



**30 Cannon Street, London EC4M 6XH, United Kingdom**  
**Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411**  
**Email: [iasb@iasb.org](mailto:iasb@iasb.org) Website: [www.iasb.org](http://www.iasb.org)**

**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: Assembled workforce (Agenda Paper 2E)**

---

#### **Introduction**

1. At their separate October 2006 meetings, the Boards were asked to:
  - a. clarify the meaning of an 'assembled workforce' and
  - b. reconsider the proposal in the Business Combinations Exposure Draft (BC ED) that precludes the recognition of an acquired assembled workforce separately from goodwill.<sup>1</sup>
2. Both Boards tentatively decided to clarify that an assembled workforce is an existing collection of employees that permits an acquirer to continue to operate an acquired business from the acquisition date (View 2 from the October Agenda Paper/Memorandum). An assembled workforce is not the intellectual capital of the skilled workforce (View 1 from the October Agenda Paper/Memorandum). Rather, the intellectual capital is recognised in the fair value of the entity's other intangible assets.
3. The IASB voted (7-5) to permit the recognition of an assembled workforce separately from goodwill. The FASB voted (5-2) to affirm the existing provision

---

<sup>1</sup> See IASB Agenda Paper 2A/FASB Memorandum #26 for the October 2006 Board meetings.

in FASB Statement No. 141, *Business Combinations*, stipulating that assembled workforce not be recognised separately from goodwill on the basis that it is not separable. Therefore, the Boards have not reached a converged decision. This paper outlines the approaches the Boards might take to resolve this difference.

### **Potential approaches**

4. The staff believes that the Boards have the following approaches available to achieve convergence:
  - a. Option A—preclude the separate recognition of an assembled workforce on the basis that either (i) an assembled workforce is not separable under any circumstances or (ii) an assembled workforce would be separable so rarely that it is not worth preparers expending the effort to determine whether or not it should be recognised.
  - b. Option B—permit the separate recognition of an assembled workforce, but provide application guidance that clarifies that an at-will (non-contractual) assembled workforce is separable only in rare circumstances.

### **Staff analysis and recommendation**

5. The difference between the options is whether the Boards think that an at-will (non-contractual) assembled workforce is *ever* separable—with related assets and liabilities and not just with the business as a whole. The staff believes that in practice these approaches would almost always result in the same outcome. However, precluding recognition could lead to an exception to the recognition principle in the event that an entity's assembled workforce is separable (for example, in a particular industry). Each option is analysed below.

#### **Option A**

6. Some of the IASB and FASB members who voted to preclude the recognition of an assembled workforce separately from goodwill cited concerns about whether an at-will (non-contractual) assembled workforce can ever be separated from the business as a whole. *Separable* is defined as:

capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or

together with a related contract asset, or liability, regardless of whether the entity intends to do so.

7. Those Board members believe that an assembled workforce (ie not specific employees or employee groups) can be sold, transferred, licensed, rented or exchanged only with the *entire* business, not with *some* of the assets of the business. That is, those Board members believe that an assembled workforce will never meet the separability criterion.
8. Other Board members and some staff members believe that an assembled workforce would be separable so rarely that it is not worth preparers expending the effort to determine whether or not it should be recognised. Other staff members think that minimal cost will be involved in (a) determining whether or not it should be recognised and (b) determining its value because the recognition is likely to be industry-specific and the value will be estimated for the purpose of determining the contributory asset charges for the other assets.
9. If Option A is selected, the final business combinations standard could contain non-rebuttable presumption that an assembled workforce does not meet the separability criterion.<sup>2</sup>

#### **Option B**

10. Some Board members and some staff believe that an assembled workforce might be separable from the acquired business in some circumstances. However, those circumstances likely would be rare. Therefore, another option is to permit the separate recognition of an assembled workforce, but provide application guidance that clarifies that an at-will (non-contractual) assembled workforce would be separable only in rare circumstances.
11. The final standard could include a rebuttable presumption that an assembled workforce would not meet the separability criterion. However, an acquirer could be permitted to rebut that presumption if it has evidence of exchange transactions for the assembled workforce, even if those exchange transactions are infrequent and regardless of whether the acquiring entity was involved in them. For

---

<sup>2</sup> Option A presumes non-separability and therefore might imply an indefinite useful life. However, the staff believes that the final standard should specify that, although an acquired assembled workforce is not separable from goodwill, it is conceptually different from goodwill and it has a finite useful life. This is important for the calculation of contributory asset charges.

example, the final business combinations standard could include the following application guidance:

If an acquired intangible asset does not arise from contractual or other legal rights, this Statement/IFRS requires that it be recognised as an asset apart from goodwill only if it is separable—that is, it is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged (the separability criterion).

This Statement/IFRS presumes that an acquired non-contractual assembled workforce does not meet the separability criterion. However, an acquirer could rebut that presumption in the rare circumstance that it has evidence of exchange transactions for its non-contractual assembled workforce or an asset of a similar type (even if those exchange transactions are infrequent and regardless of whether the acquiring entity was involved in them).

12. Furthermore, the application guidance would specify that an acquired assembled workforce has a finite useful life.
13. This would give preparers the ability to decide for themselves on a case-by-case basis whether or not an acquired assembled workforce meets the identifiability criterion (ie legal-contractual or separable) for recognition separately from goodwill.

### **Question for the Boards**

*Do the Boards prefer Option A or Option B?*