International Accounting Standards Board®

Press Release

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IASB and FASB publish first joint proposals to improve the accounting and reporting of business combinations

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) today each published for public comment an Exposure Draft containing joint proposals to improve and align the accounting for business combinations. The proposals include a draft standard that the boards have developed in their first major joint project. The objective of the project is to develop a single high quality standard for accounting for business combinations that could be used for both domestic and cross-border financial reporting. The proposed standard would replace the existing requirements of the IASB's IFRS 3 *Business Combinations* and the FASB's Statement 141 *Business Combinations*.

Introducing the Exposure Draft, Sir David Tweedie, IASB Chairman, said:

> I am delighted with the progress of the first major joint project. The development of a single standard demonstrates the ability of the IASB and the FASB to work together. By focusing on fundamental principles and avoiding exceptions the proposals aim to eliminate many of the inconsistencies in the existing guidance for accounting for business combinations.

Bob Herz, FASB Chairman, added:

> A common standard on the very important area of accounting for business combinations will help users and preparers by improving the comparability of financial information reported by companies around the world that issue financial statements in accordance with either International Financial Reporting Standards or US GAAP.

The proposals in the Exposure Drafts retain the fundamental requirement of IFRS 3 and SFAS 141 to account for all business combinations using a single method—where one party is always identified as acquiring the other. The principal changes being proposed include a requirement to measure the business acquired at fair value and to recognise the goodwill attributable to any non-controlling interests (previously referred to as minority interests) rather than just the portion attributable to the acquirer. The proposals would also result in fewer exceptions to the principle of measuring assets acquired and liabilities assumed in a business combination at fair value. Additionally, the proposals would result in payments to third parties for consulting, legal, audit and similar services associated with an acquisition being recognised generally as expenses when incurred rather than capitalised as part of the business combination.

The IASB and the FASB today also published Exposure Drafts proposing that non-controlling interests should be classified as equity within the consolidated financial statements and that the acquisition of non-controlling interests should be accounted for as an equity transaction. The IASB's proposals are presented as amendments to IAS 27 *Consolidated and Separate Financial Statements*.

These proposed amendments are complemented by an Exposure Draft of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which the IASB has also published today, and would result in items previously described as 'contingent liabilities' being treated more consistently in and outside a business combination.

The IASB invites comments on the Exposure Drafts by 28 October 2005.

The primary means of publishing proposed standards and amendments to standards is by electronic format through the IASB's subscriber Website. Subscribers are able to access the IASB's Exposure Drafts 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 the Exposure Drafts of Proposed Amendments to IFRS 3 *Business Combinations* and Proposed Amendments to IAS 27 *Consolidated and Separate Financial Statements* (ISBN 1-904230-90-3 for the set) will be available shortly from IASCF Publications Department.

From 11 July, the text of the Exposure Drafts will be available freely from the IASB's Website.

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NOTES TO EDITORS

About the Exposure Drafts

The proposals retain the fundamental requirement of IFRS 3 to account for all business combinations using a single method—where one party is always identified as acquiring the other. The main proposals are as follows. The Exposure Drafts:

(a) require the acquirer to measure the fair value of the acquiree, as a whole, as of the acquisition date. The current version of IFRS 3 requires a business combination to be measured and recognised on the basis of the accumulated cost of the combination. A consequence of the proposed change is that the goodwill attributable to any non-controlling interests (previously referred to as minority interests) is recognised rather than just the portion attributable to the acquirer.

(b) provide clearer principles to help the acquirer to assess whether any portion of the transaction price paid and any assets acquired or liabilities assumed or incurred are not part of the exchange for the acquiree.

(c) require the acquirer to account for acquisition-related costs incurred in connection with the business combination separately from the business combination (generally as expenses). The current version of IFRS 3 requires direct costs of the business combination to be included in the cost of the acquiree.

(d) require the acquirer to measure and recognise the acquisition-date fair value of the assets acquired and liabilities assumed as part of the business combination, with limited exceptions. Those exceptions are goodwill, non-current assets (or disposal group) classified as held for sale, deferred tax assets or liabilities, and assets or liabilities related to the acquiree's employee benefit plans.

(e) require the acquirer to recognise separately from goodwill an acquiree's intangible assets that meet the definition of an intangible asset in IAS 38 *Intangible Assets* and are identifiable (ie arise from contractual-legal rights or are separable). The current version of IFRS 3 requires the recognition of intangible assets separately from goodwill only if they meet the IAS 38 definition and are reliably measurable.

(f) require the acquirer to account for a bargain purchase by reducing goodwill until the goodwill related to that business combination is reduced to zero and then by recognising any remaining excess in profit or loss. The current version of IFRS 3 requires the excess of the acquirer's interest in the net fair values of the acquiree's assets and liabilities over cost to be recognised immediately in profit or loss.

(g) prohibit acquisitions of additional non-controlling equity interests after the business combination from being accounted for using the acquisition method.

The scope of the proposed new IFRS 3 has been broadened to include business combinations involving only mutual entities and those achieved by contract alone.

The IASB and the FASB have also aligned their definitions of a *business combination* and *business*.

About the IASB

The International Accounting Standards Board (IASB), based in London, began operations in 2001. 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 fund the operations of the IASB.

The 14 Board members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of functional 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 co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore, base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences between IFRSs and Japanese accounting standards, and in March the boards met to decide on the initial programme of work for the project.

About the Financial Accounting Standards Board

Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organisation in the private sector for establishing standards of financial accounting and reporting in the US. Those standards govern the preparation of financial reports and are officially recognised as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors, and others rely on credible, transparent, and comparable financial information. For more information about the FASB, visit its Website at www.fasb.org.