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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: **Valuation Allowance Disclosure (Agenda Paper 2F)**

PURPOSE OF THIS MEMORANDUM

1. The purpose of this memorandum is to provide information that will enable Board members to decide whether to (a) provide disclosure guidance in the final business combinations standard regarding credit considerations factored into the valuation of receivables or (b) develop and provide that guidance as part of the project on disclosure requirements associated with the allowance for losses (recently added to the FASB's technical agenda).

BACKGROUND

2. In December 2006, the Boards continued redeliberations of the proposed standard on business combinations and affirmed, among other items, measurement of acquired receivables (including loans and finance leases [financing receivables]) at their acquisition date fair value and a prohibition against recognition of a separate valuation allowance. The Boards directed the

staff to evaluate types of disclosures that should be provided, if any, to communicate information about the credit quality of acquired receivables. Users have historically requested information about credit quality and uncollectible receivables.

3. At its January 30, 2007 FASB meeting (subsequent to the Board directive to evaluate disclosures in a business combination), the FASB added a project to its technical agenda to improve disclosures relating to the allowance for credit losses associated with financing receivables. The FASB directed the staff to develop new disclosures and enhance current disclosures, including, but not limited to, information about credit quality in an entity's portfolio, credit risk exposures, and potentially more transparency within an entity's accounting policies.

4. The staff thinks the work involved in developing disclosures in the context of a business combination will be substantially similar to that required in the allowance disclosure project. The staff thinks it would be a more efficient use of staff and Board resources to combine the two efforts—that is, have the allowance disclosure project also evaluate the disclosures required in a business combination. Because the disclosure project is expected to be completed and effective before the proposed standard on business combinations becomes effective, the staff believes that timing should not be an issue.

5. The staff recommends that the IASB monitor the deliberations in the FASB's disclosure project and consider the disclosures related to business combinations as they are discussed in that project.

QUESTIONS FOR THE BOARDS

Does the FASB agree that it should address potential disclosures related to the credit quality of acquired receivables in the allowance for credit losses disclosure project?

Does the IASB agree that it should monitor the discussions in the FASB's disclosures project and consider the disclosures related to business combinations as they are discussed in that project?