International Accounting Standards Board®

Press Release

For immediate release 29 April 2004

IASB PUBLISHES PROPOSALS FOR A LIMITED AMENDMENT TO ITS STANDARD ON BUSINESS COMBINATIONS

The International Accounting Standards Board (IASB) today published for public comment proposals for a limited amendment to IFRS 3 *Business Combinations*. The proposals are set out in the Exposure Draft *Combinations by Contract Alone or Involving Mutual Entities*. The IASB invites comments on the Exposure Draft by 31 July 2004.

The amendments being proposed to IFRS 3 are an interim solution to the issue of the accounting for combinations involving mutual entities or combinations in which separate entities are brought together by contract alone. The IASB identified the problem while finalising IFRS 3, but decided that it could not provide an interim solution without first exposing that solution for public comment. Given that very few transactions are likely to be affected by this amendment, the IASB thought it important that the March 2004 publication of IFRS 3 should not be delayed while it addresses this issue.

The main features of the IASB's proposals are:

- to remove IFRS 3's scope exclusion for combinations involving two or more mutual entities or 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.
- that an acquirer should measure the cost of such a combination as:
  - (a) 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.
  - (b) the aggregate of the following amounts when the combination is one in which the acquirer and acquiree are both mutual entities:

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- 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 by the IASB as part of a later phase of its Business Combinations project, the acquirer would recognise goodwill equal to the fair value of any consideration given by the acquirer in exchange for control of the acquiree.

The IASB's intention is that the amendments will take effect at the same time as IFRS 3 (as issued in March 2004) is applied.

The primary means of publishing proposed International Financial Reporting Standards and amendments to Standards is by electronic format through the IASB's subscriber Website. Subscribers are able to access the amendment published today through "online services". Those wishing to subscribe should contact:

IASCF Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom. Tel: +44 (0)20 7332 2730, Fax: +44 (0)20 7332 2749, email:publications@iasb.org Web: www.iasb.org.

Printed copies of Proposed Amendments to IFRS 3 *Business Combinations—Combinations by Contract Alone or Involving Mutual Entities* (ISBN 1-904230-62-8) will be available shortly, at £10 each including postage, from IASCF Publications Department.

From 10 May, the text of the Exposure Draft will be available freely from the IASB's Website.

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NOTES TO EDITORS

Background to the proposals

1. IFRS 3 was published in March 2004 as part of the first phase of the IASB's project on business combinations. It replaced IAS 22 *Business Combinations* and 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:

   - combinations involving two or more mutual entities.
   - combinations in which separate entities 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 to form a dual listed corporation.

2. In developing IFRS 3, the IASB 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 readily 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 IASB develops, as part of the subsequent phase of its Business Combinations project, guidance on the application of the purchase method to those transactions. During its redeliberations, the IASB observed that continuing to apply IAS 22 to such transactions was not a satisfactory solution. Instead, the IASB 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:

   - should include such transactions within its scope.
   - should require the acquirer to measure the cost of such a combination as:
     (a) 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.
     (b) 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.

4. The IASB 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 the Exposure Draft.

The IASB

5. The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.