April 2004

EXPOSURE DRAFT OF PROPOSED

Amendments to IFRS 3 Business Combinations

Combinations by Contract Alone or Involving Mutual Entities

Comments to be received by 31 July 2004

International Accounting Standards Board®

Exposure Draft of Proposed

AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS— COMBINATIONS BY CONTRACT ALONE OR INVOLVING MUTUAL ENTITIES

Comments to be received by 31 July 2004

This Exposure Draft of proposed Amendments to IFRS 3 *Business Combinations* is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in the form of amendments to an International Financial Reporting Standard (IFRS). Comments on the Exposure Draft should be submitted in writing so as to be received by **31 July 2004**.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to: **CommentLetters@iasb.org** or addressed to:

Annette Kimmit
Senior Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

Fax: +44 (0)20 7246 6411

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IASCF Publications Department,
1st Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom.
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BACKGROUND

1 The International Accounting Standards Board announced in July 2001 that it would undertake a project on business combinations as part of its initial agenda. The project has a number of phases. The first phase resulted in the Board issuing in March 2004 IFRS 3 *Business Combinations* and revised versions of IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets.* IFRS 3 superseded IAS 22 *Business Combinations* (as issued in 1998). The subsequent phases will involve consideration of, amongst other things, the application of the purchase method to the accounting for business combinations.

2 IFRS 3 requires all business combinations to be accounted for by applying the purchase method. However, IFRS 3 excludes from its scope specified types of business combinations, including:

(a) combinations involving two or more mutual entities.

(b) combinations in which separate entities are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest. This includes combinations in which separate entities are brought together by contract to form a dual listed corporation.

In developing IFRS 3, the Board observed that differences between the ownership structures of mutual entities and those of investor-owned entities give rise to complications in applying the purchase method to business combinations involving two or more mutual entities. Such transactions normally do not involve the payment of any reliably measurable consideration. Thus, difficulties arise in estimating the cost of the business combination and any goodwill acquired in the combination. Similar complications arise in applying the purchase method to combinations involving the formation of a reporting entity by contract alone without the obtaining of an ownership interest.

3 IFRS 3 was preceded in December 2002 by the Exposure Draft ED 3 *Business Combinations*. ED 3 proposed that entities should continue to apply IAS 22 to the accounting for such transactions until the Board develops, as part of the subsequent phase of its Business Combinations project, guidance on the application of the purchase method to those transactions.

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4 During its redeliberations, the Board observed that continuing to apply IAS 22 to such transactions was not a satisfactory solution. Instead, the Board decided that until it develops, as part of a subsequent phase of its Business Combinations project, guidance on applying the purchase method to such transactions, IFRS 3:

(a) should include such transactions within its scope.

(b) should require the acquirer to measure the cost of such a combination as:

(i) the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities when the combination is one in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest.

(ii) the aggregate of the following amounts when the combination is one in which the acquirer and acquiree are both mutual entities:

- the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities; and
- the fair value, at the date of exchange, of any assets given, liabilities incurred or assumed, or equity instruments issued by the acquirer in exchange for control of the acquiree.

Therefore, until guidance on applying the purchase method to such transactions is developed, the acquirer would recognise goodwill equal to the fair value, at the date of exchange, of any consideration given by the acquirer in exchange for control of the acquiree.

5 The Board decided, however, that it would not be appropriate to incorporate this interim solution into IFRS 3 without first exposing it for public comment—hence, the publication of this Exposure Draft.

Transitional provisions and effective date

6 The Exposure Draft proposes that no amendments should be made to the transitional and effective date requirements in IFRS 3. For ease of reference, those requirements are reproduced on pages 10-13 of this Exposure Draft. This would mean that:

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(a) entities would not be required to apply the revised version of IFRS 3 arising from this Exposure Draft to the accounting for any business combinations for which the agreement date is before 31 March 2004. This would include combinations in which the acquirer and acquiree are both mutual entities or in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest.

(b) entities would be permitted to apply the revised version of IFRS 3 arising from this Exposure Draft from any date before 31 March 2004, provided:

   (i) the valuations and other information needed to apply the IFRS to past business combinations were obtained at the time those combinations were initially accounted for; and

   (ii) the entity also applies IAS 36 and IAS 38 (both as revised in 2004) prospectively from that same date, and the valuations and other information needed to apply those Standards from that date were previously obtained by the entity so that there is no need to determine estimates that would need to have been made at a prior date.

   Therefore, entities that elect to apply the revised version of IFRS 3 from any date before 31 March 2004 would be required to apply that revised version to any combination in which the acquirer and acquiree are both mutual entities or in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest, and for which the agreement date is after the date selected but before 31 March 2004.

(c) entities would be required to apply the revised version of IFRS 3 arising from this Exposure Draft to the accounting for all business combinations for which the agreement date is 31 March 2004 or later, including combinations addressed by this Exposure Draft.

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INVITATION TO COMMENT

The International Accounting Standards Board invites comments on the amendments to IFRS 3 proposed in this Exposure Draft. It would particularly welcome answers to the questions below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IFRS 3 other than those set out in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than **31 July 2004**.

Question 1

The Exposure Draft proposes:

(a) to remove from IFRS 3 the scope exclusions for business combinations involving two or more mutual entities and business combinations in which separate entities are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest.

(b) to require the acquirer to measure the cost of a business combination as:

   (i) the aggregate of the following amounts when the combination is one in which the acquirer and acquiree are both mutual entities:

   - the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities; and
   - the fair value, at the date of exchange, of any assets given, liabilities incurred or assumed, or equity instruments issued by the acquirer in exchange for control of the acquiree.

   Therefore, goodwill would be recognised in the accounting for such transactions only to the extent of any consideration given by the acquirer in exchange for control of the acquiree.

   (ii) the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities when the combination is one in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest. Therefore, no goodwill would arise in the accounting for such transactions.

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Is this an appropriate interim solution to the accounting for such transactions until the Board develops guidance on applying the purchase method to such transactions as part of a subsequent phase of its Business Combinations project? If not, what other approach would you recommend as an interim solution to the accounting for such transactions, and why?

Question 2

The Exposure Draft proposes that no amendments be made to the transitional and effective date requirements in IFRS 3. This would have the effects set out in paragraph 6(a)-(c) above on the accounting for business combinations in which the acquirer and acquiree are both mutual entities or in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest.

Is this appropriate? If not, what transitional and effective date arrangements would you recommend for such business combinations, and why?

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PROPOSED AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS

Proposed amendments are shown as marked changes to IFRS 3. New text is underlined and deleted text is struck through.

In the Scope section, subparagraphs 3(c) and 3(d) are deleted. Therefore, paragraph 3 will read as follows.

3 This IFRS does not apply to:

(a) business combinations in which separate entities or *businesses* are brought together to form a *joint venture*.

(b) *business combinations involving entities or businesses under common control.*

~~(c) business combinations involving two or more *mutual entities*.~~

~~(d) business combinations in which separate entities or businesses are brought together to form a *reporting entity* by contract alone without the obtaining of an ownership interest (for example, combinations in which separate entities are brought together by contract alone to form a dual listed corporation).~~

In the section "Cost of a business combination", paragraph 24 is amended to read as follows and paragraphs 31A and 31B are added.

24 Except as provided in paragraph 31A, ~~T~~the acquirer shall measure the cost of a business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus

(b) any costs directly attributable to the business combination.

31A The acquirer shall measure the cost of a business combination:

(a) as the aggregate of the following amounts when the combination is one in which the acquirer and acquiree are both mutual entities:

(i) the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 37; and

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(ii) the fair value, at the date of exchange, of any assets given, liabilities incurred or assumed, or equity instruments issued by the acquirer in exchange for control of the acquiree.

(b) as the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 37 when the combination is one in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest (for example, combinations in which separate entities are brought together by contract alone to form a dual listed corporation).

31B The cost of a business combination measured in accordance with paragraph 31A shall exclude any costs directly attributable to the combination, such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination. Such costs shall be recognised as an expense in profit or loss in the period in which they are incurred.

In the section "TRANSITIONAL PROVISIONS AND EFFECTIVE DATE", paragraphs 78-85 are not amended. For ease of reference, those paragraphs are reproduced below.

78 Except as provided in paragraph 85, this IFRS shall apply to the accounting for business combinations for which the *agreement date* is on or after 31 March 2004. This IFRS shall also apply to the accounting for:

(a) goodwill arising from a business combination for which the agreement date is on or after 31 March 2004; or

(b) any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination for which the agreement date is on or after 31 March 2004.

Previously recognised goodwill

79 An entity shall apply this IFRS prospectively, from the beginning of the first annual period beginning on or after 31 March 2004, to goodwill acquired in a business combination for which the agreement date was before 31 March 2004, and to goodwill arising from an interest in a jointly controlled entity obtained before 31 March 2004 and accounted for by applying proportionate consolidation. Therefore, an entity shall:

(a) from the beginning of the first annual period beginning on or after 31 March 2004, discontinue amortising such goodwill;

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(b) at the beginning of the first annual period beginning on or after 31 March 2004, eliminate the carrying amount of the related accumulated amortisation with a corresponding decrease in goodwill; and

(c) from the beginning of the first annual period beginning on or after 31 March 2004, test the goodwill for impairment in accordance with IAS 36 (as revised in 2004).

80 If an entity previously recognised goodwill as a deduction from equity, it shall not recognise that goodwill in profit or loss when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

Previously recognised negative goodwill

81 The carrying amount of negative goodwill at the beginning of the first annual period beginning on or after 31 March 2004 that arose from either

(a) a business combination for which the agreement date was before 31 March 2004 or

(b) an interest in a jointly controlled entity obtained before 31 March 2004 and accounted for by applying proportionate consolidation

shall be derecognised at the beginning of that period, with a corresponding adjustment to the opening balance of retained earnings.

Previously recognised intangible assets

82 The carrying amount of an item classified as an intangible asset that either

(a) was acquired in a business combination for which the agreement date was before 31 March 2004 or

(b) arises from an interest in a jointly controlled entity obtained before 31 March 2004 and accounted for by applying proportionate consolidation

shall be reclassified as goodwill at the beginning of the first annual period beginning on or after 31 March 2004, if that intangible asset does not at that date meet the identifiability criterion in IAS 38 (as revised in 2004).

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Equity accounted investments

83 For investments accounted for by applying the equity method and acquired on or after 31 March 2004, an entity shall apply this IFRS in the accounting for:

(a) any acquired goodwill included in the carrying amount of that investment. Therefore, amortisation of that notional goodwill shall not be included in the determination of the entity's share of the investee's profits or losses.

(b) any excess included in the carrying amount of the investment of the entity's interest in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities over the cost of the investment. Therefore, an entity shall include that excess as income in the determination of the entity's share of the investee's profits or losses in the period in which the investment is acquired.

84 For investments accounted for by applying the equity method and acquired before 31 March 2004:

(a) an entity shall apply this IFRS on a prospective basis, from the beginning of the first annual period beginning on or after 31 March 2004, to any acquired goodwill included in the carrying amount of that investment. Therefore, an entity shall, from that date, discontinue including the amortisation of that goodwill in the determination of the entity's share of the investee's profits or losses.

(b) an entity shall derecognise any negative goodwill included in the carrying amount of that investment at the beginning of the first annual period beginning on or after 31 March 2004, with a corresponding adjustment to the opening balance of retained earnings.

Limited retrospective application

85 An entity is permitted to apply the requirements of this IFRS to goodwill existing at or acquired after, and to business combinations occurring from, any date before the effective dates outlined in paragraphs 78-84, provided:

(a) the valuations and other information needed to apply the IFRS to past business combinations were obtained at the time those combinations were initially accounted for; and

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(b) the entity also applies IAS 36 (as revised in 2004) and IAS 38 (as revised in 2004) prospectively from that same date, and the valuations and other information needed to apply those Standards from that date were previously obtained by the entity so that there is no need to determine estimates that would need to have been made at a prior date.

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BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, the proposed amendments to IFRS 3.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on the proposed amendments to IFRS 3 *Business Combinations*. Individual Board members gave greater weight to some factors than to others.

BC2 IFRS 3 was issued by the Board in March 2004 as part of the first phase of its project on business combinations. IFRS 3 superseded IAS 22 *Business Combinations* (as issued in 1998). The subsequent phases of the project will involve consideration of:

(a) issues related to the application of the purchase method to the accounting for business combinations.

(b) the accounting for business combinations in which separate entities or businesses are brought together to form a joint venture, including possible applications for 'fresh start' accounting.

(c) the accounting for business combinations involving entities under common control.

BC3 This Exposure Draft addresses an issue that the Board identified during its redeliberations of the proposals in the December 2002 Exposure Draft ED 3 *Business Combinations*, the Exposure Draft that preceded IFRS 3. The Board concluded that it could not resolve this issue without first exposing its proposed solution for public comment. The issue stems from the proposal in ED 3 to delay the application of IFRS 3 to the accounting for the following combinations, until the Board issues guidance on the application of the purchase method to those combinations:

(a) involving two or more mutual entities.

(b) in which separate entities are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest (eg combinations in which separate entities are brought together by contract to form a dual listed corporation).

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Combinations involving mutual entities or the bringing together of separate entities to form a reporting entity by contract alone

BC4 IFRS 3 requires all business combinations to be accounted for by applying the purchase method. However, IFRS 3 excludes from its scope specified types of business combinations, including:

(a) combinations involving two or more mutual entities.

(b) combinations in which separate entities are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest. This includes combinations in which separate entities are brought together by contract to form a dual listed corporation.

BC5 ED 3 did not propose to exclude such transactions from the scope of the IFRS, but instead proposed to delay its application to the accounting for such transactions. In developing ED 3, the Board observed that differences between the ownership structures of mutual entities (such as mutual insurance companies or mutual cooperative entities) and those of investor-owned entities give rise to complications in applying the purchase method to business combinations involving two or more mutual entities. Similarly, the Board noted that complications arise in applying the purchase method to combinations involving the formation of a reporting entity by contract alone without the obtaining of an ownership interest. The Board decided to propose in ED 3 that until those issues are resolved as part of the second phase of the Business Combinations project, IAS 22 should continue to apply to the accounting for such transactions.

BC6 During its redeliberations, the Board observed that continuing to apply IAS 22 to such transactions would result in them being classified either as unitings of interests or as acquisitions. If such a transaction were classified as a uniting of interests, IAS 22 would require it to be accounted for by applying the pooling of interests method. The Board decided that this would not be consistent with its conclusion, as set out in paragraphs BC50-BC53 of the Basis for Conclusions on IFRS 3, that there are no circumstances in which the pooling of interests method provides information superior to that provided by the purchase method. The Board also observed that if such a transaction were classified as an acquisition, IAS 22 would require it to be accounted for by applying the purchase method, but a version of the purchase method different from that now contained in IFRS 3. The Board found it troublesome that two versions of the purchase method might co-exist for a period of time, particularly given

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that the two versions produce different results. For example, unlike IFRS 3, IAS 22 would require goodwill amortisation and permit restructuring plans that do not meet the definition of a liability to be recognised as a provision as part of allocating the cost of the combination.

BC7 The Board then considered whether entities should be required to apply IFRS 3 to such transactions, focusing its discussion on two issues that might arise in applying the purchase method to those transactions. The first was the proposition that it might be difficult to identify the acquirer. The second was the concern that such transactions normally do not involve the payment of any reliably measurable consideration. Thus, difficulties would arise in estimating the cost of the business combination and any goodwill acquired in the combination.

BC8 On the first issue, the Board reaffirmed its conclusion, set out in paragraphs BC54 and BC55 of the Basis for Conclusions on IFRS 3, that although domestic legal, taxation or economic factors can sometimes make it difficult to identify an acquirer, no exceptions to applying the purchase method should be permitted. The pooling of interests method does not, in any circumstances, provide information superior to that provided by the purchase method, even if identifying the acquirer is problematic.

BC9 On the second issue, the Board decided that until it develops, as part of a subsequent phase of its Business Combinations project, guidance on applying the purchase method to such transactions, they should continue to be within the scope of IFRS 3. However, IFRS 3 should require the total of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities and any reliably measurable consideration given in exchange for control of the acquiree to be treated as the deemed cost of the business combination. Therefore, until guidance is developed on applying the purchase method to such combinations, goodwill would arise in the accounting for them only to the extent of any reliably measurable consideration given by the acquirer in exchange for control of the acquiree. The Board concluded that this measure of deemed cost results, for all such transactions, in the appropriate recognition of the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date, consistently with the Board's conclusions in IFRS 3. At the same time, it does not involve the difficulties identified in paragraph BC7 in estimating the cost of the combination and any resultant goodwill. As such, it is an improvement on the proposal in ED 3 to continue the application of IAS 22 to the accounting for such transactions.

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BC10 The Board decided, however, that it would not be appropriate to incorporate this interim solution into IFRS 3 without first exposing it for public comment. Therefore, given the Board's desire to issue IFRS 3 before the end of March 2004, the Board decided:

(a) to proceed with issuing IFRS 3 in March 2004, but to exclude such transactions from its scope.

(b) to publish the Exposure Draft to propose a limited amendment to IFRS 3 whereby such transactions would be within the scope of IFRS 3, but with the cost of the combination deemed to be equal to:

   (i) the aggregate of the following amounts when the combination is one in which the acquirer and acquiree are both mutual entities:

   - the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 37 of IFRS 3; and
   - the fair value, at the date of exchange, of any assets given, liabilities incurred or assumed, or equity instruments issued by the acquirer in exchange for control of the acquiree.

   (ii) the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 37 of IFRS 3 when the combination is one in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest.

Transitional provisions and effective date

BC11 The Exposure Draft proposes that no amendments should be made to the transitional and effective date requirements in IFRS 3. This would have the effects set out in paragraph 6(a)-(c) of the Background section of the Exposure Draft on the accounting for business combinations in which the acquirer and acquiree are both mutual entities or in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest.

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Business combinations for which the agreement date is before 31 March 2004

BC12 In accordance with IFRS 3, an entity is required to apply that Standard to business combinations for which the agreement date is on or after 31 March 2004 (the date that IFRS 3 was issued). However, an entity is permitted to apply IFRS 3 from any date before 31 March 2004, provided:

(a) the valuations and other information needed to apply that Standard to the past business combinations were obtained at the time those combinations were initially accounted for; and

(b) the entity also applies IAS 36 *Impairment of Assets* (as revised in 2004) and IAS 38 *Intangible Assets* (as revised in 2004) prospectively from that same date, and the valuations and other information needed to apply those Standards from that date were previously obtained by the entity so that there is no need to determine estimates that would need to have been made at a prior date.

IFRS 3 refers to this as permitting 'limited retrospective application'.

BC13 Paragraphs BC180 and BC183 of the Basis for Conclusions on IFRS 3 set out the Board's deliberations in developing these requirements:

> BC180 The Board observed that requiring the IFRS to be applied retrospectively to all business combinations for which the agreement date is before the date the IFRS was issued might improve the comparability of financial information. However, such an approach would be problematic for the following reasons:
>
> (a) it is likely to be impossible for many business combinations because the information needed may not exist or may no longer be obtainable.
>
> (b) it requires the determination of estimates that would have been made at a prior date, and therefore raises problems in relation to the role of hindsight—in particular, whether the benefit of hindsight should be included or excluded from those estimates and, if excluded, how the effect of hindsight can be separated from the other factors existing at the date for which the estimates are required.
>
> The Board concluded that the problems associated with applying the IFRS retrospectively, on balance, outweigh the benefit of improved comparability of financial information.

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BC183 The Board noted that giving entities the option of applying the IFRS to past business combinations from any date before the IFRS's effective dates would impair the comparability of financial information. However, the Board also noted that the issue of any new or revised IFRS reflects its opinion that application of that IFRS will result in more useful information being provided to users about an entity's financial position, performance or cash flows. On that basis, a case exists for permitting, and indeed encouraging, entities to apply a new or revised IFRS before its effective date. The Board concluded that if it were practicable for an entity to apply the IFRS from any date before the IFRS's effective dates, users of the entity's financial statements would be provided with more useful information than was previously the case under IAS 22. The Board concluded that the benefit of providing users with more useful information about an entity's financial position and performance by allowing limited retrospective application of this IFRS outweighs the disadvantages of potentially diminished comparability.

BC14 Consistently with its conclusion set out in paragraph BC180 of the Basis for Conclusions on IFRS 3, the Board concluded that the problems associated with requiring the revised version of IFRS 3 arising from this Exposure Draft to be applied to the accounting for business combinations for which the agreement date is before 31 March 2004 would, on balance, outweigh the benefit of improved comparability. Therefore, an entity should not be required to apply the revised version of IFRS 3 to combinations for which the agreement date is before 31 March 2004 and that involve two or more mutual entities or the bringing together of separate entities to form a reporting entity by contract alone without the obtaining of an ownership interest.

BC15 However, consistently with its conclusion set out in paragraph BC183 of the Basis for Conclusions on IFRS 3, the Board decided that the Exposure Draft should not propose to exclude such combinations from the limited retrospective application option in IFRS 3.

Business combinations for which the agreement date is 31 March 2004 or later

BC16 The Board observed that the arguments set out in paragraph BC180 of the Basis for Conclusions on IFRS 3 against requiring restatement of past business combinations will not hold for combinations that involve two or more mutual entities or the bringing together of separate entities to form a reporting entity by contract alone without the obtaining of an ownership interest, and for which the agreement date is on or after 31 March 2004 but before the date the revised version of IFRS 3 is issued. This is because

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the Board intends to finalise the amendments to IFRS 3 before the end of 2004, meaning that the period during which such combinations will be excluded from the scope of IFRS 3 should be relatively short. As a result:

(a) the information needed to restate such combinations should be obtainable, notwithstanding that it might not have been obtained at the time of initially accounting for the combination.

(b) any problems in relation to the role of hindsight should not be insurmountable given the relatively short period between the possible agreement date of such a combination and the date the amendments to IFRS 3 are to be finalised.

BC17 Additionally:

(a) because such combinations are excluded from the scope of IFRS 3 and entities therefore have the option of accounting for the combinations using any method they choose, the restatement of those combinations by applying the proposals in this Exposure Draft would lead to improved comparability of financial information.

(b) the issue of any new or revised IFRS reflects the Board's opinion that application of that IFRS will result in more useful information being provided to users about an entity's financial position, performance or cash flows. On that basis, a case exists for requiring entities to restate such combinations by applying the proposals in this Exposure Draft.

Therefore, the Board concluded that entities should be required to apply the revised version of IFRS 3 arising from this Exposure Draft to the accounting for combinations that involve two or more mutual entities or the bringing together of separate entities to form a reporting entity by contract alone without the obtaining of an ownership interest, and for which the agreement date is on or after 31 March 2004 but before the date the revised version of IFRS 3 is issued.

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ALTERNATIVE VIEW

AV1 One Board member voted against the publication of the Exposure Draft of Proposed Amendments to IFRS 3 *Business Combinations*. The Board member believes that combinations involving two or more mutual entities and those in which separate entities or businesses are brought together to form a reporting entity by contract alone (as described in paragraph BC4) should continue to be excluded from the scope of IFRS 3, pending completion of the Board's promised work on the 'fresh start' method of accounting.

AV2 The Board member is of the view that the combinations described in paragraph BC4 do not always fit easily into the modified purchase method of accounting proposed in the Exposure Draft, particularly because there may not be a readily identifiable acquirer. Therefore, they may be more appropriately accounted for by applying the fresh start method, which the Board has committed itself to investigating as part of its Business Combinations project (see paragraph BC49 of the Basis for Conclusions on IFRS 3). In the meantime, requiring the replacement of one unsatisfactory method (the pooling of interests method) with another (a modified version of the purchase method) is not, in the Board member's view, an improvement. Moreover, the mistaken belief that the enforcement of a modified purchase method will provide a satisfactory solution may lead to the fresh start method not being accorded the urgent attention that it deserves.

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