost almost immediately.

    (c) The circumstances that cause an impairment are often specific to an entity and impairments are, generally, not made in every reporting period for every entity. This means that concerns about comparability relate to an item that should occur infrequently and which should be the focus of detailed analysis by users. This contrasts with differences in items that are reported every period and for which the accounting is different.

12. A risk associated with the exception for NCI is that a difference between the IFRS and US GAAP measurement of NCI in a business combination could become entrenched in our respective standards. The staff thinks that any differences between the standards should be reviewed once the boards have information about how their standards have been applied. Practical application of the proposed IFRS 3 and Statement 141(R) should provide the boards with evidence about the relative usefulness of this information and the cost of complying with the requirements. One option is for the boards to include a review of NCI and goodwill measurement within the scope of any future project

on the accounting for impairments. There seems to be little point in striving to align the accounting for the impairment of goodwill if the initial measurements are fundamentally different.

Staff recommendation

13. The staff recommends that, on the assumption that the IASB is going to make an exception to measuring NCI at fair value, the proposed IFRS should **require** that NCI be measured in a business combination at its proportionate interest in the identified assets and liabilities at the acquisition date. The IFRS would not permit an entity to measure NCI at fair value if that amount is different from its proportionate interest in the identified assets and liabilities at the acquisition date.

14. Permitting an entity to measure NCI at fair value would likely result in more entities that prepare IFRS financial statements having the same initial measurement basis for NCI as those prepared under US GAAP. The initial measurement of goodwill also would be comparable between such entities. However, the accounting for goodwill after initial recognition would not be converged. The benefits of converging on initial recognition are, therefore, limited.

15. In contrast, permitting an entity to measure NCI at fair value conflicts with the IASB's view that permitting alternative accounting methods for the same transactions of events is undesirable.

Adjusting NCI for subsequent acquisitions

16. On the face of it, the exception for NCI in the revised IFRS 3 will not affect the accounting for subsequent acquisitions. NCI (or a portion of it) is derecognised when the controlling interest acquires it. A business combination occurs only when there is a change in the control of a business.

17. Although the business combinations exposure draft (BC ED) focused on the measurement of goodwill, some respondents expressed concerns about the effect of accounting for acquisitions of NCI by the controlling interests. Their concern is that, by acquiring the NCI, presumably at fair value, the equity of the group is reduced by the NCI's share of any unrecognised changes in the fair value of the net assets of the business (including goodwill). By measuring the NCI initially as a proportionate interest in the identifiable net assets, rather than at fair value, that reduction in equity is likely to be larger. The staff observes

that any reduction in equity reflects the difference between the carrying amount of the NCI and the consideration paid to buy out that NCI. Measuring NCI in accordance with the exception simply makes that accounting difference larger—it does not change the economics of the transaction.

18. Nevertheless, the staff considered six different ways of adjusting goodwill and NCI (including fresh start accounting) when some or all of the NCI is acquired by the controlling interest. We also undertook sensitivity analysis to identify the factors that have the biggest impact on the reported equity of a group when NCI is acquired. The analysis only served to confirm our expectations: post-acquisition increases in the fair value of the entity that are not captured in reported NCI are likely to have the most significant effect.

19. Acquiring NCI *should* reduce the reported equity of a group—because assets are transferred out of the entity to the NCI holders (for example, cash paid to acquire the shares). This is the outcome we expect for any transaction with owners. Consider the acquisition by an entity of its own shares in a treasury stock transaction. The entity transfers cash out in exchange for shares, which it will acquire at fair value. If the entity then cancels those shares, it will derecognise some of its equity. The net equity is reduced by the proportionate *fair value* of the shares and not the proportionate *carrying amount* of the equity.

20. Those Board members who expressed concerns about the effect on reported equity appear to have more fundamental concerns about the accounting for transactions with, or between, owners. Making an adjustment to reduce the effect on equity is not going to address those concerns. Moreover, the staff is concerned about adjusting goodwill by recognising a new 'layer' that is measured at the date the additional interest is acquired. Any such approach is inconsistent with the basic model in the proposed standards. That basic model accounts for assets acquired and liabilities assumed at the date the acquirer achieves control of the acquiree. The acquisition (or disposal) of non-controlling interests *is not a business combination* and as a result should not cause any of these assets or liabilities to be remeasured.

21. A potential solution would be to adjust NCI and goodwill upward immediately prior to the acquisition of those interests by adjusting goodwill by the amount that would be used for goodwill impairment testing purposes, similar to the methodology in IAS 36 *Impairment of Assets*. This would result in the NCI and goodwill being measured at (theoretically) the same amounts in a multiple-step

acquisition as it would have been in a single-step acquisition (to the same level). But this treatment is difficult to justify. If the goodwill calculation measured for impairment purposes can be used to adjust NCI and recognised goodwill after the acquisition date, there seems little reason not to require that it be used in the business combination (when it is first calculated).

22. Not recognising NCI at fair value is also a transition issue. NCI recognised before the application of the proposed revised IFRS 3 will generally be measured on some partial goodwill basis. At its 28 February 2007 meeting the FASB tentatively decided that, on transition to the new standards, the assets, liabilities and NCI of a subsidiary that is less than wholly owned should not be changed. Any acquisitions or dispositions of NCI after the final non-controlling interest statement is applied would be accounted for as equity transactions. The staff recommends that the IASB affirm the same transitional provision.

Staff recommendation

23. The staff recommends that the IASB affirm that any acquisitions or dispositions of NCI be accounted for as equity transactions. The IFRS would not require, or allow, any adjustment to goodwill or NCI for changes between the carrying amount of the NCI and the fair value of the NCI acquired, including NCI carried forward on transition.

Convergence

24. Some Board members and staff are concerned that measuring NCI at a measurement attribute other than fair value means that the IASB version of the standard will not be converged with the FASB version. This section identifies additional factors to help the boards assess the impact of a difference between IFRSs and US GAAP in measuring NCI. In other words, it is meant to help assess how important the measurement attribute for NCI is to achieving the objectives of Phase II of the Business Combinations project.

25. The current IFRS 3 and Statement 141 differ in many respects. When the second phase of the business combinations project began, the boards had an expectation that these differences would be eliminated. The project also has an improvements objective. It is for that reason that the boards have decided to change the accounting for some aspects of a business combination for which they are already converged. The goal was that a business combination accounted

for in accordance with IFRSs would be comparable with a business combination accounted for in accordance with US GAAP.

26. Based on the decisions to date, the boards are on course to eliminate most of the differences. Appendix B provides a summary of the progress made in Phase II of the Business Combinations project. It is clear that the proposed standards would align the accounting for most aspects of a business combination.

27. Both standards will have an underlying premise that achieving control over a business gives the acquirer control over, and responsibility for, all of the assets and responsibility for the liabilities of the acquiree. The boards believe that achieving control of a business should therefore be the basis for recognising all of, and only, the assets acquired, the liabilities assumed and the equity interests in the acquiree. This means that only one 'initial measurement' of the components of a business combination (including all of the assets, liabilities, equity and consideration) is required and this is at the date control is achieved. The result will be that most, but not all, of the assets and liabilities in a business combination will be recognised and measured on the same basis under IFRSs as they will be under US GAAP.

28. With the exception of NCI, the remaining differences are not a consequence of conflicting views of the boards; rather, they are a consequence of existing GAAP differences. The boards have active projects for income tax, post-retirement benefits and leases. The IASB has an active project on liabilities. As these projects develop, any changes to the accounting for those items are likely to remove the differences in a business combination, one by one, which will also result in convergence in the amount of goodwill recognised.[2]

29. Whether the changes proposed from IFRS 3 and Statement 141 are sufficient for the boards to decide that Phase II has met its convergence objective depends on how much importance, or weight, is attached to measuring NCI on the same basis.

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[2] The proposed standards would be converged on the definition and measurement of goodwill because it is a residual of the other components of the business combination. But it will not be converged in practice because of the measurement differences between some of the assets and liabilities from which goodwill is derived.

Questions for the IASB

30. **Does the IASB affirm that the proposed IFRS should require that NCI be measured in a business combination at its proportionate interest in the identified assets and liabilities at the acquisition-date?**

31. **Does the IASB affirm that any acquisitions or dispositions of non-controlling interests be accounted for as equity transactions?**

    If so, does the IASB affirm that no adjustment to goodwill or NCI should be permitted for changes between the carrying amount of the NCI and the fair value of the NCI acquired, including NCI carried forward on transition?

Appendix A – Background

1. This appendix contains the following:

   (a) a discussion about the shift in focus from goodwill to NCI, and

   (b) a summary of the discussions the boards have had about the measurement attribute for NCI in a business combination.

The change in focus to NCI

2. The BC ED proposed that all goodwill be recognised in the consolidated financial statements and that NCI should be measured and recognised based on its proportional share in the identifiable assets and liabilities plus its share of goodwill. This is commonly referred to as the 'full goodwill' method. In October 2006 the staff presented a paper to the boards suggesting that labelling these as the 'full goodwill' and 'partial goodwill' methods might be unhelpful. These characterisations imply that the 'methods' are competing concepts or theories that focus on the best way to account for goodwill. The argument, invariably, turns to assessing the informational relevance of goodwill.

3. The staff also suggested that the proposal in the BC ED to 'allocate' goodwill between the controlling and non-controlling interests was not helpful. The BC ED explains that goodwill is an asset and, like other assets, should be recognised when control is achieved. Yet no other asset is 'allocated' between the controlling and non-controlling interests. The BC ED proposed to allocate goodwill under the 'full goodwill' method only for purposes of performing the goodwill impairment test. But that reason might not be easily understood and might have added confusion around the 'full goodwill' method.

4. The fact that goodwill is neither defined nor measured independently makes it difficult to assess its informational relevance. The BC ED describes goodwill as 'the future economic benefits arising from assets that are not individually identified and separately recognised.' In other words, goodwill is 'the assets that are not identified'.

5. The BC ED's proposal for measuring goodwill means that it absorbs any overpayment or underpayment and any (unobservable) differences between the fair value of the assets acquired and liabilities assumed and the recorded acquisition-date amount of those assets and liabilities for which exceptions to fair value measurement have been made. The relative merits of the 'full

goodwill' and 'partial goodwill' methods then centre on whether all or some of that residual should be recognised. The boards appear to have accepted that these factors make it difficult to defend the information usefulness of goodwill. Having accepted that it is a residual, and that it absorbs underpayments and overpayments and any measurement errors in other assets and liabilities, debating whether to recognise all or some of the goodwill is problematic.

6. The boards decided that insufficient attention has been given to the impact on NCI of the proposals and that the focus of the discussion instead should be on measuring NCI. The change in focus is designed to identify the most relevant and decision-useful basis for measuring NCI in a business combination. That is to say, the informational content of NCI might be improved if NCI is measured directly.

7. Whatever decision made about the measurement of NCI will affect goodwill. Indeed, if the fair value of NCI is recognised, full goodwill is the result since the fair value of the NCI includes its interest in the goodwill of the entity. However, any method of measuring NCI that involves allocating goodwill to it means that NCI is, essentially, a residual of a residual. Decoupling the thinking allowed the boards to consider whether there is a measurement attribute that is more informative for NCI than one that relies on goodwill.

Measurement attribute for NCI

8. The BC ED describes the mechanics for measuring NCI, but does not identify its measurement attribute. During the redeliberations the boards were asked to consider whether it would be preferable to define the measurement attribute for NCI. One problem with specifying a measurement attribute for NCI is that equity is usually measured as a residual. Some Board members were uncomfortable departing from this convention.

9. The staff asked the boards to consider situations in which shares are issued in exchange for cash outside of a business combination. When shares are issued the consideration received is usually assumed to be easier to measure than the 'value' of the shares issued. The consideration received (such as the cash) is therefore used as the basis for measuring the shares. Even for non-cash share issues IFRSs and US GAAP generally require that the consideration received be measured at fair value, and that consideration is used to measure the equity.

10. Using the fair value of one side of an exchange as the basis for measuring the other side of the exchange is a feature of IFRSs and US GAAP. In many cases it will result in both sides being measured at fair value. Not all IFRSs and US GAAP measure equity transactions as a residual. The standards that specify a measurement attribute normally do so for cases in which it is difficult to measure the consideration received. IFRS 2 *Share Based Payments* and Statement 123 (revised 2004), *Share-Based Payments*, are examples for which equity is sometimes measured directly.

11. The staff also observed that the BC ED proposes that any shares issued as consideration in a business combination should be measured at their acquisition-date fair value and not as a residual. Respondents to the BC ED supported that proposal, which suggests that they agree that a business combination is a circumstance in which it is appropriate to specify the measurement attribute for the equity issued as consideration. If a measurement attribute is specified for NCI in a business combination it would not be the only component of equity measured in this way.

12. Measuring NCI at fair value is consistent with how the other components of the business combination are measured and with how equity is measured outside of a business combination. Fair value at the acquisition date will reflect the interest those parties have in the new group. The value of protective rights, such as being able to restrict the activities of the subsidiary, will be reflected in the fair value measure.

13. In December 2006, the Board tentatively decided that the final standard should state that the principle for the initial measurement of NCI in business combination is its acquisition date fair value. However, the Board also tentatively decided that the standard should include an exception to fair value measurement for NCI.

Appendix B – Summary of improvements made to IFRS 3 and Statement 141

1. This appendix summarises the changes that have been made to the current IFRS 3 and Statement 141. Most of the differences are being eliminated by the FASB deciding to change to the accounting required by IFRS 3. In other cases both boards have decided to change from their existing requirements to new, common requirements. In some aspects of a business combination, the boards already have similar requirements but both boards have decided to improve financial reporting by changing to what they consider to be better accounting.[3]

2. The last section discusses differences that have not been addressed in Phase II of the Business Combinations project.

Differences addressed by the FASB

3. The FASB is proposing several changes to US GAAP that will bring their accounting in line with IFRS 3. The more significant of these changes are as follows:

   (a) Non-controlling interests will be classified as equity. US GAAP does not have guidance for classifying non-controlling interests, but the SEC requires registrants to classify non-controlling interests (currently referred to as minority interests) as a ‘mezzanine’ element between liabilities and equity.

   (b) Income attributable to the non-controlling interests will be reported as part of the income of the group. The total income will be allocated to the controlling and non-controlling interests within the equity section of the balance sheet. Currently the income attributed to the non-controlling interests is accounted for as an expense of the group.

   (c) 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 basis for users because:

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[3] Not all of the differences or proposed changes are described in this paper. For example, the proposed definition of a business is different from both the current definition of IFRS 3 and Statement 141. This change is not described in the body of the paper because the staff assess this as being ancillary to the main changes being proposed.

i. the assets are measured at their fair values on the day that the acquirer is able to access that value; and

ii. liabilities are measured at their fair value on the day the acquirer assumes responsibility for them.

Statement 141 currently requires identified assets and liabilities to be measured as the sum of the proportionate interest of the fair value of the asset at each step and the proportionate interest of the carryover amount of the proportion not 'owned'. For example, if a 35 per cent interest is acquired initially and then sometime later a 20 per cent interest is acquired, giving the acquirer control, Statement 141 requires that each identified asset be measured in the business combination as:

> 35 per cent of its fair value when the first interest was acquired;
> plus
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> 20 per cent of its fair value when the second interest was acquired;
> plus
>
> 45 percent of the carry over amount of the asset at the date control
> is achieved.

This process continues for any additional acquisition after control has been achieved with each asset being adjusted for the proportionate interest of the change in its fair value. Under the proposals no adjustment is made to any asset or liability for any changes in ownership interests once control has been achieved.

(d) Any residual bargain purchase will be recognised in income. Under Statement 141 the bargain is apportioned to particular non-financial assets acquired.

(e) Restructuring or exit activities generally will be accounted for by the acquirer as post-acquisition transactions. Under the current US GAAP requirements such anticipated costs are recognised as part of the business combination.

(f) In-process research and development acquired in a business combination will be recognised as an asset rather than expensed immediately, as is now required under US GAAP.

(g) Measurement period adjustments would be recognised retrospectively as required by IFRS 3 rather than prospectively as was the current practice under Statement 141.

(h) Changes in the acquirer's deferred tax benefits due to the acquisition will be accounted for in the post-combination financial statements. This treatment aligns with the requirements of IAS 12 *Income Taxes*.

Differences addressed by the IASB

4. The IASB is proposing one significant change that will align IFRS 3 with US GAAP. IFRS 3 requires that all identifiable intangible assets be recognised 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 recognised under the proposals that are not already recognised under IFRS 3. Nevertheless, it is listed as a change here because some respondents identified this as a significant change from IFRS 3.

Differences addressed by both boards

5. The most significant difference that both boards propose to address is the accounting for acquisitions *after* control has been achieved. The proposal simplifies US GAAP requirements and clarifies IFRS requirements. The proposal would require any additional purchases or sales of shares to be accounted for as transactions between owners, with no adjustment to goodwill.

6. Under US GAAP, acquisitions of non-controlling 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 US GAAP there is diversity in practice with regard to the accounting for dispositions of non-controlling interests; they are accounted for as either equity transactions or as transactions with gain or loss recognition.

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

Other improvements

8. The boards currently have similar requirements for some aspects of a business combination but both boards decided to improve financial reporting by changing their existing requirements. The more significant of these changes are as follows:

   (a) Both boards have affirmed extending the scope of their standards to include mutual entities and business combinations achieved by contract alone.

   (b) The accounting for goodwill for an acquisition achieved in stages will be simplified. The proposal is to measure goodwill 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. In both cases the standards require retrospective estimates of the fair values of each identified asset for each stage of an acquisition prior to achieving control for the purposes of calculating the layers of goodwill.

(c) 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 agreed that they should be accounted for separately, with the result that these costs generally will be expensed as incurred.

(d) A consequence of establishing a consistent measurement basis (ie fair value) is that the consideration is measured at fair value, which means that additional payments (conditional consideration) that are lower or higher than expected are taken to income. IFRS 3 and Statement 141 both allow delayed recognition of those obligations and require that goodwill be adjusted for conditional (contingent) consideration.

Differences not addressed in the project

9. Despite having converged principles there are differences between the standards that are likely to cause differences in the accounting for business combinations under the proposed revised IFRS 3 and Statement 141(R). Most of these differences are a consequence of differences in the authoritative literature in other IFRSs and US GAAP to which IFRS 3 and Statement 141(R) will refer.

10. The most fundamental differences relate to the scope, the definition of fair value, the accounting for what are commonly referred to as contingent assets and liabilities, employee benefits and deferred tax.[4]

Scope

11. On the face of it the standards will have the same scope because they will rely on the definition of control for identifying when a business combination has taken place. However, the proposed revised IFRS 3 refers to the definition of control in IAS 27 *Consolidated and Separate Financial Statements* whereas Statement 141(R) will rely on the guidance in Accounting Research Bulletin No. 51, *Consolidated Financial*

[4] There are some other differences. For example, the accounting for a leased property by a lessor for which the current lease is not at market also is likely to be accounted for differently, although this difference relates to the initial unit of account. The aggregate accounting will be the same.

Statements, and FASB Interpretation No. 46(R), *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 these differences in scope will require the boards agreeing 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.

Definition of fair value

12. It is likely that both standards will have fair value as a measurement attribute. However, the proposed IFRS 3 will carry forward the definition that is currently used in IFRS 3. A decision on how the measurement attribute will be defined in the proposed Statement 141(R) will be made by the FASB in April. The current proposal is to refer to FASB Statement No. 157, *Fair Value Measurements*. To assist the boards in affirming these decisions the staff has undertaken additional consultation and field testing to see if the differences in the definition in IFRS 3 and the definition in Statement 157 are likely to cause differences in how components of a business combination are measured when the standards are applied. The outcome of this consultation will be reported back to the boards in April.

Contingent assets and liabilities

13. 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 different accounting for contingent assets and contingent liabilities outside of a business combination has been reflected in the accounting for these items in the proposed IFRS 3 and Statement 141(R).

Employee benefits and deferred tax

14. Even though both standards will require that employment related benefits and deferred tax 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 US GAAP pronouncements.