Notice to Readers
of this
Summary of FASB Tentative Decisions on
Business Combinations
as of July 27, 2004

The FASB and the IASB (the "Boards") plan to develop common Exposure Drafts of their proposed Statements on accounting for business combinations (which for the FASB includes combinations between mutual enterprises). Those Exposure Drafts will incorporate (1) the decisions reached in the Boards' joint purchase method procedures project (Phase II) and (2) the decisions reached in the Boards' separate Phase I projects, which led to the issuance of FASB Statement No. 141, *Business Combinations,* and IASB IFRS 3, *Business Combinations*. The Boards expect that the standards and implementation guidance in the Exposure Drafts will differ only in instances in which the Boards reached different decisions on the same issue. To provide the FASB and the IASB with sufficient time to develop the common Exposure Drafts, the Boards moved the expected issuance date of their Exposure Drafts to the fourth quarter of 2004.

The following "summary of FASB tentative decisions" reached on Phase II of the project is provided by the FASB staff in a form that is similar to a proposed Statement. That format is for purposes of illustrating how the decisions reached would (1) revise Statement 141 and (2) amend or impact other guidance. Certain sentences in this summary are enclosed in [brackets]. The brackets identify sentences carried forward from Statement 141 that the FASB did not redeliberate in Phase II. Modifications to those sentences are shown in marked format (additions or ~~deletions~~). They result from efforts to codify guidance issued after Statement 141 and to improve that Statement's consistency with the decisions the FASB reached in the Phase II project.

This summary is not an Exposure Draft and has not been subject to a final review and ballot by the Board. Official positions of the FASB are determined only after the Board completes its extensive due process and deliberations. Thus, this summary does not change current accounting requirements for accounting for business combinations. It is for information purposes only so that constituents may have an opportunity to review the proposed changes while the Boards continue their efforts at developing their common Exposure Drafts for public comment.

This summary is not a formal request for comments under the FASB's due process procedures. However, readers that have questions or comments about the project or decisions reached to date may send them to the FASB staff by email to bcproject@fasb.org.

Summary of FASB Tentative Decisions on Business Combinations as of July 27, 2004

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Summary

This proposed Statement would address the accounting and reporting for acquisitions of businesses. An objective of this proposed Statement is to require that the acquiring entity in a business combination account for the business acquired at its fair value at the acquisition date. This proposed Statement would apply to financial reporting by all acquiring business enterprises, including mutual enterprises; however, it would not apply to the formation of a joint venture, transactions or events between entities under common control, combinations between not-for-profit organizations, or acquisitions of a for-profit business by a not-for-profit organization.

Background

The Board decided to address the financial accounting and reporting for a business combination in two phases. The primary objective of the first phase, which was completed in June 2001 with the issuance of Statement 141, was to reconsider the use of two different accounting approaches, the pooling-of-interests (pooling) method and the purchase method, that produced dramatically different financial results for similar business combinations. The Board concluded that virtually all business combinations are acquisitions and that a significant improvement could be made to financial reporting by requiring the use of a single method of accounting for all business combinations. Thus, Statement 141 eliminated the use of the pooling method. At that time, the Board decided to retain the existing guidance for applying the purchase method until it considered that guidance in the second phase of its project. The Board also decided to delay the application of Statement 141 for combinations between mutual enterprises until it issued interpretative guidance for applying that method.

Reasons for Issuing This Proposed Statement

The primary reasons for issuing this proposed Statement are to:

1. **Reconsider and improve the consistency of the procedures used in accounting for an acquisition of a business.** As a general principle, this proposed Statement would require the acquiring entity to recognize the business it acquires at its fair value. It also generally requires that the assets acquired and liabilities assumed as part of the business combination be recognized and measured at their fair values. The Board believes that this proposed Statement, by focusing on fundamental principles for recognizing and measuring all business combinations, also will assist its efforts to simplify generally accepted accounting principles whenever possible.

2. **Improve the relevance and transparency of information provided to investors, creditors, and other users of financial statements.** The Board believes that, among other ways, this proposed Statement would improve the relevance and transparency of information by requiring more assets and liabilities to be separately recognized and initially measured at fair value. For example, under this Statement, (a) contingencies that meet the definition of assets or liabilities but not the current criteria for recognition would be separately recognized at fair value rather than subsumed in goodwill, and (b) assets and liabilities of acquired businesses that are not wholly owned, generally would be recognized at the full amount of their fair values rather than measured in part at fair value, based on the percentage of ownership interest acquired in the business combination, and in part based on another basis.

3. **Improve international comparability.** This proposed Statement is being issued as part of a joint effort with the International Accounting Standards Board (IASB) to promote the international convergence of accounting and reporting standards for business combinations. The Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) is conducting a similar project that is coordinated with the joint FASB-IASB project. The Board believes that converging to a common set of high-quality financial accounting standards on an international basis improves the comparability of financial information around the world and simplifies the accounting for enterprises that issue financial statements under both U.S. generally accepted accounting principles and international accounting standards.

In addition, this proposed Statement is being issued concurrently with proposed FASB Statement No. 1XX, *Consolidated Financial Statements, including Accounting and Reporting of Noncontrolling Interests in Subsidiaries.* Among other things, Statement 1XX would improve the procedures for preparing consolidated financial statements related to the

accounting and reporting of noncontrolling interests in subsidiaries (sometimes referred to as *minority interests*).

Differences between This Proposed Statement and Statement 141

This proposed Statement would retain the fundamental provisions of Statement 141 that require a single method of accounting for all business combinations and the identification of an acquirer for every business combination. It also would carry forward without reconsideration the guidance for identifying intangible assets that are to be recognized as assets apart from goodwill. This proposed Statement would change Statement 141 in the following significant respects:

1. Require all acquisitions of businesses to be measured at the fair value of the business acquired rather than the *cost-based* provisions that Statement 141 had carried forward, without reconsideration, from APB Opinion No. 16, *Business Combinations*. Measuring a business acquired at its fair value is consistent with the fundamental principle of recognizing an acquired item at its fair value. Consistent with longstanding practice for exchange transactions, the fair value of the business acquired may be measured based on the fair value of the consideration given in exchange. In applying this fundamental principle, this proposed Statement would change Statement 141 as follows:

    a. Transaction costs of the acquirer incurred in connection with the acquisition of the business acquired would not be included in the measurement of the business acquired. Those costs, which are not part of the consideration exchanged for the business acquired, would be accounted for separately (generally as an expense when incurred).

    b. Obligations for contingent consideration that are part of the consideration for the business acquired would be recognized and measured at fair value at the acquisition date rather than recognized and measured as a postcombination adjustment to the purchase price in the subsequent periods in which the contingency is resolved.

    c. The fair value of equity securities of the acquirer issued as consideration would be measured at the acquisition date rather than at the agreement date.

    d. Combinations between two or more mutual enterprises for which Statement 141 provided a delayed effective date would be accounted for as acquisitions of businesses consistent with the provisions of this proposed Statement.

e. Acquisitions of businesses through means other than a purchase of net assets or equity interests that were outside the scope of Statement 141 would be accounted for consistent with the provisions of this proposed Statement.

f. Acquisitions of variable interest entities that are businesses that previously were accounted for under the provisions of FASB Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities,* would be accounted for consistent with the provisions of this proposed Statement.

2. Require, with limited exceptions, the recognition and measurement of assets acquired and liabilities assumed at their fair value at the acquisition date (rather than allocating the cost of an acquisition to those assets and liabilities).

   a. Assets acquired and liabilities assumed for contingencies of the acquired business that meet the definition of an asset or a liability at the acquisition date but previously were not required to be recognized under the criteria in FASB Statement No. 5, *Accounting for Contingencies*, would be required to be recognized and measured at their fair value.

   b. Restructuring costs that do not meet the definition of liabilities at the acquisition date would no longer be recognized as part of the business combination.

   c. Assets and liabilities of acquired businesses that are not wholly owned generally would be recognized at the full amount of their fair values rather than measured in part at fair value, based on the percentage of ownership interest acquired in the business combination, and in part based on another basis. The related noncontrolling interest in the equity of subsidiaries would reflect their portion of the net assets acquired.

   d. Goodwill would continue to be measured as a residual, but goodwill attributable to noncontrolling interests in a partially owned subsidiary that previously was not required to be recognized would be required to be recognized. The fair value of assets acquired, other than goodwill, would no longer be reduced in the event of a bargain purchase.

   e. The accounting for step acquisitions also would change as follows:

      (1) If an acquiring entity holds a previously acquired noncontrolling equity investment in an acquired business, that investment would be remeasured at fair value at the date of the business combination, and any unrealized holding gains or losses would be recognized in consolidated net income.

      (2) Acquisitions of additional ownership interests subsequent to obtaining control of a subsidiary—that is, after the date of the business combination—would no longer be accounted for as subsequent steps in or parts of a business combination. (Under Statement 1XX, those acquisitions subsequent to the business combination would be accounted for as capital transactions.)

f. Certain research and development assets acquired in a business combination that previously were required to be written off under FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*, would be recognized and measured at their fair value.

3. Modify the definition of a business that existed under EITF Issue No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business," codify consensuses of the EITF, such as EITF Issue No. 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination," that continue to provide relevant guidance, and nullify EITF consensuses that are inconsistent with or no longer necessary for the application of provisions of this proposed Statement.

How the Changes in This Proposed Statement Would Improve Financial Reporting

This proposed Statement would improve financial reporting by extending the requirements of this proposed Statement to all business combinations, including those involving acquisitions of mutual enterprises and acquisitions of business in which control of the business is obtained through means other than a purchase. This improvement would better reflect the underlying economics on the acquisition date of transactions and other events and circumstances that result in an entity acquiring control of one or more businesses. As more fully described in the basis for conclusions of this proposed Statement, the application of a single method of accounting—the acquisition method—would result in financial statements that:

1. Better reflect the acquiring entity's investment in an acquired business
2. Improve the comparability of reported financial information
3. Provide more complete financial information.

By revising the accounting procedures used to account for acquisitions of businesses, this proposed Statement would improve the completeness, representational faithfulness, consistency, and other qualities of financial reporting by requiring:

1. An acquired business to be measured at its fair value at the date of acquisition except in certain rare circumstances (such as a bargain purchase or forced sale)

2. Assets acquired and liabilities assumed to be recognized and measured, with limited exceptions, at their fair values at the date of acquisition, thereby eliminating the practice of measuring those items on a basis that is (a) an allocation of cost or other bases or (b) in the case of acquisitions of less than 100 percent owned business, in part fair value and in part a carryover basis of the acquired business

3. Goodwill to be recognized at its full amount, thereby eliminating the practice of recognizing and measuring only a portion of that asset when the business acquired is not wholly owned

4. Certain research and development assets acquired in a business combination that previously were written off at the acquisition date to be recognized and subsequently tested for impairment

5. All forms of consideration exchanged by the acquiring entity, including obligations for future payments of contingent consideration, to be consistently measured based on their fair values at the acquisition date

6. Disclosures of certain information that should enable users of financial information to better assess the effects of business combinations.

Lastly, because the FASB and IASB have worked together to reach the same conclusions on the fundamental issues addressed in this proposed Statement, the FASB and IASB have taken another important step toward the convergence of their standards.

How the Conclusions in This Proposed Statement Relate to the Conceptual Framework

In developing this proposed Statement, the Board concluded that requiring the recognition of all assets acquired and liabilities assumed at fair value at the acquisition date improves the *reliability* and *relevance* of financial information. As noted in paragraph 79 of FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* "reliability implies completeness of information . . ." and "freedom from bias, both in the measurer and the measurement method, implies that nothing material is left out of the information that may be necessary to insure that it validly represents the underlying events

and conditions." Paragraph 80 of Concepts Statement 2 adds that "relevance of information is adversely affected if a relevant piece of information is omitted, even if the omission does not falsify what is shown. . . . Thus, completeness [of information], within the bounds of feasibility, is necessary to both of the primary qualities that make information useful."

This proposed Statement would extend its provisions and those of Statement 141 to mutual enterprises and to combinations in which control of another business is obtained through means other than a purchase. The Board concluded, as it did in Statement 141, that because virtually all business combinations are acquisitions, requiring a single, consistent set of procedures to account for economically similar transactions is consistent with the concepts of representational faithfulness and comparability as discussed in Concepts Statement. 2.

In developing this proposed Statement, some of the Board's constituents again suggested that the pooling method be retained for mutual enterprises for public policy reasons. For example, some mutual enterprises have argued that eliminating their application of that method would impede consolidation within certain industries and, perhaps, misrepresent the financial soundness and regulatory capital of certain mutual enterprises. Concepts Statement 2 states that a necessary and important characteristic of accounting information is neutrality. In the context of business combinations, neutrality means that the accounting standards should neither encourage nor discourage business combinations but, rather, provide information about those combinations that is fair and evenhanded.

The Board strives to issue accounting standards that result in neutral and representationally faithful financial information. Eliminating the pooling method is consistent with that goal. The Board noted that requiring a single method of accounting and financial reporting for business combinations of all enterprises is evenhanded and results in comparable

reporting of the financial soundness and capital of those enterprises, regardless of whether they are organized as public or private entities, investor-owned or mutual enterprises, or for-profit or tax-exempt entities.

Benefits and Costs

In fulfilling its mission to establish and improve standards of financial accounting and reporting, the Board strives to determine that a proposed standard will fill a significant need and that the costs imposed to apply that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. The Board believes that this proposed Statement would, for the reasons previously noted, make several improvements to financial reporting that would benefit investors, creditors, and other users of financial statements of business enterprises.

In addition, improving the consistency of the procedures used in accounting for business combinations, including consistency across international borders, should help alleviate concerns that an enterprise's competitive position as a potential bidder is affected by differences in accounting for business combinations. Consistency in the accounting procedures also can reduce the costs to prepare financial statements, especially for those companies with global operations. Moreover, such consistency also will enhance comparability of information among enterprises, which can lead to better understanding of the resulting financial information and reduce the costs of users in analyzing that information.

The Board also has sought to reduce the costs of applying this Statement. The Board believes that this Statement does that by (a) requiring that certain assets and liabilities (for example, those related to deferred taxes, pensions, and other postemployment benefits) continue to be measured under existing measurement standards rather than at fair value and

(b) applying its provisions prospectively rather than retroactively. The Board acknowledges that those two steps may result in some sacrifice to the benefits of improved reporting under this proposed Statement. However the Board believes that the complexities and related costs that would result from imposing the fair value measurement requirement at this time to all assets and liabilities and requiring retroactive application are not justified.

The Effective Date of This Proposed Statement

This proposed Statement would be effective for financial statements issued for fiscal years beginning after December 15, 2005. The provisions of this proposed Statement would apply to business combinations for which the acquisition date is on or after the beginning of the fiscal year in which this proposed Statement is adopted. Earlier application would be encouraged in financial statements that have not been issued previously; however, if adopted earlier, the provisions of this proposed Statement would be required to be adopted concurrent with the adoption of the Statement on consolidated financial statements. Retroactive application of the provisions of this proposed Statement to business combinations for which the acquisition date is before the adoption of this proposed Statement would be prohibited.

In addition, certain of the transition provisions of Statement 141 would be applicable to mutual enterprises that are initially adopting the provisions of this proposed Statement and FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

Proposed Statement of Financial Accounting Standards
Business Combinations
a replacement of FASB Statement No. 141

INTRODUCTION

1. This Statement addresses the financial accounting and reporting for a **business combination**[1] by an acquiring entity. It replaces FASB Statement No. 141, *Business Combinations*. This Statement retains the fundamental provisions of Statement 141 that require the use of a single method of accounting for all business combinations and the identification of an acquirer for every business combination. It also carries forward without reconsideration the guidance for identifying the acquiring entity and for identifying intangible assets that are to be recognized as an asset apart from **goodwill**. However, this Statement revises the procedures used in accounting for the acquisition of a **business**. It also extends the application of its provisions to **mutual enterprises** and to acquisitions of businesses in which control of a business is obtained through means other than a purchase.

2. This Statement is being issued concurrently with FASB Statement No. 1XX, *Consolidated Financial Statements, including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*. That Statement replaces Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries.* It also establishes standards for the accounting and reporting of **noncontrolling interests** (sometimes referred to as *minority interests*) in consolidated financial statements.

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[1]Terms defined in Appendix G, the glossary, are set forth in **boldface type** the first time they appear.

3. [(FAS 141, ¶2) Appendix A to this Statement provides implementation guidance on the application of its provisions ~~the purchase method of accounting to a business combination~~ and is an integral part of ~~the standards provided in~~ this Statement. Appendix B [not included in this summary] provides background information and the basis for the Board's conclusions. Appendix C provides illustrations of some of the financial statement disclosures that this Statement requires. Appendix D [not included in this summary] carries forward without reconsideration certain provisions of APB Opinion No. 16, *Business Combinations*, and related interpretive guidance ~~its interpretations~~ that (a) provided guidance for combinations between entities under common control that are beyond the scope of this Statement and (b) were ~~have been~~ deleted or superseded by ~~this~~ Statement 141 but that continue to be relevant to past transactions that were accounted for using the pooling-of-interests (pooling) method. This Statement amends or supersedes other accounting pronouncements listed in Appendix E~~, but it does not change the status of the EITF Issues that provide guidance on applying the purchase method~~. Appendix F provides an analysis of the effect of this Statement on pronouncements issued by other bodies (Emerging Issues Task Force [EITF], Securities and Exchange Commission [SEC], and the American Institute of Certified Public Accountants [AICPA]) that provide guidance on the accounting for business combinations. Appendix G ~~F~~ provides a glossary of terms as used in this Statement.]

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Objective, Definitions, and Terminology

4. The principal objective of this Statement is to require that the acquiring entity in a business combination account for the business acquired at its **fair value** at the **acquisition date.**

5. Certain key terms used in this Statement are defined as follows:

a. *Business combination*—a transaction or other event in which an acquiring entity obtains control[2] over one or more businesses. A business combination typically occurs through the purchase of the net assets or equity interests of a business (or businesses) but may occur through other means.
b. *Business*—an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing (a) a return to investors or (b) lower costs or other economic benefits directly and proportionately to owners, members, or participants. (Paragraphs A4–A10 of Appendix A provide guidance for applying this definition.)
c. *Fair value*—the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties (FASB Statement No. 15X, *Fair Value Measurements*, paragraph 4).[3]
d. *Acquisition date*—the date on which the acquirer obtains control of the business acquired.

6. In accordance with this Statement, all business combinations are viewed from the perspective of the entity that obtains control of one or more businesses. This Statement uses the term *acquirer* or *acquiring entity* when referring to that entity. This Statement uses the term *combined entity* when referring to the applicable accounting and disclosure requirements in periods after the acquisition date.

Scope

7. This Statement applies to combinations involving an acquiring entity and one or more acquired businesses.[4] The provisions of this Statement apply equally to a business

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[2] [(FAS 141, ¶9, fn5) Control generally is ~~generally~~ indicated by "ownership by one company, directly or indirectly, of over ~~fifty~~ 50 percent of the outstanding voting shares of another company," although control may exist in other circumstances (paragraph x of Statement 1XX, as interpreted by FASB Interpretation No. 46 (revised 2003), *Consolidation of Variable Interest Entities*) ~~(ARB No. 51, *Consolidated Financial Statements*, paragraph 2, as amended by FASB Statement No. 94, *Consolidation of All Majority-owned Subsidiaries*), although control may exist in other circumstances~~.]

[3] The Board's project on fair value measurement resulted in an Exposure Draft in June 2004 of proposed Statement 15X. (The Board is soliciting comments on that proposed Statement by September 7, 2004.) The term *fair value* is used in this Statement consistent with the definition and objective of that measurement as described in Statement 15X. The guidance in Statement 15X applies when this Statement requires a fair value measurement.

combination in which (a) one or more businesses are merged with or become subsidiaries of an acquiring entity, (b) one entity transfers net assets or its *owners*[5] transfer their *equity interests* to another entity, or (c) all entities transfer net assets or the owners of those entities transfer their equity interests to a newly formed entity (some of which are referred to as roll-up or put-together transactions). All those transactions are business combinations regardless of (a) whether the acquired business is incorporated, (b) the form of consideration given in exchange, or (c) whether the former owners of one of the combining entities as a group retain or receive a majority of the voting rights of the combined entity. An exchange of a business for a business also is a business combination.

8. This Statement does not apply to:

a. (FAS 141, ¶9) The formation of a joint venture
b. (FAS 141, ¶9) Transfers of net assets or exchanges of equity interests between entities under common control[6]
c. (FAS 141, ¶12) Combinations between **not-for-profit organizations** or the acquisition of a for-profit business ~~entity~~ by a not-for-profit organization.[7]

[(FAS 141, ¶11&14—step acquisitions—Deleted)]

Accounting for Business Combinations

9. As a general principle, this Statement requires that the acquiring entity recognize the business acquired at its fair value at the acquisition date. That fair value measurement

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[4] [(FAS 141, ¶9, fn3, last sentence) A new entity formed to complete a business combination would not necessarily be the acquiring entity (refer to paragraph ~~19~~ 17).]

[5] The terms *owners* and *share interests* are used broadly here to encompass *members* and *member interests* of mutual enterprises.

[6] Paragraphs D5–D11 of Appendix D [not included in this summary] provide examples of transactions between entities under common control and carry forward without reconsideration accounting guidance that has been used in past practice to account for them.

[7] [(FAS 141, ¶12, fn7) The Board is addressing issues related to the accounting for combinations between not-for-profit organizations and issues related to the accounting for the acquisition of a for-profit business ~~entity~~ by a not-for-profit organization in another phase of its project on business combinations. It plans to issue an

principle applies whether control of the business acquired is accomplished (a) by a purchase of its net assets, (b) by a purchase of some or all of its voting equity interests, or (c) through other means.[8]

Acquisition Method of Accounting

10. [(FAS 141, ¶13) All business combinations ~~in the scope of this Statement~~ shall be accounted for ~~using the purchase~~ as acquisitions of one or more businesses by applying the acquisition method as described in this Statement ~~and other pronouncements (refer to paragraph A3 of Appendix A.~~]

11. Under that method, the business combination is viewed from the perspective of the acquiring entity as an acquisition of net assets that constitute a business. That acquisition, whether by purchase or by other means, involves the recognition of the assets acquired and liabilities assumed, including those not previously recognized by the business acquired.

12. Applying the acquisition method to a business combination involves the following steps:

a. Identifying the acquiring entity
b. Measuring the fair value of the business acquired
c. Recognizing and measuring the assets acquired, including goodwill, and the liabilities assumed.

Exposure Draft in the second half of 2004 that will address and seek comments on the proposed accounting for those combinations.]

[8] An example of a business combination effected through means other than a purchase of net assets or equity interests at the acquisition date is a majority owner obtaining control of an entity upon the expiration of substantive participating rights of minority shareholders. EITF Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights," provides guidance on determining whether minority shareholder approval or veto rights are substantive participating rights (rather than solely protective rights).

Identifying the Acquiring Entity

13. [(FAS 141, ¶15) ~~Application of the purchase method requires the identification of the acquiring entity. All business combinations in the scope of this Statement shall be accounted for using the purchase method. Thus, t~~The acquiring entity shall be identified in all business combinations as the entity that obtains control of the one or more businesses acquired.]

14. [(FAS 141, ¶16) In a business combination effected solely through the distribution of cash or other assets or by incurring liabilities, the entity that distributes cash or other assets or incurs liabilities generally is the acquiring entity.]

15. [(FAS 141, ¶17) In a business combination effected through an exchange of equity interests, the entity that issues the equity interests is generally the acquiring entity. In some business combinations (commonly referred to as reverse acquisitions), however, the acquired entity issues the equity interests. Commonly, the acquiring entity is the larger entity. However, the facts and circumstances surrounding a business combination ~~sometimes~~ may indicate that a smaller entity acquires a larger one. In some business combinations, the combined entity assumes the name of the acquired entity. Thus, in identifying the acquiring entity in a combination effected through an exchange of equity interests, all pertinent facts and circumstances should be considered, in particular:

a. The relative voting rights in the combined entity after the combination—all else being equal, the acquiring entity is the combining entity whose owners as a group retained or received the larger portion of the voting rights in the combined entity. In determining which group of owners retained or received the larger portion of the voting rights, consideration shall be given to the existence of any unusual or special voting arrangements and options, warrants, or convertible securities.
b. The existence of a large minority voting interest in the combined entity when no other owner or organized group of owners has a significant voting interest—all else being equal, the acquiring entity is the combining entity whose single owner or organized group of owners holds the large minority voting interest in the combined entity.

c. The composition of the governing body of the combined entity—all else being equal, the acquiring entity is the combining entity whose owners or governing body has the ability to elect or appoint a voting majority of the governing body of the combined entity.

d. The composition of the senior management of the combined entity—all else being equal, the acquiring entity is the combining entity whose senior management dominates that of the combined entity. Senior management generally consists of the chairman of the board, chief executive officer, chief operating officer, chief financial officer, and those divisional heads reporting directly to them, or the executive committee if one exists.

e. The terms of the exchange of equity securities—all else being equal, the acquiring entity is the combining entity that pays a premium over the market value of the equity securities of the other combining entity or entities.[9]**]**

16. **[**(FAS 141, ¶18) Some business combinations involve more than two entities. In identifying the acquiring entity in those cases, consideration also shall be given to which combining entity initiated the combination and whether the assets, revenues, and earnings of one of the combining entities significantly exceed those of the others.**]**

17. **[**(FAS 141, ¶19) If a new entity is formed to issue equity interests to effect a business combination, one of the existing combining entities shall be determined to be the acquiring entity on the basis of the evidence available. The guidance in paragraphs 14–16 ~~16–18~~ shall be used in making that determination.**]**

Measuring the Fair Value of the Business Acquired ~~***Determining the Cost of the Acquired Entity***~~
[FAS 141, ¶20–34—Deleted]

18. The business acquired shall be measured at its fair value on the acquisition date. The objective is to estimate a price that knowledgeable, unrelated willing parties could exchange for the entire equity interest in the business acquired based on the circumstances that exist at the acquisition date. The fair value of the business acquired shall be determined based on the

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[9] **[**(FAS 141, ¶17, fn9) This criterion shall apply only if the equity securities exchanged in a business combination are traded in a public market ~~on~~ either (a) on a stock exchange (domestic or foreign) or (b) in an over-the-counter market (including securities quoted only locally or regionally).]

fair values of the items of consideration transferred in exchange for the business unless the consideration transferred does not represent the fair value of the business acquired. Other valuation techniques shall be used to measure the fair value of the business acquired if the consideration transferred does not represent the fair value of the business acquired. Paragraphs 19–30 and A11–A26 provide guidance and illustrative examples for measuring the fair value of the business acquired on the acquisition date.

Acquisition date and required documentation

19. [(FAS 141, ¶48) The acquisition date is the date on which the acquirer obtains control of the business acquired (paragraph 5(d)). ~~The date of acquisition (also referred to as the acquisition date) o~~Ordinarily that also is the date the acquirer receives the assets and assumes the liabilities of the business acquired and transfers the consideration (closing date). ~~assets are received and other assets are given, liabilities are assumed or incurred, or equity interests are issued However, the parties may, for convenience, designate as the effective date the end of an accounting period between the dates a business combination is initiated and consummated. The designated date should ordinarily be the acquisition date for accounting purposes However, t~~The acquisition date may occur before the closing date if a written agreement provides that effective control of the business acquired ~~entity~~ is transferred to the acquiring entity on that date without restrictions except those required to protect the shareholders or other owners of the acquired business ~~entity~~, such as restrictions on significant changes in the operations, permission to pay dividends equal to those regularly paid before the effective date, and the like. ~~Designating an effective date other than the date assets or equity interests are transferred or liabilities are assumed or incurred requires adjusting the cost of an acquired entity and net income otherwise reported to compensate for recognizing income before~~

consideration is transferred. The cost of an acquired entity and net income shall therefore be reduced by imputed interest at an appropriate current rate on assets given, liabilities assumed or incurred, or preferred shares distributed as of the transfer date to acquire the entity (Opinion 16, paragraph 93)]

20. [(FAS 141, ¶50) The provisions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, require that the assets acquired and liabilities assumed in a business combination that meet certain criteria, including goodwill, be assigned to a **reporting unit** as of the date of acquisition date. For use in making those assignments, the basis for and method of determining the fair value purchase price of an acquired entity business and other related factors (such as the underlying reasons for the acquisition and management's expectations related to dilution, synergies, and other financial measurements) shall be documented at the date of acquisition date.]

Acquisitions by purchase of all or part of the ownership interests

21. In a business combination between willing parties in which the acquirer obtains control of the business acquired through a purchase of its entire ownership interest (or net assets),[10] the fair value of the total consideration transferred (for example, cash, marketable securities, notes payable, and other promised or contingent payments) generally is more clearly evident and reliably measurable than the fair value of the business acquired. Thus, absent evidence to the contrary, the fair value of the consideration transferred by the acquiring entity for the business acquired shall be used to determine the fair value of the business acquired.

[10] The term *net assets* is used here to include an acquisition of the net assets, including goodwill, of a division, segment, or integrated set of activities and assets that is a business but is not in the form of a corporation, partnership, or other entity having ownership interests.

22. In contrast, if the acquirer obtains control of the business acquired through a purchase of less than its entire ownership interest on the acquisition date, the fair value of the total consideration transferred by itself is not representative of the fair value of the business (a price that knowledgeable, unrelated willing parties could exchange for the entire ownership interest in the business acquired). Thus, the fair value of the consideration transferred shall be used together with other available information as a basis for determining the fair value of the business acquired unless other available information suggests that would not represent the fair value of the business. For example, a measure based primarily on the consideration transferred by the acquirer may be the best basis for measuring the fair value of the business acquired if a business is acquired through a purchase of a relatively large portion of its ownership interest but may not be if through a relatively small portion of its ownership interest. In the latter case, in accordance with paragraph 18, other valuation techniques are to be used to measure the fair value of the business acquired.

23. If the consideration transferred includes assets (liabilities) of the acquiring entity that have carrying amounts other than their fair values, the acquiring entity shall remeasure those transferred assets (liabilities) to their fair values at the acquisition date. Unrealized holding gains or losses shall be recognized as gains or losses in consolidated net income of the period. However, those gains or losses are eliminated in consolidated financial statements if the assets (liabilities) are transferred to the acquired entity (rather than to its owners) and, thus, the transferred assets (liabilities) remain with the combining entity.[11]

[11] If the acquirer transfers assets (liabilities) to the acquiree shortly before the acquisition date, the facts and circumstances surrounding the transfer should be evaluated to determine whether the transfer is part of the consideration exchanged in the business combination or a separate transaction or event.

Business combinations involving earlier purchases of noncontrolling ownership interests (step acquisitions)

24. If the acquiring entity holds a previously acquired noncontrolling ownership interest (investment) in the business acquired, that preacquisition noncontrolling ownership investment shall be remeasured at its fair value at the acquisition date, and any unrealized holding gains or losses shall be recognized in consolidated net income of the period.[12] Acquisitions of additional ownership interests by the acquirer after the acquirer has obtained control are accounted for in consolidated financial statements as capital transactions—transactions with (noncontrolling) owners.[13] (Paragraphs A13–A18 illustrate the application of paragraphs 22 and 24.)

Consideration transferred

25. If the fair value of the business acquired is determined based on the fair values of the consideration transferred, that amount shall include all forms of consideration transferred by the acquiring entity in exchange for the net assets or equity interests of the business acquired. Forms of consideration transferred include, for example, cash, tangible and intangible assets, a business or a subsidiary of the acquiring entity, securities of the acquiring entity (common or preferred shares, options, warrants, or debt instruments), or promised future payments of the acquiring entity, including contingent payments.[14]

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[12] The cumulative amount of unrealized holding gains or losses on preacquisition noncontrolling ownership investments that have been recognized in other comprehensive income for investments classified as available-for-sale securities under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, which are measured at fair value, should be removed from accumulated other comprehensive income and reported as a reclassification adjustment (deduction) through other comprehensive income and in net income of the period.

[13] Refer to paragraph X of the Statement on consolidated financial statements.

[14] The fair values of items of consideration transferred generally are determinable on the acquisition date. However, if information necessary to determine the fair value of an item is not available at that date, the guidance in paragraphs 37 and 38 applies.

26. The consideration transferred does not include acquisition-related transaction costs of the acquiring entity or other amounts paid in connection with the transaction that are not payments in exchange for the business acquired. For example, finder's fees, advisory, legal, accounting, and other professional fees that are payments for negotiating or completing the business combination are in exchange for services received. Those payments or other arrangements, that are not payments in exchange for the business acquired, shall be accounted for separately as they would be under generally accepted accounting principles absent the business combination.

27. Some arrangements with the owners of the acquired business require those owners to provide services to the combined entity following the business combination. Agreements to provide compensation to those owners for their future services or for use of their property rights are not part of the consideration exchanged for the acquired business. Those contractual rights and obligations shall be accounted for separately, as they would be under generally accepted accounting principles absent the business combination. (Paragraphs A25 and A26 provide guidance for the application of paragraphs 26 and 27.)

Share-based awards of the acquiring entity

28. In a business combination, an acquiring entity may exchange its share-based compensation awards (SBC) for SBC awards of the acquired business that are held by employees of that business. If the acquiring entity is obligated to issue acquirer-replacement awards, depending on the circumstances (as described below), a portion (or all) of the *fair*

value[15] of the acquirer-replacement award shall be recognized as part of the consideration transferred by the acquiring entity in the business combination. The following applies in determining the portion that is part of the consideration transferred:

a. If the fair value of the acquirer's replacement award attributable to past services exceeds the fair value of the replaced acquiree awards attributable to those services, the excess is not part of the consideration transferred. (Rather, it is compensation cost to be recognized in postcombination financial statements.)
b. If the fair value of the acquirer's replacement award attributable to past services does not exceed the fair value of the replaced acquiree awards attributable to those services, depending on the circumstances, the acquirer shall recognize a portion (or all) of the replacement award as a liability or an equity instrument, as required under Statement 123(R),[16] as part of the consideration transferred in the business combination.
c. In determining the remaining fair value of the replacement award attributable to past services, the total service period is the period that begins with the service inception date for the acquiree's award and ends with the service completion date for the replacement award. The portion attributable to past services is equal to the remaining fair value of the replacement award (or settlement) multiplied by the ratio of the past service period to the total service period. The past service period ends and the future service period begins on the date the business is acquired (acquisition date). (The amount, if any, which represents compensation expense to be recognized in postcombination financial statements is the remaining fair value of the replacement award (or settlement) multiplied by the ratio of the future service period to the total service period.)
d. The requisite service period of awards issued by the acquirer shall reflect any explicit, implicit, and derived service periods (consistent with the requirements of Statement 123(R)).

(Paragraphs A27–A33 provide additional guidance and illustrative examples for applying the recognition and measurement provisions for acquirer-replacement awards issued in a business combination.)

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[15] The *fair value* of share-based compensation awards issued by the acquirer and acquiree shall be determined using the *fair-value-based* measurement method of FASB Statement No. 123, *Accounting for Share-Based Payments,* as it would be amended by the Exposure Draft of the proposed Statement on share-based payments issued on March 31, 2004.

[16] *Statement 123(R)* is used to refer to Statement 123 as it would be amended by the Exposure Draft of the proposed Statement on share-based payments issued on March 31, 2004

Contingent consideration

29. The fair value of consideration exchanged for the acquired business includes the fair value of obligations for future payments of contingent consideration. For example, as part of the consideration exchanged for the acquired business, the acquiring entity may promise to deliver to the owners of the acquired business additional equity securities or cash or other assets if certain specified financial or nonfinancial measures are met in the future. The fair value of such contingent payments should be determined based on the circumstances that exist at the acquisition date.[17]

30. Subsequent to the acquisition date, obligations of the acquirer for contingent consideration that meet the definition of liabilities[18] shall continue to be measured at fair value. Changes in the fair value of those liabilities shall be recognized in income of the period.[19]

Assets Acquired and Liabilities Assumed

Recognition and measurement

31. Except as provided in paragraph 36, an acquirer shall recognize as part of the business combination accounting the assets acquired and liabilities assumed that meet the definitions of *assets* and *liabilities* in FASB Concepts Statement No. 6, *Elements of Financial*

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[17] A probability-weighted approach, such as the expected cash flow discussed in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, may be useful in estimating the fair value of contingent consideration. Also refer to Appendix A of Statement 15X.

[18] Classification of promised contingent consideration as either a liability or equity shall be based on generally accepted accounting principles, including FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Those that are classified as equity are not subsequently remeasured at fair value.

Statements. An assessment shall be made to determine whether any portion of the consideration transferred by the acquiring entity is for something other than the integrated set of activities and assets (liabilities) that are the business acquired and, thus, should be accounted for separate from the business combination accounting.

32. Paragraph 31 of this Statement requires, as part of the business combination accounting, the recognition of items acquired or obligations assumed that are part of the business acquired and that meet the definitions of assets and liabilities at the acquisition date and precludes the recognition of items that do not meet those definitions. Thus, the acquiring entity would recognize assets acquired and liabilities assumed as part of the business combination, including those assets and liabilities that an acquired entity did not recognize prior to the business combination because they did not meet the recognition criteria under generally accepted accounting principles. For example, an acquiring entity would recognize, in accordance with paragraph 31, unrecognized assets for contingent gains or unrecognized liabilities for contingent losses that were not *probable* under FASB Statement No. 5, *Accounting for Contingencies*. Conversely, an acquiring entity would *not* recognize costs that it expects to incur to terminate or restructure certain activities that are not liabilities at the acquisition date.

33. The assessment required by paragraph 31 shall focus on transactions entered into by the parties to the combination (the acquirer, the business acquired, and their owners, directors, managers, and their agents) and other events to determine whether they were arranged

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[19] Liabilities for contingent consideration that meet the definition of a derivative instrument under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, are subject to the

primarily to achieve economic benefits or effects, including accounting effects, favorable to the acquirer or combined entity. If so, the transactions or events shall not be considered part of the business combination accounting; rather, such transactions and events shall be accounted for separate from the business combination. For example, if an arrangement is entered into to provide payments to employees for services they rendered before the acquisition date, then that indicates that any associated liability at the acquisition date to make those payments arises from a transaction for which the benefits were received by the acquiree. Therefore, the liability is assumed as part of the business combination and is included in the accounting for the business combination. However, an arrangement to provide payments to employees for services to be provided after the acquisition date indicates that any associated liability at the acquisition date to make those payments arises from a transaction for which the benefits are to be received primarily by the acquiring entity. Therefore, any liability assumed is for postcombination expenses of the combined entity that are excluded from the business combination accounting.

34. The following additional factors, which are neither mutually exclusive nor individually conclusive, shall be considered in assessing whether a transaction was arranged primarily for achieving economic benefits or effects favorable to the acquiring entity:

a. The timing of the transaction or obligating event. If a transaction or obligating event occurs during the negotiations of a business combination, it may indicate that the transaction was entered into in contemplation of the business combination for the purpose of providing future benefits to the combined entity. Examples would include arrangements in which continuing management might structure an arrangement for the purposes of shifting postcombination expenses of the acquiring entity into the business combination accounting.

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requirements of that Statement, including eligibility for hedge accounting and the accounting for subsequent changes in those derivative instruments.

b. The reason for the transaction. If a transaction or other obligating event is entered into primarily for the purposes of recognizing postcombination expenses of the acquiring entity as if they were liabilities assumed in the business combination, then that indicates that the transaction was entered into in contemplation of the business combination for the purpose of providing future benefits to the combined entity or achieving favorable accounting results.

c. The parties that initiated the transaction. If a transaction (or other obligating event) is initiated by the acquiring entity, it may indicate that the transaction was entered into in contemplation of the business combination for the purpose of providing future benefits to the combined entity.

35. Except as provided in paragraph 36, the assets acquired and liabilities assumed as part of the business combination accounting shall be measured initially at their fair values at the acquisition date.

36. The following specified items are not subject to one or both of the recognition and measurement principles in paragraphs 31 and 35:

a. An intangible asset that does not meet the criteria for recognition apart from goodwill as specified in paragraph 43 shall be recognized as part of goodwill.

b. Goodwill shall be recognized and measured as specified in paragraphs 48 and 50.

c. An asset that qualifies as an asset held for sale in accordance with paragraph 32 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, shall be measured at fair value less cost to sell in accordance with paragraphs 34 and 35 of that Statement.

d. A deferred tax liability or asset shall be recognized in accordance with paragraph 30 of FASB Statement No. 109, *Accounting for Income Taxes*, as amended.[20] The potential tax effects of (a) temporary differences and carryforwards of an acquired business that exist at the acquisition date and (b) income tax uncertainties related to the acquisition (for example, an uncertainty related to the tax basis of an acquired asset that ultimately will be agreed to by the taxing authority or positions taken in prior tax returns of the acquired entity) shall be accounted for in accordance with the provisions of Statement 109.

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[20] Paragraph E18 of this Statement amends paragraph 30 of Statement 109 such that the elimination of any valuation allowance established in accordance with Statement 109 at the acquisition date will be reported as a reduction of income tax expense (rather than first as a reduction of goodwill and then as a reduction of other intangible assets prior to recognition as a reduction of income tax expense). However, deferred tax benefits recognized within one year of the acquisition date would continue to be reported as an adjustment of goodwill (until goodwill is reduced to zero) unless the deferred tax benefit results from a discrete event or circumstance that occurred subsequent to the acquisition date other than changes in tax laws or rates enacted after the acquisition date (refer to paragraph 27 of Statement 109).

e. An asset or liability shall be recognized and measured for leases acquired or assumed in a business combination in accordance with FASB Statement No. 13, *Accounting for Leases*, as interpreted by FASB Interpretation No. 21, *Accounting for Leases in a Business Combination*.
f. A liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation of a single-employer defined benefit pension plan shall be recognized and measured at an amount determined in accordance with paragraph 74 of FASB Statement No. 87, *Employers' Accounting for Pensions*, as amended.
g. A liability for the accumulated postretirement benefit obligation in excess of the fair value of plan assets or an asset for the fair value of the plan assets in excess of the accumulated postretirement benefit obligation of a single-employer defined benefit postretirement plan shall be recognized and measured at amounts determined in accordance with paragraphs 86–88 of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, as amended.
h. A liability for postemployment benefits that are subject to the provisions of FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*, and that are not conditioned on the completion of a business combination, shall be recognized and measured at amounts determined in accordance with paragraph 6 of that Statement.

(Paragraphs 37–50 and A34–A42 provide additional guidance and illustrative examples for applying the recognition and measurement provisions of paragraphs 31–36 to specific assets and liabilities.)

Measurement period

37. As specified in paragraph 38, in certain limited circumstances, this Statement-provides a period of time (referred to as the *measurement period*) subsequent to the acquisition date during which adjustments may be made to the amounts initially recognized in a business combination at the acquisition date. The objective of the measurement period is to allow a reasonable period in which to obtain the information necessary to identify and estimate the fair value of items to be recognized and measured at the acquisition date.

38. The measurement period ends as soon as possible (for example, when the acquiring entity receives the necessary information or learns it is not obtainable) but shall not exceed one year from the acquisition date. Amounts recognized as of the acquisition date may be

adjusted during the measurement period but only on the basis of new information about facts and circumstances that existed at the acquisition date and if known would have affected the determination of the fair value of an asset or liability as of the acquisition date. (Paragraphs A43–A58 provide additional guidance and illustrative examples for applying the measurement period provisions of paragraphs 37 and 38.)

Contingencies that meet the definition of assets or liabilities

39. In accordance with the recognition and measurement principles of paragraphs 31 and 35 of this Statement, contingent gains acquired and contingent losses assumed by the acquiring entity that meet the respective definitions of assets and liabilities in Concepts Statement 6 at the acquisition date shall be recognized at their fair value at the acquisition date. That would include, for example, recognition of a *contingency*[21] (contingent gain or loss) of the acquired business that did not meet the criteria in Statement 5 for recognition by that acquired business.

40. Subsequent to the acquisition date, assets recognized for contingencies, including intangible assets subject to the provisions of Statement 142, assets and liabilities arising from insurance contracts, and liabilities that are both contingencies and financial instruments shall be accounted for in accordance with applicable generally accepted accounting principles for those assets and liabilities. Liabilities that are contingencies but are not financial instruments shall continue to be measured at fair value with changes in fair value recognized in income of the period unless the change is a qualifying adjustment during the measurement period (paragraphs 37 and 38).

Receivables

41. Receivables (including loans) acquired in a business combination are, in accordance with paragraphs 31 and 35, recognized and measured at fair value at the acquisition date. The acquiring entity shall not recognize a separate valuation allowance for uncollectible amounts at the acquisition date.

Leases

42. In applying the provisions of paragraphs 31, 35, and 36(e), in accordance with Statement 13, leases of an acquired business retain the lease classification of that acquired business, unless the provisions of a lease are modified in a way that would require the revised agreement to be considered a new lease agreement under paragraph 9 of Statement 13. In that circumstance, the new lease shall be classified by the acquiring entity according to the criteria set forth in Statement 13 based on conditions as of the date of the modification of the lease.[22] Under Statement 13, assets and liabilities are not recognized for operating leases of the acquired business that are at market terms. A lease whose terms are favorable relative to market terms, as discussed in paragraph A59(a), gives rise to an intangible asset that shall be recognized. Similarly, a liability shall be recognized for a loss in value arising from an operating lease whose terms are unfavorable relative to market terms.

Intangible assets

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[21] The term *contingency* is used here as in Statement 5 to mean "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain . . . or loss . . . to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur" (paragraph 1, footnote omitted).

[22] Interpretation 21 provides guidance for the measurement of those leases that are assets acquired or liabilities assumed in a business combination. At the acquisition date, an acquiring entity may contemplate renegotiating and making modifications to leases of the acquired entity. Modifications made subsequent to the acquisition date, including those that were planned at the time of the business combination, are postcombination events that should be separately accounted for by the acquiring entity.

43. [(FAS 141, ¶39)An intangible asset shall be recognized as an asset apart from goodwill if it arises from contractual or other legal rights (regardless of whether those rights are transferable or separable from the acquired ~~entity~~ business or from other rights and obligations). If an intangible asset does not arise from contractual or other legal rights, it shall be recognized 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~~ business and sold, transferred, licensed, rented, or exchanged (regardless of whether there is an intent to do so). For purposes of this Statement, however, an intangible asset that cannot be sold, transferred, licensed, rented, or exchanged individually is considered separable if it can be sold, transferred, licensed, rented, or exchanged in combination with a related contract, asset, or liability. For purposes of this Statement, an assembled workforce shall not be recognized as an intangible asset apart from goodwill. Paragraphs A59–A77 ~~Appendix A~~ provide~~s~~ additional guidance relating to the recognition of acquired intangible assets apart from goodwill, including an illustrative list of intangible assets that meet the recognition criteria in this paragraph.[23]]

44. If an intangible asset does not meet the criteria in paragraph 43 for recognition as an intangible asset apart from goodwill at the acquisition date, the value of that item is subsumed in goodwill. For example, an acquiring entity may attribute value to an acquired company's potential contractual arrangements that, at the acquisition date, are being negotiated with prospective new customers. However, since those arrangements are still being negotiated and do not involve established **customer relationships**, their value does not arise from

[23] The contractual-legal and separability criteria, which provide guidance for recognizing an intangible asset apart from goodwill, do not provide guidance for measuring an intangible asset and do not restrict the use of certain assumptions that would be used in estimating the fair value of an intangible asset. For example, assumptions that marketplace participants would consider, such as expectations of future contract renewals, shall

contractual or other legal rights and generally would not be separable. Amounts for such intangible assets that are subsumed in goodwill at the acquisition date shall not be reclassified from goodwill for events that occur subsequent to the acquisition date. Thus, any value associated with an expected contract closing with a new customer recognized in goodwill at the acquisition date would remain in goodwill if, for example, that potential contract, and its related customer relationship, is obtained after the acquisition date.[24]

Research and development assets

45. Tangible and intangible assets acquired in a business combination to be used in a particular research and development activity, including those that may have no alternative future use, shall be recognized and measured at the acquisition date in accordance with paragraphs 31 and 35. Subsequent to the business combination, the provisions of Statement 142 shall be applied to an intangible asset related to in-process research and development (IPR&D) activities.[25] In accordance with FASB Statement No. 2, *Accounting for Research and Development Costs*, research and development costs incurred subsequent to the business combination shall be expensed unless they meet the test of alternative future use in paragraph 11 of that Statement.

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be considered in arriving at a fair value measurement even though those renewals do not meet the contractual-legal criterion or the separability criterion.

[24] Facts and circumstances surrounding events occurring shortly after the acquisition date should be assessed to determine whether they provide evidence that a separately recognizable intangible asset existed at the acquisition date.

[25] Paragraph E21 of this Statement amends Statement 142 to clarify that acquired IPR&D assets that are recognized as an intangible asset as part of a business combination should be considered indefinite-lived until the completion or abandonment of the associated research and development efforts, at which point the acquiring entity would make a separate determination of the useful life of that asset. Accordingly, under Statement 142, as amended, during the in-process period, acquired IPR&D assets would not be amortized and would be subject to the impairment review and testing provisions for indefinite-lived assets.

Assets, liabilities, and costs related to selling and disposal activities

46. An acquired asset that meets the criteria (in paragraph 32 of Statement 144) for classification as an asset held for sale shall be measured at fair value less cost to sell. This applies whether the expected sale of the asset meeting the criteria stems from the acquirer's plan or a condition of the combination, such as a condition imposed by a regulator.

47. Liabilities of an acquired business for costs that meet the criteria in FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, at the acquisition date shall be recognized and measured in accordance with paragraphs 31 and 35. However, costs expected to be incurred by the acquiring entity pursuant to its plan to (a) exit an activity of an acquired business, (b) involuntarily terminate employees of an acquired business, or (c) relocate employees of an acquired business are not assumed liabilities of the acquired business and, therefore, should not be recognized as liabilities by the acquiring entity at the acquisition date. Rather, they are postcombination expenses of the acquiring entity when incurred.

Goodwill

48. Except as provided by paragraph 50, the acquiring entity shall recognize an asset—referred to as goodwill—for the excess of the fair value of the business acquired (taken as a whole) over the net amount of the recognized identifiable assets acquired and liabilities assumed. This requirement applies whether or not the acquired business is wholly owned. The amount recognized as goodwill includes acquired intangible assets that do not meet the criteria in paragraph 43 for recognition as assets apart from goodwill.

49. In a business combination that results in less than a 100 percent controlling ownership interest in the business acquired, the amount of goodwill determined in accordance with

paragraph 48 shall be allocated to the controlling and noncontrolling interests. The amount initially allocated to the controlling interest shall be measured as the difference between the *fair value of the controlling ownership interest* and the *controlling interest's share in the fair value of the identifiable net assets acquired.* The remainder of the goodwill shall be allocated to the noncontrolling interests.[26] The *fair value of the controlling ownership interest* shall be measured as the fair values, at the acquisition date, of (a) the consideration exchanged by the acquirer, if any, and (b) the acquiring entity's previous noncontrolling investment held in the acquired business, if any.[27] (Paragraphs A78–A81 provide additional guidance and examples for applying paragraphs 48 and 49.)

Acquisitions at less than the fair value of the interest in the business acquired

50. If the fair value of the acquiring entity's interest in the business acquired exceeds the fair value of the consideration exchanged for that interest,[28] the acquiring entity shall:

a. Review the procedures used to estimate the fair values of the business acquired, its interest in the business acquired, and the items of consideration exchanged to acquire that interest to ensure that all appropriate consideration has been given to all available evidence of their fair values
b. After performing that review, the amount of goodwill that otherwise would be determined and recognized in accordance with paragraph 48, including amounts allocable to the controlling and noncontrolling interests, shall be reduced as follows:

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[26] The initial allocation of goodwill to controlling and noncontrolling interests required by this Statement shall be performed before goodwill is assigned to reporting units. The amount of goodwill allocated to the controlling interest shall be assigned to reporting units as required by paragraphs 34 and 35 of Statement 142, as amended. Paragraph 34 provides that goodwill "be assigned to one or more reporting units as of the acquisition date. Goodwill shall be assigned to reporting units of the acquiring entity that are expected to benefit from the synergies of the combination even though other assets or liabilities of the acquired entity may not be assigned to that reporting unit." The amount of goodwill allocated to noncontrolling interests in an acquired entity that is a partially owned subsidiary shall be assigned to the reporting unit (or units) that contains that subsidiary.

[27] **[**(FAS 141, ¶47 and fn20) After initial recognition, goodwill and other intangible assets acquired in a business combination shall be accounted for in accordance with the provisions of ~~FASB~~ Statement ~~No.~~ 142~~, Goodwill and Other Intangible Assets~~. As stated in paragraph 8 of Statement 142, the accounting for some acquired intangible assets after initial recognition is prescribed by pronouncements other than Statement 142.**]**

[28] An example of such a circumstance is a forced sale in which a seller is acting under compulsion. From the perspective of the buyer, that acquisition sometimes is referred to as a *bargain purchase*.

(1) If the consideration transferred is for the entire ownership interest in the business acquired, any excess of the fair value of the business acquired over the fair value of the consideration transferred shall reduce the amount of goodwill. If goodwill is reduced to zero, any remaining excess shall be recognized as a gain in the income statement in the period of the acquisition (and disclosed in accordance with paragraph 52(g)).

(2) If the consideration exchanged is for less than a 100 percent controlling ownership interest in the business acquired, any excess of the controlling interest's share in the fair value of the business acquired over the fair value of the consideration transferred for that ownership interest shall reduce the amount of goodwill that would be allocable to the controlling interest.[29] The amount of goodwill that would be allocable to the noncontrolling interest shall be reduced proportionately. If goodwill (allocable to the controlling and noncontrolling interests) is reduced to zero, any remaining excess for the controlling interest's share shall be recognized as a gain in the income statement (attributable to the controlling interest) in the period of the acquisition (and disclosed in accordance with paragraph 52(g)).

(Paragraphs A82–A84 provide additional guidance and examples for applying paragraph 50.)

Disclosures

51. The acquiring entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occurred:

a. During the reporting period
b. After the balance sheet date but before the financial statements are issued.

52. To meet the objective in paragraph 51, the acquiring entity shall, at a minimum, disclose the following information for each material business combination or for individually immaterial business combinations that are material in the aggregate:

a. **[**(FAS 141, ¶51a) The name, the acquisition date, and a brief description of the acquired ~~entity~~ business and the percentage of voting equity interests acquired**]**
b. **[**(FAS 141, ¶51b) The primary reasons for the business combination, including a description of the factors that contributed to ~~a purchase price that results in~~ the recognition of goodwill**]**

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[29] In this circumstance (bargain purchase of less than a 100 percent controlling interest), for purpose of applying the provision of paragraph 50(b)(2), the tentative amount of goodwill determined under the provisions of paragraph 48 before any adjustment required by paragraph 50 is allocable to the controlling and noncontrolling interests based on their relative ownership interests.

c. The fair value of the acquired business at the acquisition date and the method used for determining that value

d. The fair value of the consideration exchanged, including the fair value of each major class of consideration, for example:
   (1) Cash
   (2) Other assets (for example, long-lived assets or a subsidiary or division)
   (3) [(FAS 141, ¶51f) Contingent payments, options, or commitments specified in the acquisition agreement~~ and the accounting treatment that will occur should any such contingency occur~~, which include those disclosed pursuant to other generally accepted accounting principles (such as FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* or FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities)*]
   (4) Equity interests of the acquirer (such as common shares, preferred shares, or partnership interests), including the number of shares issued or issuable, and the method of determining the fair value of those interests
   (5) Member (or other equity) interests[30] transferred (which are reported as a direct addition to capital or equity) and the method of determining the fair value of those interests, in combinations between two or more mutual enterprises

e. [(FAS 141, ¶51e) The fair values of the assets acquired (including goodwill) and the liabilities assumed in the form of ~~A~~a condensed balance sheet disclosing the~~ amount assigned to~~ aggregate fair value of each major asset and liability caption of the acquired business ~~entity~~ at the acquisition date]

f. The maximum potential amount of future payments (undiscounted) the acquirer could be required to make under the contingent payments, options, or commitments specified in the acquisition agreement, calculated using an approach consistent with paragraph 13(b) of Interpretation 45

g. The amount of any gain recognized in accordance with paragraph 50, the line item in the income statement in which the gain is recognized, and a description of the reasons why the acquirer was able to achieve a bargain purchase that resulted in the gain

h. The amount of acquisition-related third-party expenses incurred and expensed and the line item in the income statement in which the expenses are recognized

i. [(FAS 141, ¶52) ~~The notes to the financial statements also shall disclose the following information in the period in which a material business combination is completed if the amounts assigned to goodwill or~~ If the aggregate fair values of ~~other~~ intangible assets acquired, other than goodwill, are significant in relation to the fair value ~~total cost~~ of the acquired business~~ entity~~:]
   [(FAS 141, ¶52 (a),(b))
   (1) For intangible assets subject to amortization:[31]

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[30] In combinations between two or more mutual enterprises in which the only consideration exchanged is the member (or other equity) interests, the fair values of the acquired enterprise and the member interests transferred are presumed to be equal.

[31] [(FAS 141, ¶52, fn21) Statement 142 provides guidance for determining whether an intangible asset is subject to amortization.]

(a) The total fair value ~~amount assigned~~ and the fair value of ~~amount assigned to~~ any major **intangible asset class**

(b) The amount of any significant **residual value**, in total and by major intangible asset class

(c) The weighted-average amortization period, in total and by major intangible asset class

(2) For intangible assets *not* subject to amortization,[32] the total fair value ~~amount assigned~~ and the fair value of ~~amount assigned to~~ any major intangible asset class**]**

j. Any gain or loss recognized and the line item in the income statement in which that gain or loss is recognized if an entity obtains control of a business in a step acquisition and remeasures any preacquisition investment in that business to fair value on the acquisition date.

[(FAS 141, ¶57) The ~~notes to the financial statements~~ acquiring entity also shall disclose the information required by this paragraph~~s 51 and 52~~ if a material business combination is completed after the balance sheet date but before the financial statements are issued (unless it is not practicable to do so).**]**

53. If the acquiring entity is a **public business enterprise**, the acquiring entity shall disclose the following information for the period in which a material business combination occurs (or for the period in which a series of individually immaterial business combinations occur that are material in the aggregate):

a. For a minimum of the period from the date of acquisition through the end of the current fiscal year, the amounts of revenues and net income of the acquired business (or businesses) that are included in the operations of the acquiring entity for the reporting period. If disclosure of either the revenues or net income is not practicable, that fact and the reason(s) therefor shall be provided.

b. On a supplemental pro forma basis:

(1) **[**(FAS 141, ¶54(a)) Results of operations for the current period as though the business combination or combinations had been completed at the beginning of the period, unless the business combination ~~acquisition~~ was at or near the beginning of the period**]**

(2) **[**(FAS 141, ¶54(b)) Results of operations for the comparable prior period as though the business combination or combinations had been completed at the beginning of that period if comparative financial statements are presented.**]**

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[32] **[**(FAS 141, ¶52, fn22) Refer to footnote ~~21~~ 31.]

54. [(FAS 141, ¶55) At a minimum, the supplemental pro forma information required by paragraph 53(b) shall display revenue, income before extraordinary items and the cumulative effect of accounting changes, net income, and earnings per share. In determining the pro forma amounts, income taxes, interest expense, preferred share dividends, and depreciation and amortization of assets shall be adjusted to the accounting base recognized for each in recording the combination. Pro forma information related to results of operations of periods prior to the combination shall be limited to the results of operations for the immediately preceding period. Disclosure also shall be made of the nature and amount of any material, nonrecurring items included in the reported pro forma results of operations.]

55. The acquiring entity shall disclose information that enables users of its financial statements to evaluate the financial effects of events that occurred in the current period that relate to business combinations of the current or previous reporting periods that result in (a) adjustments to assets or liabilities during the measurement period (paragraphs 37 and 38) and (b) changes in the measurement of liabilities that are accounted for at fair value (paragraphs 30 and 40).

56. To meet the objective in paragraph 55, the acquiring entity shall, at a minimum, disclose the following information for each material business combination or for individually immaterial business combinations that are material in the aggregate:

a. [(FAS 141, ¶51(h)) ~~For any purchase price allocation that has not been finalized, that fact and,~~ The assets and liabilities for which the measurement period is open, the reasons therefor~~.~~ ,and ~~In subsequent periods,~~ the nature and amount of any material adjustments made during the measurement period ~~to the initial allocation of the purchase price shall be disclosed.]~~
b. A reconciliation of the beginning and ending balances of liabilities that are subsequently measured at fair value under paragraphs 30 or 40, showing separately the changes in fair value during the period and amounts paid or otherwise settled.

57. The acquiring entity shall disclose information that enables users of its financial statements to evaluate changes in the carrying amount of goodwill during the reporting period.

58. To meet the objective in paragraph 57 (in addition to the requirements of paragraphs 45(c) and 47 of Statement 142), if the total implied fair value of goodwill is significant in relation to the fair value of the acquired business, the acquiring entity shall, at a minimum, disclose the following information for each material business combination or a series of individually immaterial business combinations that are material in the aggregate:

[(FAS 141, ¶52(c))

a. The total ~~amount of~~ implied fair value of goodwill and the amount that is expected to be deductible for tax purposes

b. The amount of goodwill by reportable segment (if the combined entity is required to disclose segment information in accordance with FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*), unless it is not practicable to do so.[33] **]**

[(FAS 141, ¶57) The acquiring entity ~~notes to the financial statements~~ also shall disclose the information required by this paragraph~~s 51 and 52~~ if a material business combination is completed after the balance sheet date but before the financial statements are issued (unless it is not practicable to do so).**]**

59. In addition to the specific disclosures required by this Statement and Statement 142, the acquiring entity shall disclose any additional information that is necessary to meet the objectives in paragraphs 51, 55, and 57.

60. An example of the disclosure requirements of paragraphs 51–58 is provided in Illustration 1 in Appendix C.

Effective Date and Transition

61. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2005. The provisions of this Statement shall apply to business combinations for which the acquisition date is on or after the beginning of the fiscal year in which this Statement is adopted. Earlier application is encouraged in financial statements that have not been issued previously; however, if adopted earlier, the provisions of this Statement shall be adopted concurrent with the adoption of the Statement on consolidated financial statements. Retroactive application of the provisions of this Statement to business combinations for which the acquisition date is before the adoption of this Statement is prohibited.

62. The following transition provisions apply to business combinations of mutual enterprises that have not adopted Statement 141. For those business combinations that occurred prior to the adoption of this Statement and were accounted for as acquisitions:

a. The carrying amount of acquired intangible assets that do not meet the criteria in paragraph 43 for recognition apart from goodwill (and any related deferred tax liabilities if the intangible asset amortization is not deductible for tax purposes) shall be reclassified as goodwill as of the date Statement 142 is initially applied in its entirety.[34]
b. The carrying amount of any intangible assets that meet the recognition criteria in paragraph 43 that have been recognized and included in the amount reported as goodwill (or as goodwill and intangible assets) shall be reclassified and accounted for as

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[33] [(FAS 141, ¶52, fn23) For example, it would not be practicable to disclose this information if the assignment of goodwill to reporting units (as required by Statement 142) has not been completed as of the date the financial statements are issued.]

[34] This Statement amends Statement 142 to make it effective for business combinations between two or more mutual enterprises. For those business combinations, Statement 142 is effective in its entirety for fiscal years beginning after December 15, 2005.

an asset apart from goodwill as of the date Statement 142 is initially applied in its entirety.[35]

c. As of the earlier of the first day of the fiscal year beginning after December 15, 2005, or the date Statement 142 is initially applied in its entirety, the amount of any unamortized deferred credit related to an excess over cost arising from (a) a business combination accounted for prior to the adoption of this Statement or (b) an investment accounted for by the equity method prior to the adoption of this Statement, shall be written off and recognized in net income as the effect of a change in accounting principle. The effect of the accounting change and related income tax effects shall be presented in the income statement between the captions *extraordinary items* and *net income*.

63. The following transition provisions apply to those mutual enterprises that have not adopted FASB Statement No. 147, *Acquisition of Certain Financial Institutions*, and prior to the adoption of this Statement have acquired all of part[36] of a financial institution[37] and recognized an *unidentifiable intangible asset*[38] in accordance with paragraph 5 of FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*:

a. If the transaction that gives rise to the unidentifiable intangible asset is a business combination, the carrying amount of that asset shall be reclassified to goodwill[39] (reclassified goodwill) as of the later of the date of acquisition or the date Statement 142 is applied in its entirety (Statement 142 application date). The reclassified goodwill shall be accounted for and reported prospectively as goodwill under Statement 142.

b. The carrying amounts of any recognized intangible assets that meet the recognition criteria in paragraph 43 that are included in the amount reported as an unidentifiable intangible asset and for which separate accounting records are maintained (as discussed in footnote 35) shall be reclassified and accounted for as assets apart from the unidentifiable intangible asset and shall not be reclassified to goodwill.

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[35] For example, when a business combination was initially recorded, a portion of the cost of the acquired entity was assigned to intangible assets that meet the recognition criteria in paragraph 43. Those intangible assets have been included in the amount reported on the statement of financial position as goodwill (or as goodwill and other intangible assets). However, separate general ledger or other accounting records have been maintained for those assets.

[36] Some transactions involve the acquisition of a less-than-whole, or part of a, financial institution.

[37] The term *financial institution*, as used in this Statement includes *all or part of* a commercial bank, a savings and loan association, a credit union, or other depository institution having assets and liabilities of the same types as those institutions.

[38] An unidentifiable intangible asset, as previously used in Statement 72, is the amount by which the fair value of the liabilities assumed exceeds the fair value of tangible and identified intangible assets acquired.

[39] If the amortization of the unidentifiable intangible asset is not deductible for tax purposes, any deferred tax liabilities related to that asset also shall be reclassified to goodwill.

c. If the transaction that gives rise to the unidentifiable intangible asset is *not* a business combination, the carrying amount of that asset shall continue to be amortized as previously set forth in paragraph 5 of Statement 72. (As discussed in paragraph 9 of Statement 142, acquisitions of groups of assets that are not a business do not give rise to goodwill.)

64. Other than as set forth in paragraphs 62 and 63, the amount of the purchase price assigned to the assets acquired and liabilities assumed in a business combination accounted for prior to the adoption of this Statement shall not be changed.[40]

Transitional Impairment Testing and Related Disclosures

65. As described in paragraphs 66–68, reclassified goodwill shall be tested for impairment as of the Statement 142 application date. Paragraphs 66–68 apply only to reclassified goodwill for which the date of acquisition precedes the Statement 142 application date.

66. If a mutual enterprise has no goodwill other than reclassified goodwill, the transitional impairment testing provisions in paragraphs 54-58 of Statement 142 shall be completed for the reclassified goodwill by the end of the fiscal year in which the transition provisions of this Statement are applied.

67. If an entity has other goodwill in addition to reclassified goodwill, and it has not completed the transitional impairment testing provisions in paragraphs 54-58 of Statement 142 as of the first day of the fiscal year beginning after December 15, 2005, the reclassified goodwill shall be combined with other goodwill in applying those transition provisions.

68. If an entity has other goodwill in addition to reclassified goodwill, and it has completed the transitional impairment testing provisions in paragraphs 54–58 of Statement

142 as of the first day of the fiscal year beginning after December 15, 2005, the following transition provisions shall be applied for each reporting unit that includes reclassified goodwill:

a. If the fair value of the reporting unit exceeds its carrying amount (including the unidentifiable intangible asset) at the Statement 142 application date,[41] additional impairment testing related to the reclassified goodwill is not required.

b. If the first step of the transitional goodwill impairment test indicates a potential impairment of goodwill at the Statement 142 application date, the amount of the goodwill impairment loss (if any) shall be remeasured based on the revised carrying amount of goodwill.[42] The revised carrying amount of goodwill used in remeasuring the loss equals the amount of previously recognized goodwill and the amount of any unidentifiable intangible asset reclassified as goodwill under the transition provisions of this Statement. Any adjustment to the impairment loss shall be recognized as the effect of a change in accounting principle in accordance with paragraph 56 of Statement 142.

69. In the period that the transition provisions are first applied, a mutual enterprise shall disclose the following in the notes to the financial statements:

a. The carrying amount of previously recognized unidentifiable intangible assets reclassified as goodwill

b. The amount of any adjustment to the previously recognized goodwill impairment loss recognized pursuant to paragraph 68(b).

70. For each period presented that precedes the Statement 142 application date, the amount of amortization expense related to reclassified goodwill shall be disclosed, either separately or as part of the transitional disclosure requirements of Statement 142 (paragraph 61).

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[40] This transition provision does not, however, affect the requirement to change the amounts assigned to the assets acquired in a business combination due to (a) the resolution of a consideration contingency based on earnings (paragraph 28 of Statement 141) or (b) changes to the purchase price allocation prior to the end of the allocation period (paragraph 40 of Statement 141).

[41] That is, the first step of the transitional goodwill impairment test indicated no impairment.

[42] The fair value of the reporting unit and related assets and liabilities used in calculating the implied fair value of goodwill shall not be remeasured for purposes of applying this transition provision.

The provisions of this proposed Statement need not be applied to immaterial items.

IMPLEMENTATION GUIDANCE

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Appendix A

IMPLEMENTATION GUIDANCE

Introduction

A1. **[**(FAS 141, ¶A1) This appendix provides guidance to assist entities in the application of certain provisions of this Statement and is therefore an integral part of the standards provided in this Statement. This appendix discusses generalized situations and provides examples that incorporate simplified assumptions to illustrate how certain provisions of this Statement apply in certain specific circumstances. The examples do not address all possible situations or applications of this Statement. The facts and circumstances of each business combination should be considered carefully in applying this Statement.**]**

A2. This Statement requires that all business combinations be accounted for using the acquisition method. As stated in paragraph 1, this Statement replaces FASB Statement No. 141, *Business Combinations*, but retains the fundamental provisions of Statement 141 that require the application of the purchase method (now referred to as the *acquisition method*) and the identification of an acquirer for every business combination. It also carries forward without reconsideration the guidance for identifying the acquiring entity and for identifying intangible assets that are recognized as an asset apart from goodwill. However, this Statement revises the procedures used in applying the acquisition method. It also extends the application of the acquisition method to mutual enterprises and to business combinations resulting from events and circumstances in which control of a business is obtained through means other than a purchase.

A3. [(FAS 141, ¶A4) This Statement retains the provision (and related application guidance) of Statement 141 that requires that intangible assets that meet the criteria in paragraph ~~39~~ 43 be recognized as assets apart from goodwill. Paragraphs ~~A10–A13~~ A59–A62 provide examples that illustrate how the guidance in paragraph ~~39~~ 43 should be applied to certain generalized situations. Paragraph ~~A14~~ A63 provides an illustrative list of intangible assets that meet the criteria for recognition apart from goodwill.[43] Paragraphs ~~A15–A28~~ A64–A77 describe some of the intangible assets included on that list and explain how the criteria in paragraph ~~39~~ 43 generally apply to them.]

Application of Paragraph 5—Definition of a Business

A4. Paragraph 5 of this Statement defines a business as "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing (a) a return to investors or (b) lower costs or other economic benefits directly and proportionately to owners, members, or participants."

A5. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs need not be present for an integrated set to qualify as a business. The three elements of a business are defined as follows for the purposes of this Statement:

- Inputs: Any economic resource that creates or has the ability to create outputs when one or more processes are applied to it. Examples include long-lived assets (including intangible assets or rights to the use of long-lived assets), intellectual property, the ability to obtain access to necessary materials or rights, and employees.

[43][(FAS 141, ¶A4, fn27) As described in paragraph ~~A18~~ A67, some of the intangible assets identified on that list as meeting the separability criterion should not be recognized apart from goodwill if terms of confidentiality or other agreements prohibit the acquiring entity from selling, leasing, or otherwise exchanging the asset.]

- Processes: Any system, standard, protocol, convention, or rule that when applied to an input, or inputs, creates or has the ability to create outputs.[44] Examples include strategic management processes, operational processes, and resource management processes. These processes typically are documented; however, an organized workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs.–

- Outputs: The result of inputs and processes applied to those inputs that provide or have the ability to provide a return to investors or lower costs or other economic benefits directly and proportionately to owners, members, or participants.

A6. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, an acquired business need not include all of the inputs or processes that the seller used in operating that business if a *willing acquirer*[45] is capable of continuing to produce outputs, for example, by integrating the business with its inputs and processes (paragraph A9).

A7. The nature of the elements of a business vary by industry and by how an entity structures its operations (activities), including the stage of its development. Established businesses usually have many, and often different, kinds of inputs (assets), processes, and outputs, while new businesses often have few inputs and processes, and sometimes only a

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[44] Accounting, billing, payroll, and other administrative systems typically are not processes that are used to create outputs.

[45] The term *willing acquirer* is used with the same meaning as *willing parties* in the Board's project on fair value measurement. Paragraph 5 of the June 2004 Exposure Draft, *Fair Value Measurements*, says willing parties "are presumed to be marketplace participants representing unrelated buyers and sellers that are (a) knowledgeable, having a common level of understanding about factors relevant to the asset or liability and the transaction, and (b) willing and able to transact in the same market(s), having the legal and financial ability to do so."

single output (product). Nearly all businesses also have liabilities, but a business need not have any liabilities.

A8. An integrated set of activities and assets in a development stage may not yet have outputs. In that case, other factors should be assessed to determine whether the set has the ability to create outputs that will be used to provide a return to investors or lower costs or other economic benefits directly and proportionately to owners, members, or participants, and, thus, is a business. Those factors would include whether the set:

a. Has begun planned principal activities
b. Has employees, intellectual property, and other inputs and processes that could be applied to those inputs
c. Is pursuing a plan to produce outputs
d. Has the ability to obtain access to customers that will purchase the outputs.

A9. The determination of whether a particular set of assets and activities is a business should be based on whether the set can be conducted and managed as a business by a willing acquirer. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquirer intends to operate the set as a business.

A10. If the going-concern element of goodwill is present in a particular set of assets and activities, absent evidence to the contrary, the set shall be presumed to be a business.[46] However, a business need not have goodwill.

[46] The going-concern element of an existing business represents the ability of the established business to earn a higher rate of return on an assembled collection of net assets than would be expected if those net assets had to be acquired separately. That value stems from the synergies of the net assets of the business, as well as from other benefits (such as factors related to market imperfections, including the ability to earn monopoly profits and barriers to market entry—either legal or because of transaction costs—by potential competitors).

Application of Paragraphs 18, 21, and 22—Measuring the Fair Value of the Business Acquired

A11. Paragraph 18 states that the business acquired shall be measured at its fair value on the acquisition date. Paragraphs 18, 21, and 22 note how the fair values of the items of the consideration transferred by the acquiring entity are used as a basis for measuring the fair value of a business acquired in a business combination between willing parties. Paragraph 18 also notes that other valuation techniques are to be used to measure the fair value of the business acquired if the consideration transferred does not represent the fair value of the business acquired. Paragraphs A12–A26 provide additional guidance and illustrative examples for measuring the fair value of the business acquired.

Measuring the Fair Value of the Business Acquired Based on the Consideration Exchanged

A12. Paragraph 21 notes that in an acquisition in which the acquirer purchases the entire ownership interest of the business acquired, the fair value of the consideration transferred generally is more clearly evident and reliably measurable than the fair value of the business acquired. Paragraph 21 adds that, in the absence of evidence to the contrary, the fair value of the consideration transferred by the acquiring entity for the business acquired is used to determine the fair value of the business acquired. An example of the use of the fair value of the consideration to measure the fair value of the business acquired would include a purchase of all of the equity interest in a business enterprise for cash or a promised payment of cash on a specified date. In that case, the price for the business that the willing buyer and seller agreed upon is clearly evident and observable by all parties that have access to the terms and conditions of the combination. Sometimes the consideration exchanged includes cash, notes payable, and other forms of consideration (for example, land, buildings, and other nonmonetary assets) for which the

fair values are not as clearly evident as the fair value of cash or a promise of cash. Regardless of the form of that consideration, consistent with paragraphs 18 and 21, unless there is other available evidence that indicates that the fair value of the consideration does not represent the fair value of the business acquired, in a purchase of all of its ownership interest the fair value of the consideration transferred is used to determine the fair value of that business acquired.

A13. Paragraph 22 notes that in an acquisition in which an acquirer purchases less than the entire ownership interest in the business acquired, the consideration transferred by the acquirer for a partial controlling ownership interest by itself is not representative of the fair value of the business acquired. However, that consideration generally can be presumed to be representative of the fair value of the partial interest acquired. The following examples illustrate how the consideration exchanged for a partial controlling ownership interest together with other available information might be used to estimate the fair value of the business acquired. They also illustrate the application of paragraph 24 of this Statement.

Example 1: Acquisition of a Partial Controlling Ownership Interest

A14. Acquirer Company (AC) offers to purchase all (10 million) shares of Target Company (TC) provided no less than 80 percent of TC's shares are tendered. Shares of TC are publicly traded and widely dispersed. On the acquisition date, 90 percent of TC's ownership shares are tendered and acquired by AC for $90 million (at the offering price of $10 per share). In the week prior to the announcement of the offer, TC's shares were trading at $8.85–$9.15 per share. During the first week after the acquisition date, the

remaining 1 million outstanding shares of TC continue to trade but with significantly lower volume and greater volatility (at prices ranging from $8.50–$13.00 per share).

A15. In this case, the consideration exchanged for the partial interest is determined to be the best basis for estimating the fair value of TC as $100 million (10 million shares × $10). First, there is no evidence to suggest that the $10 per share price exchanged for the 90 percent interest is not representative of the price that knowledgeable, unrelated willing parties would pay, at the acquisition date, in exchange for a 100 percent ownership interest in the business acquired. In fact, the acquirer offered to pay $10 for all outstanding shares. Second, because the shares were widely dispersed, there is no evidence that it was necessary to pay a special premium beyond the $10 per share price to obtain a controlling block of shares from a controlling shareholder.

Example 2: Acquisition of a Partial Controlling Ownership Interest in a Step Acquisition

A16. Assume the same facts as in paragraph A14 except that AC owns 100,000 shares (1 percent) of TC that it originally purchased at $8.50 per share. Under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the shares are classified as available-for-sale securities and carried at fair value. The amount paid ($10 per share) for the 9 million shares of TC continues to be determined to be the best basis for estimating the fair value of TC as $100 million. The only difference in this circumstance is that, consistent with the provisions of paragraph 24, the unrealized holding gain of $150,000 on the 100,000 shares held is recognized in the consolidated statement of operations of the period. The carrying amount of $1 million for that 1 percent investment, like the $90 million investment for the 9 million shares acquired, is eliminated in consolidation.

Example 3: Acquisition of a Partial Controlling Ownership Interest with Evidence of a Control Premium

A17. Assume that a single Founding Shareholder (FS) owns 60 percent of TC's shares, and the remaining 40 percent of TC's 10 million shares are widely dispersed and have been publicly traded in the $9.85–$10.15 range. Also assume that FS desires to sell its controlling 60 percent interest in TC, and, based on its knowledge of the industry, FS identifies AC as the best strategic acquirer (and the highest bidder if FS was interested in making TC available for sale to all potential buyers). Through their private negotiations AC buys all of FS's holdings in TC for $81 million ($13.50 per share), a premium of about $3.50 per share over the market price of the publicly traded noncontrolling shares on the acquisition date. From the perspective of AC, that premium is acceptable based on its assessment that:

a. TC, as a whole, would be worth between $110 million and $130 million to other likely marketplace competitors (based on market comparisons of companies similar to TC and its best estimate as to the likely synergies that those marketplace competitors might be able to achieve).
b. AC can extract synergies similar to those of other marketplace participants, as well as generate additional savings by making the proprietary technology and knowledge of a wholly owned subsidiary available to TC.

At issue is whether the consideration exchanged by the acquirer, AC, for the partial controlling ownership interest, by itself, can be presumed to provide the best basis for measuring the business acquired—that is, the fair value that knowledgeable, unrelated willing parties would exchange for a 100 percent ownership interest in the business acquired. For example, should AC, based solely on the $13.50 per share it paid for the controlling 60 percent interest, presume that the fair value of TC is $135 million (10 million shares × $13.50)?

A18. In this case, AC has information that suggests that $135 million is not necessarily representative of the amount that would be paid by it or other knowledgeable, unrelated willing parties for TC as a whole. Moreover, the market prices for the noncontrolling shares at the acquisition date (about $10.00 per share) and during the first week following the acquisition ($8.50–$13.00) suggests that $13.50 per share is not representative of the fair value of TC, taken as a whole.[47] In this case, the fair value of TC may be estimated on a preliminary basis to be $121 million based on (a) the $81 million paid for the controlling 60 percent interest plus $40 million for the value of the noncontrolling shares [4 million × $10.00]) and (b) the fact that that amount falls within the $110 million–$130 million range used in AC's preliminary assessments of the value of TC. However, before AC concludes that $121 million is its best estimate of the fair value of TC, consistent with the objective of measuring the fair value for a 100 percent ownership interest in the business acquired and with Level 3 of the fair value hierarchy of FASB Statement No. 15X, *Fair Value Measurements,* AC should refine its initial estimate of fair value using multiple valuation techniques, as appropriate. Thus, AC might wish to refine its preliminary assessment of the fair value of TC using, for example, the market and income approaches discussed in paragraphs A21–A23.

[47] Similar to the discussion in FASB Statement No. 142, *Goodwill and Other Intangible Assets,* of the distinction between the fair value of a reporting unit and the fair value of individual equity securities, a control premium may cause the fair value of a business to exceed its market capitalization. Statement 142 explains that:

Substantial value may arise from the ability to take advantage of synergies and other benefits that flow from control over another entity. Consequently, measuring the fair value of a collection of assets and liabilities that operate together in a controlled entity is different from measuring the fair value of that entity's individual equity securities. An acquiring entity often is willing to pay more for equity securities that give it a controlling interest than an investor would pay for a number of equity securities representing less than a controlling interest. That control premium may cause the fair value of a reporting unit to exceed its market capitalization. [paragraph 23, footnote 16]

Application of Paragraph 18—Estimating the Fair Value of the Business Acquired in Other Ways

A19. In some circumstances the fair value of the business acquired may need to be estimated in ways other than based primarily on the consideration transferred. Those circumstances include acquisitions in which (a) control of a business is achieved without a transfer of consideration or (b) the fair value of the total consideration transferred is determined not to be more reliably measurable than the fair value of the business acquired. The latter circumstance would include, for example, a merger in which two private business enterprises or two mutual enterprises combine through an exchange of equity or member interests and the fair value of the business acquired is determined to be more clearly evident and, thus, more reliably measurable than the fair value of the equity or member interests transferred by the acquiring entity.

A20. Active markets and observable prices generally do not exist for a business that is identical or similar to the business acquired. Thus, consistent with Level 3 of the fair value hierarchy discussed in paragraphs 21–24 of Statement 15X, fair value should be estimated using multiple valuation techniques whenever the information necessary to apply multiple techniques is available without undue cost and effort. The results of the multiple techniques applied would then be evaluated considering the relevance and reliability of the inputs used to estimate the fair value of the business acquired. For example, the market and income approaches are techniques that are most commonly used to measure the value of a business. Thus, the techniques applied and evaluated might be the market approach and the income approach, or several variations of each based on the extent of the available data. (Those approaches and the application of the use of multiple techniques is discussed more fully in Statement 15X.)

Market Approach

A21. In applying the market approach, the basic steps are (a) define and assess the available marketplace data (and adjust, if necessary) to derive one or more valuation ratios and (b) apply the appropriate valuation ratios to the acquired business. As applied to business enterprises, the market approach typically is based on prices of publicly traded equity of comparable businesses or other transactions involving comparable businesses for which the terms of the business combinations are disclosed. Assessing the comparability of the business acquired to these comparable businesses requires judgments about the degree to which operational, market, financial, and nonfinancial factors are similar between the comparable businesses and the business acquired. Such factors might include products and services (operational factors); markets served, competitors, and position within the industry (market factors); capital structure and historic and forecasted financial performance (financial factors); and the depth of management, the expertise of personnel, and the maturity of the business (nonfinancial factors).

A22. Ideally, marketplace data are based on other entities within the same industry. Absent that information, marketplace data might be based on economically similar businesses. Thus, the degree of comparability between other businesses and the business acquired varies and it may be necessary to adjust the valuation ratios to reflect differences. Such adjustments should be consistent with the objective of measuring the fair value of the business acquired.

Income Approach

A23. In applying an income approach, the basic steps involve estimating and measuring the value of future cash flows or other income-related valuation metrics such as residual income and earnings. Paragraph 7 of Statement 15X summarizes key aspects of the income approach and states:

> The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The estimate of fair value is based on the value indicated by marketplace expectations about those future amounts. Those valuation techniques include present value techniques and option-pricing models, such as the Black-Scholes-Merton formula and lattice models, which incorporate present value techniques.

Appendix A of Statement 15X discusses the use of present value techniques to estimate fair value.

Special Considerations in Applying the Market and Income Approaches to Mutual Enterprises

A24. As discussed in paragraph A19, when two mutual enterprises combine, the fair value of the business acquired may be measured more reliably than the fair value of member interests transferred by the acquiring entity. Mutual enterprises, while similar in many ways to other enterprises within the scope of this Statement, have some distinct characteristics that arise primarily because the members of a mutual enterprise are both customers and owners. Members of mutual enterprises generally expect to receive benefits for their membership, often in the form of reduced fees charged for goods and services. Accordingly, a fair value measurement of a mutual enterprise must consider the assumptions that marketplace participants would make about future member benefits as well as any other assumptions marketplace participants would make about the mutual enterprise.

Application of Paragraphs 26 and 27—Acquisition-Related Costs Incurred in Connection with a Business Combination

A25. Paragraph 26 states that the consideration transferred in a business combination does not include acquisition-related costs or other amounts paid in connection with the transaction that are not payments in exchange for the business acquired. Acquisition-related costs include "out-of-pocket" or incremental costs directly related to a business combination, such as a finder's fee and fees paid to outside consultants for accounting, legal, or engineering investigations or for appraisals. Acquisition-related payments to parties for services rendered by those parties are exchange transactions in which the parties rendering services and parties receiving services generally exchange equal values. Paragraph 26 states that those are separate transactions to be accounted for separately under applicable generally accepted accounting principles absent the business combination. Thus, those acquisition-related costs are expensed by the acquiring entity in the period that the economic benefits of those services are received and consumed. Similarly, internal acquisition-related costs associated with business combinations, including unsuccessful attempts to acquire businesses, are expensed as incurred. The requirement of paragraph 26 applies regardless of who makes the payments for the acquisition-related costs. For example, if acquisition-related costs of the acquiring entity are paid by the acquired business or its shareholders on behalf of the acquiring entity, the portion of the total payment by the acquiring entity to the shareholders of the acquired business that is to reimburse them for those acquisition-related costs is not part of the consideration transferred for the business acquired.

A26. Paragraph 27 adds that arrangements to compensate owners of an acquired business for future services should not be considered part of the consideration exchanged

for the business. It is sometimes difficult to distinguish between an arrangement that provides consideration to all shareholders for their ownership interest in the business acquired and one that provides compensation to former shareholders for future services. For example, if all of the shareholders of a closely held acquired business continue to serve as key employees, it may not be clear whether an agreement that provides for a payment to those continuing key employees based on future earnings or other performance measures is compensation (profit sharing) for their services as employees or a contingent payment (part of the consideration transferred) to them as former shareholders to resolve differences in views between the acquirer and shareholders about the value of the acquired business. Accordingly, the facts and circumstances surrounding the arrangement must be evaluated. The following are among the factors or indicators that should be considered in evaluating such arrangements:

a. Factors involving components of shareholder group:
   (1) Lower or no contingent payments to shareholders who do not become employees may indicate that the incremental payments to selling shareholders who become employees are compensation.
b. Factors involving terms of continuing employment:
   (1) Automatic forfeiture of payments upon termination of employment is a strong indicator that the arrangement is compensation for postcombination services.
   (2) An employment agreement with an employment period coinciding with or longer than the contingent payment period may indicate that the contingent payment is compensation.
   (3) Contingent payments in excess of reasonable compensation levels paid to employees with similar responsibilities may indicate that the contingent payment is consideration for the business acquired.
c. Factors involving the formula for determining the contingent payment.

Application of Paragraph 28—Determining the Portion of Acquirer Share-Based Compensation Awards Exchanged in a Business Combination That Is Part of the Consideration Transferred by the Acquiring Entity

A27. Paragraph 28 specifies the accounting for circumstances in which an acquirer exchanges its share-based compensation awards (SBC) for SBC awards of the acquired business that are held by employees of that business. It specifies that:

> If the acquiring entity is obligated to issue acquirer-replacement awards, depending on the circumstances [described in paragraph 28], a portion (or all) of the *fair value*[15] of the acquirer-replacement award shall be recognized as part of the consideration transferred by the acquiring entity in the business combination.
>
> [15] The *fair value* of share-based awards issued by the acquirer and acquiree shall be determined using the *fair-value-based* measurement method of FASB Statement No. 123, *Accounting for Share-Based Payments,* as it would be amended by the Exposure Draft of the proposed Statement on share-based payments issued on March 31, 2004.

A28. The following examples illustrate the application of the provisions of paragraph 28 in circumstances in which Acquiring Company (AC) issues SBC replacement awards of $100 (fair-value based) at the acquisition date for SBC awards of the acquired business (AB) of $100 (fair-value based) at the acquisition date.

Example 4: Acquirer replacement awards, for which there is no requisite service period subsequent to the acquisition date, are exchanged for awards of the business acquired, for which the requisite service period was completed prior to the acquisition date

A29. AC exchanges replacement awards for which there is no requisite service period subsequent to the acquisition of AB for SBC awards of AB, for which the requisite service period was completed prior to the acquisition. When originally granted the SBC awards of AB had a requisite service period of four years. The required service was completed as of the acquisition date. As no future service is required to exercise AC's

replacement award, the AC replacement award represents part of the consideration transferred by AC in the business combination. In this case, since the amount of AC's replacement award attributable to past services ($100) does not exceed the amount of AB's award attributable to past service ($100), there is no excess amount to be attributed to compensation cost under the provisions of paragraph 28(a). Thus, 100 percent of the award is considered equity interest in the acquired business, and the $100 replacement award is included as part of the consideration transferred by AB.

Example 5: Acquirer replacement awards, for which there is a requisite service period required subsequent to the acquisition date, are exchanged for awards of the business acquired, for which the requisite service period was completed prior to the acquisition date

A30. AC exchanges replacement awards that require three years of future service for SBC awards of AB, for which the requisite service period was completed prior to the acquisition. When originally granted, the SBC awards of AB had a requisite service period of four years. The AB employees had rendered a total of seven years of service as of the acquisition date. Since all requisite service was rendered, the AB awards represent an equity interest. However, since the replacement awards require three years of future services, a portion of the replacement award is to be attributed to compensation cost under the provisions of paragraph 28(c). In this case, the total service period is 10 years—the period that begins with the service inception date for the acquiree's award and ends with the service completion date for the replacement award. The portion attributable to past services is equal to the remaining fair value of the replacement award ($100) multiplied by the ratio of the past service period (7 years) to the total service period (10 years). Thus, $70 would be attributable to the past service period and $30 to the future service period.

Example 6: Acquirer replacement awards, for which there is a requisite service period required subsequent to the acquisition date, are exchanged for awards of the business acquired, for which the requisite service period was not completed prior to the acquisition date

A31. AC exchanges replacement awards that require one year of future service for SBC awards of AB, for which the requisite service period was not completed prior to the acquisition. When originally granted, the awards of AB had a requisite service period of four years. As of the acquisition date the AB employees had rendered a total of two years service; thus, two years of service subsequent to the acquisition would be required. Since all requisite service has not been rendered, the AB awards represent an equity interest in part (50 percent, 2 of the required 4 years of service rendered as of the acquisition date).

A32. In this case, however, the replacement awards require only one year of future service. Thus, since two years of service has been rendered, the total service period is three years. *Normally*, the portion attributable to past services would be equal to the remaining fair value of the replacement award ($100) multiplied by the ratio of the past service period (2 years) to the total service period (3 years). Thus, $67 would be attributable to the past service period and $33 to the future service period. However, under paragraph 28(a), since the amount of the acquirer's replacement award attributable to past services ($67) exceeds the amount of the replaced acquiree awards attributable to those services ($50, which is calculated as [$100 × 2/4 years]), the excess ($17) is not part of the consideration transferred. Rather, that excess is included as part of the compensation cost to be recognized in postcombination financial statements. Thus, $50 would be attributable to the past service period and $50 to the future service period.

Example 7: Acquirer replacement awards, for which there is no requisite service period required subsequent to the acquisition date, are exchanged for awards of the business acquired, for which the requisite service period was not completed prior to the acquisition date

A33. Assume the same facts as in the prior example except that AC exchanges replacement awards that require no service subsequent to the acquisition. Similar to the prior example, the portion that could be attributable to past service cannot exceed the amount of the replaced acquiree awards attributable to those services. Thus, $50 (which is calculated as [$100 × 2/4 years]) is attributable to the past service and is part of the consideration transferred, and $50 is compensation cost to be recognized in postcombination financial statements. Because this replacement award has no requisite service period associated with it, the entire $50 of compensation cost would be expensed immediately.

Application of Paragraphs 31–34—Determining Which Assets and Liabilities Are Considered Part of the Business Combination

A34. Paragraph 31 requires that, as part of the business combination accounting, an acquirer recognize the economic resources that it acquired and the obligations that it assumed as part of the business combination that meet the definitions of assets and liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements*. If, at the acquisition date, the acquired entity had not recognized certain items that are assets and liabilities, as defined in Concepts Statement 6, those items would be recognized by the acquirer. Likewise, if the acquired entity had recognized certain items that are not assets and liabilities at the acquisition date, those items would not be recognized by the acquirer.

A35. Paragraph 31 requires an assessment to be performed to ensure that both the consideration transferred by the acquiring entity and the assets and liabilities recognized as part of the business combination accounting are part of the exchange for the business acquired. Paragraph 33 requires that the focus of the assessment be on those transactions entered into by parties to the combination and other events that affected those parties. The purpose of the assessment required by paragraphs 31–34 is to determine whether transactions or other events were arranged primarily for the acquirer or the combined entity to achieve economic or other benefits, including favorable accounting effects. Paragraph 33 requires that those transactions or other events that *are* determined to be primarily for an acquirer's benefit be accounted for separate from the business combination. Paragraph 34 provides the following three additional factors (which are neither mutually exclusive nor individually conclusive) to consider in performing the required assessment:

a. The timing of the transaction or obligating event
b. The reason for the transaction
c. The parties that initiated the transaction.

A36. Below are 3 examples that show the application of paragraphs 31–34. Examples 8 and 9 are illustrations of assets and liabilities that should be accounted for as part of the business combination. Example 10 is an illustration of a liability that should be accounted for separate from the business combination.

Example 8: Regulatory Asset Acquired That Is Included as Part of the Business Combination

A37. To induce an acquisition of WB (Weak Bank) by SB (Strong Bank), as a condition of the combination agreement between WB and SB, a regulatory authority

agrees to provide financial assistance in the form of cash, a receivable, or guarantees. That assistance is transferred to SB (the newly merged combined entity) upon the closing of the combination agreement. The regulatory authority, as part of its mission and public purpose, has an interest in supporting the soundness of financial institutions, which includes protecting the interests of the depositors of WB. From the perspective of the regulatory body, the assistance provided to induce WB and SB to combine is in the furtherance of its mission.

A38. In this case, it is clear that the asset acquired—financial assistance—by SB meets the definition of an asset. At issue is whether that asset is acquired as part of the business combination and should be included in the accounting for the business combination or whether it is a separate transaction to be accounted for separately. Paragraph 33 notes that the required assessment shall focus on transactions entered into by the parties to the combination (the acquirer, the business acquired, and their owners, directors, managers, and their agents) and other events to determine whether they were arranged primarily to achieve economic benefits or effects, including accounting effects, favorable to the acquirer or combined entity. The transaction was not arranged primarily to achieve economic benefits favorable to the acquirer or combined entity. Rather, each of the parties to the business combination agreement—the owners of WB, the owners of SB, and the regulatory body and depositors of WB—derive benefits from the transaction. Thus, that assistance would be an asset acquired at the acquisition date that is recognized as part of the business combination accounting.

Example 9: Liability Assumed That Is Included as Part of the Business Combination

A39. Sub Co. (SC) hired a highly desired Candidate as its new CEO. Candidate agreed to accept the position under a 10-year contract, one of the terms of which required SC to pay Candidate $5 million in the event that SC is acquired prior to (a) the expiration of the contract or (b) Candidate's retirement, resignation, or termination for certain specified causes within the control of SC. Eight years later AC acquired SC. Candidate had remained an employee of SC through the acquisition date and, thus, should receive the additional compensation payment under the existing employment agreement.

A40. In this case, it is clear that a liability is assumed—required payment of $5 million—by AC that meets the definition of a liability at the acquisition date. At issue is whether that liability is acquired as part of the business combination and should be included in the accounting for the business combination or whether that liability is part of a separate transaction to be accounted for separately. Paragraph 33 notes that the required assessment shall focus on transactions entered into by the parties to the combination (the acquirer, the business acquired, and their owners, directors, managers, and their agents) and other events to determine whether they were arranged primarily to achieve economic benefits or effects, including accounting effects, favorable to the acquirer or combined entity. The employment agreement was entered into by SC and Candidate prior to any offer from AC or negotiations of the combination. Thus, there is no reason to believe that the agreement or event that triggered the payment was arranged primarily to achieve economic benefits or effects favorable to AC (the acquirer). The contract was entered into by SC to secure the employment of Candidate and entered into by Candidate to secure compensation and security. An assessment of who receives the

primary economic benefits and the additional factors in paragraph 34 support the conclusion that the transaction was entered into primarily for the economic benefits of SC and its CEO (Candidate). Therefore, the liability for the required payment to Candidate should be considered part of the business combination accounting.

Example 10: Liability Assumed That Is Not Included as Part of the Business Combination

A41. AC attempts to purchase SC and makes a tender offer for SC's shares at a modest premium. AC would like to enlist the support of the CEO of SC to "sell" the deal to SC's shareholders who have not shown a great deal of enthusiasm for the merger. SC's board of directors believes that a merger with AC is in the best interest of SC's shareholders. AC promises to compensate the CEO in exchange for his best efforts in seeing that the business combination is consummated. Prior to the closing date, AC arranges through the key directors of SC to set up a golden parachute for the CEO that results in SC's promise to pay the CEO $10 million in the event that a business combination is consummated. Coinciding with that arrangement, AC agrees that any increase in the liabilities of SC as a result of the golden parachute agreement will not be included in potential downward adjustments to the previously negotiated and agreed upon purchase price.

A42. The transaction was initiated by AC and entered into primarily for the economic benefit of AC and the CEO. The combined entity receives significantly more of the benefit of the support of SC's CEO in the short period between the arrangement date and the acquisition date. In this sense, the CEO is acting as an employee of the combined entity. The substantial payment to the CEO also may imply required future services or severance of SC's CEO. The additional factors provided in paragraph 34 do not provide

evidence that is contrary to the conclusion that the liability should not be included as part of the combination accounting. Therefore, the obligation to pay the CEO for successfully consummating the deal would be accounted for as a postcombination expense of the combined entity and would be excluded from the business combination accounting.

Application of Paragraphs 37 and 38—Measurement Period

A43. Paragraph 37 states that this Statement provides a period of time (the measurement period) subsequent to the acquisition date during which the amounts initially recognized in a business combination may be adjusted. The measurement period provides time to obtain the information necessary to identify and estimate the fair values of items to be recognized and measured at the acquisition date.

A44. Paragraph 38 states that the measurement period ends as soon as possible (for example, when the acquiring entity receives the necessary information or learns it is not obtainable) but shall not exceed 1 year from the acquisition date. It also clarifies that adjustments may be made only on the basis of new information about facts and circumstances that existed at the acquisition date.

A45. Some factors that might be considered in determining whether new information should result in a measurement period adjustment are:

a. The timing of the subsequent information. Generally, the closer the date of the valuation to the acquisition date, the greater the likelihood that the circumstances existed at the acquisition date.
b. The type of subsequent information. An actual exchange with a third party generally provides the best evidence of fair value.
c. The directional tendency of the nature of the adjustment implied by the new information. For example, there might be a "conservative" bias to overstate the liabilities and understate the assets at the date of acquisition. Postacquisition adjustments that result in immediate income may be an indication of information that existed at the date of acquisition.

d. The size of the adjustment and the ability to identify the reason for the adjustment. Significant gains and losses that do not have identifiable causes and that are recognized immediately after the acquisition may be an indication of circumstances that existed at the date of acquisition.

Assets Acquired and Liabilities Assumed

A46. The following examples illustrate the application of the measurement period guidance. As illustrated in the examples, if an adjustment is made during the measurement period to the initial measure of an asset acquired or liability assumed, the related (offsetting) adjustment is made to goodwill.

Example 11: Adjustment to Goodwill—Legal Suit

A47. On December 31, 2003, AC purchases 100 percent of TC for cash. One of the liabilities assumed in the business combination is an obligation related to a legal suit. At the date of acquisition, AC measures the fair value of the liability based on the information obtained during the due diligence procedures and determines that the fair value is $95,000. Within the measurement period, AC discovers information that pertains to facts that existed as of the acquisition date, and AC revises its fair value measure of the liability as of the date of acquisition to $93,000.

A48. In this example, the adjustment to the fair value of the liability ($2,000 reduction) would be accounted for in the business combination accounting because the new information (a) is obtained within the measurement period and (b) relates to facts and circumstances that existed as of the acquisition date. The adjustment would result in an offsetting adjustment to goodwill.

A49. In contrast, assume instead that a legal suit is settled late in the measurement period for an amount that is different from the initial estimate and after assessing all of

the facts and circumstances causing the difference it is determined that there is no new information about facts that existed at the acquisition date. In that case that difference would not be an adjustment to the business combination accounting, but instead would be recognized as an adjustment to income of the postcombination period.

Example 12: Disposal of an Asset during the Measurement Period

A50. On December 31, 2003, AC purchases 100 percent of TC for cash. AC estimates that the fair value of TC's specialized (nonwasting) Asset A is $1,000 but also seeks an outside appraisal to gain further information. Three months after the acquisition and during the measurement period, AC sells Asset A to Third Party Co. for $2,000. That sale provides new information about the fair value of the asset. Depending on the circumstances, the adjustment or adjustments to the fair value of Asset A ($1,000 increase) would be accounted for in the business combination accounting or as current-period income or, perhaps, partly as each. That determination would depend on whether the sale at $2,000 is indicative of the fair value that existed at the date of acquisition or indicative of an increase in value that resulted from events and circumstances that occurred after the acquisition date.

A51. In this example, also assume that before agreeing to sell Asset A to Third Party Co., AC received the appraisal indicating a fair value of Asset A of $1,750 as of the acquisition date, and an increase in that fair value of approximately $250, between the date of the business combination and the date Asset A was sold. Under these circumstances, the fair value of Asset A would be adjusted (increased $750) to the appraised amount of $1,750 as of the acquisition date, but the adjustment would not include the incremental $250. The $750 adjustment to Asset A also would result in an

offsetting adjustment to goodwill. The incremental $250 would be recognized as a gain on the sale of Asset A in the postcombination period.

Contingent Consideration

A52. The measurement period guidance in paragraphs 37 and 38 also applies to items of contingent consideration for which new information is discovered about facts and circumstances that existed at the acquisition date. Subsequent adjustments to the fair value of contingent consideration classified as a liability usually result from events and changes in circumstances that occur subsequent to the acquisition date. The following examples illustrate the application of the measurement period guidance to items of contingent consideration.

Example 13: Adjustment to Current-Period Earnings—Contingent Payout Based on Future Earnings

A53. On December 31, 2003, AC purchases 100 percent of TC for cash and promised contingent consideration (Liability B). The contingent consideration arrangement provides that if TC's fiscal year 2004 earnings are $10,000 or less, TC's former owners will receive $100 on March 31, 2005, and if TC's fiscal year earnings exceed $10,000, TC's former owners will receive $1,000 on March 31, 2005.

A54. At the date of acquisition, AC had obtained information about the historical profitability of TC and projected its future cash flows and profitability based on AC's assessment of economic conditions and of TC's prospects, and its plans for TC. Based on that information, AC determines that the fair value of its liability for the contingent consideration payment (Liability C) at the acquisition date is $370. Three months after the acquisition, TC unexpectedly obtains a profitable contract from a new customer, and

first quarter 2004 revenue is substantially greater than AC's cash flow projections for TC as of the acquisition date. AC determines that the fair value of Liability C is now $700.

A55. In this example, the increase in Liability C should be accounted for in income in the first quarter 2004. AC had the information necessary to measure Liability C at the acquisition date based on the circumstances that existed at that time. In this case, the change in cash flow projections (and the increased likelihood of the higher contingent consideration payment) is identifiable with an event that occurred subsequent to the acquisition date, and there is no new information about facts and circumstances that existed at the acquisition date.

Example 14: Adjustment to Consideration Exchanged—Contingent Payout Based on the Outcome of a Legal Suit

A56. On December 31, 2003, AC purchases 100 percent of TC for cash and promised contingent consideration (Liability C). The fair value of Liability C depends on assessments about the outcome of a legal suit against TC that AC assumes in the combination. The values of the liabilities for the legal suit (Liability L) and for the promised contingent consideration (Liability C) are directly related. A decrease in the fair value of Liability L leads to an equal increase in the value of Liability C. However, if the legal suit results in a judgment or settlement of $200,000 or more, TC's former owners will receive no additional consideration.

A57. At the date of acquisition, AC measures the fair values of Liability L and Liability C based on the information obtained during the due diligence procedures and determines that their fair values are $95,000 and $3,000, respectively. After the acquisition and during the measurement period, AC discovers information in the records about the legal

suit that pertains to facts that existed as of the acquisition date. Based on that information, AC revises its estimates of the fair values of Liability L to $93,000 and Liability C to $5,000.

A58. In this example, the adjustments to the fair value of Liability L and Liability C should be accounted for in the business combination accounting. Business combination accounting adjustments would be made because the new information was (a) obtained during the measurement period and (b) related to facts and circumstances that existed as of the acquisition date. The adjustments equally affect the value of the consideration exchanged (the fair value of Liability C) and Liability L. Therefore, in this example the offsetting adjustments result in no change to the amount of goodwill.

Application of Paragraph 43—Recognition of Intangible Assets Apart from Goodwill

A59. **[**(FAS 141, ¶A10) Paragraph ~~39~~ 43 states that an acquired intangible asset shall be recognized as an asset apart from goodwill if it arises from contractual or other legal rights (the contractual-legal criterion). An ~~I~~intangible asset~~s~~ that meets that criterion shall be recognized apart from goodwill even if the asset is not transferable or separable from the acquired business ~~entity~~ or from other rights and obligations. For example:

a. An acquired business ~~entity~~ leases a manufacturing facility under an operating lease that has terms that are favorable relative to market prices.[48] The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The value arising from that operating lease contract is an intangible asset that meets the contractual-legal criterion for recognition apart from goodwill, even though the lease contract cannot be sold or otherwise transferred.

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[48] **[**(FAS 141, ¶A10, fn28) In some cases, the terms of an operating lease might be unfavorable relative to market prices. Paragraph ~~37(k)~~ 42 of this Statement states that ~~a portion of the purchase price be assigned to liabilities such as unfavorable leases~~ a liability shall be recognized for a loss in value arising from an operating lease whose terms are unfavorable relative to market terms.**]**

b. An acquired business ~~entity~~ owns and operates a nuclear power plant. The license to operate that power plant is an intangible asset that meets the contractual-legal criterion for recognition apart from goodwill, even if it cannot be sold or transferred apart from the acquired power plant. This Statement does not preclude an acquiring entity from recognizing the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

c. An acquired business ~~entity~~ owns a technology patent. It has licensed that patent to others for their exclusive use outside the United States in exchange for which it ~~the entity~~ receives a specified percentage of future non-U.S. revenue. Both the technology patent and the related license agreement meet the contractual-legal criterion for recognition apart from goodwill even if it would not be practical to sell or exchange the patent and the related license agreement apart from one another.**]**

A60. **[**(FAS 141, ¶A11) If an acquired intangible asset does not arise from contractual or other legal rights, paragraph ~~39~~ 43 requires that it be recognized as an asset apart from goodwill only if it is separable—that is, it ~~is capable of being~~ can be separated or divided from the acquired business ~~entity~~ and sold, transferred, licensed, rented, or exchanged (the separability criterion). Exchange transactions provide evidence that an intangible asset is separable from the acquired business ~~entity~~ and might provide information that can be used to estimate its fair value.[49] An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type (even if those exchange transactions are infrequent and regardless of whether the acquiring entity is involved in them). For example, customer and subscriber lists are frequently leased and, thus, meet the separability criterion. Even if an entity believes its customer lists have characteristics that distinguish them from other customer lists, the fact that customer lists are frequently leased ~~generally means~~ indicates that the ~~acquired entity's~~ customer lists of the business acquired meet the

[49] EITF Issue No. 02-7, "Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets," provides guidance for determining whether indefinite-lived intangible assets should be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, essentially are inseparable from one another. That guidance also is relevant for determining the unit of accounting when estimating the fair values of intangible assets acquired in a business combination.

separability criterion. Title plant assets also are bought and sold in exchange transactions (either in whole or in part) or are leased, although less frequently than customer lists. Title plant assets also would meet the separability criterion.]

A61. [(FAS 141, ¶A12) An intangible asset that meets the separability criterion shall be recognized apart from goodwill even if the acquiring entity does not intend to sell, lease, or otherwise exchange that asset. The separability criterion is met because the asset ~~is capable of being~~ can be separated from the acquired business ~~entity~~ and sold, transferred, licensed, rented, or otherwise exchanged for something else of value. For example, because an acquired customer list ~~is generally capable of being~~ can be rented, it meets the separability criterion regardless of whether the acquiring entity intends to rent it.]

A62. [(FAS 141, ¶A13) As stated in paragraph ~~39~~ 43, an intangible asset that is not separable from the entity individually still meets the separability criterion if it is separable from the business acquired ~~entity~~ in combination with a related contract, asset, or liability. For example:

a. Deposit liabilities and related depositor-relationship intangible assets are exchanged in observable exchange transactions. Therefore, the depositor-relationship intangible asset shall be recognized apart from goodwill.
b. An acquired business ~~entity~~ owns a registered trademark, a related secret formula, and unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark in the United States, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the business ~~entity~~ and sold if the related trademark is sold, it meets the separability criterion.]

Examples of Intangible Assets That Meet the Criteria for Recognition Apart from Goodwill

A63. [(FAS 141, ¶A14, as amended) The following are examples of intangible assets that meet the criteria for recognition as an asset apart from goodwill. The following

illustrative list is not intended to be all-inclusive;, thus, an acquired intangible asset might meet the recognition criteria of this Statement but not be included on that list. Assets designated by the symbol (†) are those that would be recognized apart from goodwill because they meet the contractual-legal criterion.[50] Assets designated by the symbol (▲) do not arise from contractual or other legal rights, but shall nonetheless be recognized apart from goodwill because they meet the separability criterion. The determination of whether a specific acquired intangible asset meets the criteria in this Statement for recognition apart from goodwill shall be based on the facts and circumstances of each individual business combination.

a. Marketing-related intangible assets
   (1) Trademarks, trade names†
   (2) Service marks, collective marks, certification marks†
   (3) Trade dress (unique color, shape, or package design)†
   (4) Newspaper mastheads†
   (5) Internet domain names†
   (6) Noncompetition agreements†
b. Customer-related intangible assets
   (1) Customer lists▲
   (2) Order or production backlog†
   (3) Customer contracts and related customer relationships†
   (4) Noncontractual customer relationships▲
c. Artistic-related intangible assets
   (1) Plays, operas, ballets†
   (2) Books, magazines, newspapers, other literary works†
   (3) Musical works such as compositions, song lyrics, advertising jingles†
   (4) Pictures, photographs†
   (5) Video and audiovisual material, including motion pictures, music videos, television programs†
d. Contract-based intangible assets
   (1) Licensing, royalty, standstill agreements†
   (2) Advertising, construction, management, service or supply contracts†
   (3) Lease agreements†
   (4) Construction permits†
   (5) Franchise agreements†

[50][(FAS 141, ¶A14, fn29) The intangible assets designated by the symbol (†) also might meet the separability criterion. However, separability is not a necessary condition for an asset to meet the contractual-legal criterion.]

(6) Operating and broadcast rights†
(7) Use rights such as drilling, water, air, mineral, timber cutting, and route authorities†[51]
(8) Servicing contracts such as mortgage servicing contracts†
(9) Employment contracts†

e. Technology-based intangible assets
(1) Patented technology†
(2) Computer software and mask works†
(3) Unpatented technology▲
(4) Databases, including title plants▲
(5) Trade secrets, such as secret formulas, processes, recipes.†**]**

Marketing-Related Intangible Assets

A64. **[**(FAS 141, ¶A15) Marketing-related intangible assets are those assets that are primarily used in the marketing or promotion of products or services. Trademarks are words, names, symbols, or other devices used in trade to indicate the source of the product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks are used to identify the goods or services of members of a group, and certification marks are used to certify the geographic origin or other characteristics of a good or service. In the United States and other countries, trademarks, service marks, collective marks, and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce, or by other means. If registered or otherwise provided legal protection, a trademark or other mark is an intangible asset that meets the contractual-legal criterion for recognition apart from goodwill. Otherwise, a trademark or other mark shall be recognized apart from goodwill only if the separability criterion is met, which normally would be the case.**]**

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[51] **[**(FAS 141, ¶A14, as amended fn*) Certain use rights may have characteristics of assets other than intangible assets. For example, certain mineral rights are considered tangible assets based on the consensus in EITF Issue No. 04-2, "Whether Mineral Rights Are Tangible or Intangible Assets." Accordingly, use rights should be accounted for based on their substance.**]**

A65. **[**(FAS 141, ¶A16) The terms *brand* and *brand name* often are used as synonyms for trademarks and trade_names. However, the former are general marketing terms that typically are used to refer to a group of complementary assets such as the trademark (or service mark) and its related trade_name, formulas, recipes, and technological expertise (which may or may not be patented). This Statement does not preclude an entity from recognizing, as a single asset apart from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.**]**

A66. **[**(FAS 141, ¶A17) An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name associates the name with a designated computer on the Internet for the period the registration is in effect. Those registrations are renewable. Registered domain names shall be recognized as an intangible asset apart from goodwill because they meet the contractual-legal criterion.**]**

Customer-Related Intangible Assets

Customer lists

A67. **[**(FAS 141, ¶A18) A customer list consists of information about customers such as their name and contact information. A customer list also may be in the form of a database that includes other information about the customers such as their order history and demographic information. A customer list generally does not arise from contractual or other legal rights. However, customer lists are valuable and are frequently leased or exchanged. Therefore, an acquired customer list would meet the separability criterion for recognition apart from goodwill. An acquired customer list would not meet that criterion,

however, if the terms of confidentiality or other agreements prohibit an entity from selling, leasing, or otherwise exchanging information about its customers.]

Order or production backlog

A68. [(FAS 141, ¶A19) If an acquired order or production backlog arises from contracts such as purchase or sales orders, it meets the contractual-legal criterion for recognition apart from goodwill and is subject to the guidance in paragraph A25 (even if the purchase or sales orders ~~were~~ are cancelable).]

Customer contracts and related customer relationships

A69. [(FAS 141, ¶A20) If an entity establishes relationships with its customers through contracts, those customer relationships would arise from contractual rights. Therefore, customer contracts and the related customer relationships are intangible assets that meet the contractual-legal criterion. If an entity has established relationships with its customers through an ongoing practice of establishing contracts with those customers, those relationships would arise from a pattern of contractual rights even though a particular contract might not exist at the acquisition date.[52] A particular customer contract and customer relationship are related intangible assets and may have the same useful life. However, they often represent two distinct intangible assets for which both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ. This Statement requires that those intangible assets be recognized as assets apart from goodwill even if confidentiality or other contractual terms prohibit the sale or transfer of the contract separately from the business acquired ~~entity~~.]

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[52] The lack of a specific contractual right or separability for a particular customer relationship at the acquisition date may, however, affect the fair value of that intangible asset.

Noncontractual customer relationships

A70. [(FAS 141, ¶A21) If a customer relationship does not arise from a contract, this Statement requires that the relationship be recognized as an intangible asset apart from goodwill if it meets the separability criterion. Exchange transactions for the same asset or a similar type of asset provide evidence of separability of a noncontractual customer relationship and also might provide information about exchange prices that should be considered when estimating its fair value. For example, relationships with depositors (and policyholders of insurance contracts) are frequently exchanged with the related deposits (and insurance contracts) and, thus, meet the criteria for recognition as an intangible asset apart from goodwill.**]**

Artistic-Related Intangible Assets

A71. [(FAS 141, ¶A22) Artistic-related intangible assets meet the criteria for recognition apart from goodwill if the assets arise from contractual rights or legal rights such as those provided by copyright. In the United States, for example, copyrights are granted by the government for the life of the creator plus 50 years. Copyrights can be transferred either in whole through assignments or in part through licensing agreements. In determining the fair value of an intangible asset protected by copyright, consideration shall be given to the existence of any assignments or licenses of the acquired copyrights. This Statement does not preclude an acquiring entity from recognizing a copyright intangible asset and any related assignments or license agreements as a single intangible asset for financial reporting purposes if their useful lives are similar.**]**

Contract-Based Intangible Assets

A72. **[**(FAS 141, ¶A23) Contract-based intangible assets represent the value of rights that arise from contractual arrangements. Customer contracts (~~refer to~~ paragraph ~~A20~~ A69) are one particular type of contract-based intangible asset. Contracts to service financial assets are another. While servicing is inherent in all financial assets, it becomes a distinct asset or liability only (a) when ~~(a)~~ contractually separated from the underlying financial assets by sale or securitization of the assets with servicing retained or (b) through the separate purchase and assumption of the servicing. If mortgage loans, credit card receivables, or other financial assets are acquired in a business combination with servicing retained, this Statement does not require recognition of the inherent servicing rights as an intangible asset because the fair value of the servicing intangible asset is considered in the measurement of the fair value of the acquired financial asset. However, a contract representing an acquired **servicing asset** is an intangible asset that shall be recognized apart from goodwill.**]**

A73. **[**(FAS 141, ¶A24) If the terms of a contract give rise to a liability or commitment (which might be the case if the terms of an operating lease or customer contract are unfavorable relative to market prices), that liability or commitment shall be recognized and measured as required by paragraphs 31 and 35 of this Statement.**]**

Technology-Based Intangible Assets

A74. **[**(FAS 141, ¶A25) Technology-based intangible assets relate to innovations or technological advances. As stated in paragraphs ~~A26–A28~~ A75–A77, the future economic benefits of those assets often are protected through contractual or other legal

rights. Thus, many technology-based intangible assets meet the contractual-legal criterion for recognition apart from goodwill.]

Computer software and mask works

A75. **[**(FAS 141, ¶A26) If computer software and program formats are protected legally such as by patent or copyright, they meet the contractual-legal criterion for recognition apart from goodwill. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may be provided legal protection; for example, in the United States mask works qualify for protection under the Semiconductor Chip Protection Act of 1984. Acquired mask works protected under the provisions of that Act or other similar laws or regulations also meet the contractual-legal criterion for recognition apart from goodwill.**]**

Databases, including title plants

A76. **[**(FAS 141, ¶A27) Databases are collections of information, often stored in electronic form (such as on computer disks or files). An acquired database that includes original works of authorship is entitled to copyright protection and, if so protected, meets the contractual-legal criterion for recognition apart from goodwill. However, a database often includes information created as a consequence of an entity's normal operations, such as a customer list or specialized information such as a title plant, scientific data, and credit information. Databases that are not protected by copyright can be (and often are) exchanged in their entirety or in part. Alternatively, they can be (and often are) licensed or leased to others. Thus, even if the future economic benefit of a database does not arise from legal rights, it meets the separability criterion for recognition as an asset apart from goodwill.**]**

Trade secrets, such as secret formulas, processes, and recipes

A77. **[**(FAS 141, ¶A28) A trade secret is "information, including a formula, pattern, compilation, program, device, method, technique, or process, that (1) derives independent economic value, actual or potential, from not being generally known . . . and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."[53] If the future economic benefit of an acquired trade secret is protected legally, such as by the Uniform Trade Secrets Act or other laws and regulations, that asset meets the contractual-legal criterion for recognition as an asset apart from goodwill. Otherwise, a trade secret would be recognized as an asset apart from goodwill only if the separability criterion ~~was~~ is met, which is likely to be the case.**]**

Application of Paragraphs 48 and 49—Initial Calculation and Allocation of Goodwill in an Acquisition of Less Than a 100 Percent Controlling Interest in a Business

A78. Paragraph 48 states that in a business combination an acquiring entity shall recognize goodwill for the excess of the fair value of the business acquired over the net amount of the recognized identifiable assets acquired and liabilities assumed. That requirement applies whether or not a 100 percent ownership interest in a business is acquired. Paragraph 49 describes how the amount of goodwill calculated in accordance with paragraph 48 is to be allocated to the controlling and noncontrolling interests of the business acquired if the acquisition is for less than a 100 percent controlling ownership interest. Paragraph 49 states that the amount initially allocated to the controlling interest is measured as the difference between the *fair value of the controlling ownership interest* and the *controlling interest's share in the fair value* of the identifiable net assets

[53]**[**(FAS 141, ¶A28, fn30) Melvin Simensky and Lanning Bryer, *The New Role of Intellectual Property in Commercial Transactions* (New York: John Wiley & Sons, 1998), page 293. **]**

acquired. The remainder of the goodwill is allocated to the noncontrolling interests of the business acquired. The following example illustrates those requirements.

Example 15: Initial Calculation and Allocation of Goodwill to Controlling and Noncontrolling Interests in a Business

A79. On January 1, 20X5, Company A acquires an 80 percent controlling ownership interest in Company B for $160. There is no evidence to suggest that this transaction was not an exchange of equal values. Therefore, the consideration transferred ($160) is presumed to be the fair value of the 80 percent controlling interest. Through valuation techniques, the fair value of a 100 percent ownership interest in Company B is determined to be $200. On the acquisition date, the fair value of the separately recognizable identifiable assets acquired is $210 and the fair value of the liabilities assumed is $60. Based on those facts, the amount of goodwill is measured as follows:

Fair value of the business acquired (100 percent interest in Company B)	$ 200
Less: net amount of the fair values of the separately recognized identifiable assets acquired and liabilities assumed [$210 – 60]	(150)
Goodwill	$ 50

A80. As described in paragraph 49, the amount of goodwill allocated to Company A and to the noncontrolling interests of Company B is calculated as follows:

Fair value of the controlling ownership interest in Company B	$ 160
Less: Company A's portion of the fair value of the identifiable net assets acquired (80 percent × [$210 – $60])	(120)
Goodwill allocated to Company A	$ 40
Goodwill allocated to the noncontrolling interests in Company B [$50 – $40]	$ 10

A81. The $40 of goodwill allocated to the controlling interest of Company A is then assigned to Company A's reporting units as required by paragraphs 34 and 35 of

Statement 142, as amended. The $10 of goodwill allocated to noncontrolling interests of Company B is assigned only to the reporting unit or units that contain Company B.

Application of Paragraph 50—Acquisitions at Less Than the Fair Value of the Interest in the Business Acquired

A82. Paragraph 50 provides that if an initial measurement of the fair value of the acquiring entity's interest in the business acquired exceeds the fair value of the consideration exchanged for that interest (a bargain purchase), the acquiring entity shall review the procedures used to estimate the fair values of the business acquired, its interest in the business acquired, and the items of consideration exchanged to acquire that interest. Paragraph 50(b) adds that goodwill, as determined in accordance with paragraph 48, is to be reduced if after performing that review it is determined that the business combination is in fact a bargain purchase—that is, the fair value of the interest in the business acquired still exceeds the fair value of the consideration exchanged. Paragraph 50(b)(i) adds that for an acquisition of the entire ownership interest, if goodwill is reduced to zero any remaining excess should be recognized as a gain in the income statement in the period of the acquisition. Paragraph 50(b)(ii) notes that for an acquisition of a controlling ownership interest of less than 100 percent, the gain to be recognized is limited to the excess amount that is allocable to the acquiring entity's controlling interest in the business acquired. The amount of goodwill that otherwise would be allocated to the noncontrolling interest would be reduced proportionately, based on the reduction to the goodwill allocable to the controlling interest, but no gain is to be recognized related to the noncontrolling ownership interest. The following examples illustrate the requirements of paragraph 50.

Example 16: Acquisition of a Business at Less Than Fair Value

A83. On January 1, 20X5, Company A acquires 100 percent of Company B for $190 in Company A's stock. The former owner of Company B was required to sell the business quickly due to a regulatory requirement and did not have sufficient time to market Company B to multiple potential buyers. The management of Company A initially determines that on the acquisition date the fair values of the separately recognizable assets acquired other than goodwill and of the liabilities assumed are $250 and $50, respectively. Management of Company A believes the fair value of the business acquired is somewhat higher than $200—that is, it believes there is goodwill in the business acquired in the range of $15–$30. Because the fair value of the business acquired exceeds the fair value of the consideration exchanged, the procedures used by Company A to estimate the fair values of both the consideration exchanged and the business acquired on the acquisition date are reviewed and determined to be appropriate. Nonetheless, management of Company A also engages an independent valuation firm to review its estimates. That firm, using multiple valuation techniques, determines that the fair value of Company B as a whole is $225 because of certain economies of scale that any likely acquirer could achieve in Company B's operations. Based on those facts, the amount of goodwill and the gain on bargain purchase under the provisions of paragraph 50(b)(i) are measured as follows:

Fair value of Company B	$ 225
Less: net amount of the fair values of the separately recognized identifiable assets acquired and liabilities assumed [$250 – 50]	(200)
Goodwill that tentatively would be recorded under paragraph 48	25

Fair value of a 100 percent ownership interest in Company B	$ 225
Less: fair value of the consideration transferred	(190)
Excess of the fair value of Company B over the fair value of the consideration transferred for that interest	35
Less: reduction of tentative goodwill (to zero)	(25)
Adjusted "gain" on bargain purchase for any excess remaining after reducing goodwill to zero	$ 10

Example 17: Acquisition of Less Than a 100 Percent Controlling Interest in a Business at Less than Fair Value

A84. Consider the same facts as in the previous example except that Company A acquires an 80 percent ownership interest in Company B for $152 in Company A's stock. Based on those facts, the amount of goodwill and the gain on bargain purchase are measured as follows:

	100%	80%	20%
Fair value of Company B (and related 80 percent controlling and 20 percent noncontrolling interests)	$ 225	$ 180	$ 45
Less: net amount of the fair values of the separately recognized identifiable assets acquired and liabilities assumed [$250 – 50]	(200)	(160)	(40)
Goodwill that tentatively would be recorded under paragraph 48 (and tentative allocations; footnote 29 of paragraph 50)	25	20	5
Fair value of controlling ownership interests in Company B [$225 × .80]		$ 180	
Less: fair value of the consideration transferred for the controlling interest		(152)	
Excess of the fair value of the controlling ownership interest in Company B over the consideration exchanged for that interest		28	
Less: Adjustment to reduce goodwill that tentatively would have been recorded under paragraph 48 [$25 × .80]		(20)	
Adjusted "gain" for the 80 percent controlling interest acquired in a bargain purchase after reducing goodwill to zero		$ 8	

Company A would record its acquisition of Company B in its consolidated financial statements as follows:

Identifiable assets acquired (at fair value)	$250	
Goodwill	0	
Liabilities assumed (at fair value)		$ 50
Equity (for issuance of shares of Company A)		152
Gain on the bargain purchase		8
Equity—noncontrolling interest [($250 – $50) × .20]		40

In this case, goodwill of $25 that otherwise would be allocable to the controlling and noncontrolling interest is reduced to zero. Thus, the additions to equity of Company A of $160 ($152 + $8) and of $40 would reflect Company A's 80 percent controlling interest and the 20 percent noncontrolling interest in the net amount of the fair values of the separately recognized identifiable assets acquired and liabilities assumed ($250 – $50) of Company B.

Appendix C

ILLUSTRATIONS OF DISCLOSURE REQUIREMENTS

Introduction

C1. This appendix provides illustrations of some of the disclosure requirements of this Statement. The information is presented for illustrative purposes only and, therefore, may not be representative of actual transactions.

Illustration 1—Illustration of Paragraph 52

C2. **Footnote C: Acquisitions (dollars in thousands)**

On June 30, 20X2, Alpha acquired 100 percent of the outstanding common shares of Beta. Beta is a provider of data networking products and services in Canada and Mexico. As a result of the acquisition, Alpha is expected to be the leading provider of data networking products and services in those markets. It also expects to reduce costs through economies of scale.

The fair value of Beta on June 30, 20X2, was \$9,400 and was determined based on the consideration paid. Alpha's consideration included \$6,000 of cash, 100,000 shares of common stock valued at \$2,400, and a contingent future payment arrangement with a fair value of \$1,000. The value of the 100,000 common shares issued was determined based on the closing market price of Alpha's common shares at the date of acquisition. The future payment arrangement is contingent on the levels of revenue that Omega, an unconsolidated equity investment owned by Beta, achieves over the 12-month period following the acquisition. The maximum potential undiscounted amount of all future payments that Alpha could be required to make under the future payment arrangement is \$2,000.

Alpha incurred \$500 of third-party expenses related to the acquisition of Beta. Those expenses are included in the selling, general, and administrative expenses in Alpha's consolidated statement of income.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

At June 30, 20X2
($000s)

Current assets	$	2,400
Property, plant, and equipment		1,500
Intangible assets subject to amortization		2,500
Intangible assets not subject to amortization		2,400
Goodwill		2,200
Total assets acquired		11,000
Current liabilities		(500)
Liabilities for contingent losses		(600)
Long-term debt		(500)
Total liabilities assumed		(1,600)
Net assets acquired	$	9,400

The $2,500 of acquired intangible assets subject to amortization have a weighted-average useful life of approximately 4 years and a total residual value of $900. The intangible assets that make up that amount include computer software of $1,500 (3-year weighted-average useful life, $200 residual value), patents of $800 (7-year weighted-average useful life, $700 residual value), and other assets of $200 (5-year weighted-average useful life, no significant residual value). The $2,400 of intangible assets that are not subject to amortization are research and development assets related to Project XY. Project XY intangible assets include 2 registered trademarks, with fair values of $1,000 each, and other project designs and processes with a fair value of $400.

Illustration 2—Illustration of Paragraph 53(a)

C3. **Footnote C: Acquisitions (dollars in thousands)**

From the acquisition date (June 30, 20X2) through December 31, 20X2, Beta's operations resulted in $1,500 of revenue and $300 of net income that is included in the consolidated financial statements of Alpha.

Illustration 3—Illustration of Paragraph 56

C4. **Footnote C: Acquisitions (dollars in thousands)**

The measurements of the estimated fair values of registered trademarks that are not subject to amortization and research and development assets related to Project XY have not been finalized. Alpha is in the process of obtaining third-party valuations. Thus, the valuation of these intangible assets and goodwill is subject to refinement upon receiving the information requested.

The schedule below illustrates the beginning and ending balances of the liabilities for the contingent future payment arrangement for the acquisition of Beta and

contingent losses of Beta that are measured at fair value subsequent to the acquisition date:

	June 30, 20X2 Beginning Balance (Fair Value)	**Amounts (Paid) Received**	**Changes in Fair Value Recognized as (Income) Loss**	**December 31, 20X2 Ending Balance (Fair Value)**
Contingent Future Payments	$ 1,000	(250)	(350)	$ 400
Contingent Losses	600	0	500	1,100
Total Liabilities	**$ 1,600**	**(250)**	**150**	**$ 1,500**

Appendix E

AMENDMENTS TO EXISTING PRONOUNCEMENTS

E1. This Statement replaces FASB Statement No. 141, *Business Combinations.*

E2. This Statement supersedes the following pronouncements:

a. FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*
b. FASB Statement No. 147, *Acquisitions of Certain Financial Institutions*
c. FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*
d. FASB Interpretation No. 9, *Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method*
e. FASB Technical Bulletin No. 85-5, *Issues Relating to Accounting for Business Combinations*
f. FASB Staff Position No. FAS 141-1 and FAS 142-1, "Interaction of FASB Statements No. 141, *Business Combinations,* and No. 142, *Goodwill and Other Intangible Assets,* and EITF Issue No. 04-2, 'Whether Mineral Rights are Tangible or Intangible Assets'"

E3. All references to *FASB Statement No. 141, Business Combinations,* are replaced by *FASB Statement No. 141 (revised 2005), Business Combinations,* and all references to *Statement 141* are replaced by *Statement 141(R).*

E4. APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants,* is amended as follows:

a. Paragraph 9:

The contrary view is that convertible debt possesses characteristics of both debt and equity and that separate accounting recognition should be given to the debt characteristics and to the conversion option at time of issuance. This view is based on the premise that there is an economic value inherent in the conversion feature or call on the stock and that the nature and value of this feature should be recognized for accounting purposes by the issuer. The conversion feature is not significantly different in nature from the call

represented by an option or warrant, and sale of the call is a type of capital transaction. The fact that the conversion feature coexists with certain debt characteristics in a hybrid security and cannot be sold or transferred separately from these senior elements or from the debt instrument itself does not constitute a logical or compelling reason why the values of the two elements should not receive separate accounting recognition. Similar separate accounting recognition for disparate features of single instruments is reflected in, for example, the capitalization of long-term leases—involving the separation of the principal and interest elements—and in the assignment of the fair value of the business acquired~~ allocation of the purchase cost~~ in a bulk acquisition between goodwill and other assets.

E5. APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* is amended as follows:

a. Paragraph 19(m):

An investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 17 (i.e., acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other transactions). When an investment qualifies for use of the equity method, the investor should adopt the equity method of accounting. The investment, results of operations (current and prior periods presented), and retained earnings of the investor should be adjusted retroactively as if the equity method had been in effect during all previous periods in which the investment was held~~in a manner consistent with the accounting for a step-by-step acquisition of a subsidiary~~.[11a] If that retroactive adjustment is made on or after the date Statement 142 is initially applied in its entirety, the goodwill related to that investment (including goodwill related to step purchases made prior to the initial application of Statement 142) shall not be amortized in determining the amount of the adjustment.

[11a] The amount of interest cost capitalized through application of FASB Statement No. 58, *Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method*, shall not be changed when restating financial statements of prior periods.

E6. APB Opinion No. 20, *Accounting Changes,* is amended as follows:

a. Paragraph 35, as amended by Statement 141:

The financial statements of the period of a change in the reporting entity should describe the nature of the change and the reason for it. In addition, the effect of the change on income before extraordinary items, net income,

and related per share amounts should be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures. (Paragraphs 51–60 of FASB Statement No. 141 (revised 2005), *Business Combinations* ~~Paragraphs 51–58 of FASB Statement No. 141, *Business Combinations*~~, describe the manner of reporting and the disclosures required for a change in reporting entity that occurs because of a business combination.)

E7. APB Opinion No. 28, *Interim Financial Reporting,* is amended as follows:

a. Footnote * added by Statement 141 at the end of the fourth sentence of paragraph 21:

Disclosures required in interim financial information related to a business combination are set forth in paragraph 61 of FASB Statement No. 141 (revised 2005), *Business Combinations*~~paragraph 58 of FASB Statement No. 141, Business Combinations~~.

E8. APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* is amended as follows:

a. Footnote * added by Statement 141 at the end of paragraph 4(a):

Paragraph 6 of Statement 141(R) ~~Paragraph 10 of Statement 141~~ states that an exchange of a business for a business is a business combination.

E9. APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transaction*s, is amended as follows:.

a. Paragraph 20, as amended by FASB Statements No. 4, *Reporting Gains and Losses from Extinguishment of Debt,* No. 101, *Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71,* No. 141, and No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of Statement No. 13, and Technical Corrections*:

Extraordinary items are events and transactions that are distinguished by their unusual nature *and* by the infrequency of their occurrence. Thus, *both* of the following criteria should be met to classify an event or transaction as an extraordinary item:

a. *Unusual nature*—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity,

taking into account the environment in which the entity operates. (See discussion in paragraph 21.)

b. *Infrequency of occurrence*—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. (See discussion in paragraph 22.)

However, the following item~~s~~ shall be recognized as an extraordinary item~~s~~ regardless of whether those criteria are met:

(1) [This subparagraph has been deleted.]

(2) The net effect of discontinuing the application of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation,* pursuant to paragraph 6 of FASB Statement No. 101, *Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71*

~~(3) The remaining excess of fair value of acquired net assets over cost pursuant to paragraphs and 45 and 46 of FASB Statement No. 141, Business Combinations.~~

E10. FASB Statement No. 2, *Accounting for Research and Development Costs,* is amended as follows:

a. Paragraph 12:

~~*All*~~ R~~r~~esearch and development costs encompassed by this Statement shall be charged to expense when incurred. However, the fair value of in-process research and development acquired in a business combination that meets the definition of an asset in FASB Concepts Statement No. 6, *Elements of Financial Statements,* shall be capitalized, but any research and development expenditures incurred subsequent to the date of the business combination related to those acquired assets shall be charged to expense when incurred. Subsequent to the business combination, the provisions of Statement 142 shall be applied to in-process research and development assets acquired in a business combination.

E11. FASB Statement No. 5, *Accounting for Contingencies,* is amended as follows:

a. Paragraph 2:

Not all uncertainties inherent in the accounting process give rise to contingencies as that term is used in this Statement. Estimates are required in financial statements for many on-going and recurring activities of an enterprise. The mere fact that an estimate is involved does not of itself constitute the type of uncertainty referred to in the definition in paragraph 1. For example, the fact that estimates are used to allocate the known cost of a

depreciable asset over the period of use by an enterprise does not make depreciation a contingency; the eventual expiration of the utility of the asset is not uncertain. Thus, depreciation of assets is not a contingency as defined in paragraph 1, nor are such matters as recurring repairs, maintenance, and overhauls, which interrelate with depreciation. Also, amounts owed for services received, such as advertising and utilities, are not contingencies even though the accrued amounts may have been estimated; there is nothing uncertain about the fact that those obligations have been incurred. This Statement does not apply to the initial measurement or subsequent accounting for contingent gains or contingent losses in a business combination accounted for under FASB Statement No. 141 (revised 2005), *Business Combinations.*

E12. FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings,* is amended as follows:

a. Footnote 5 to paragraph 13, as amended by Statement 141:

   Paragraphs 13, 15, and 19 indicate that the fair value of assets transferred or the fair value of an equity interest granted shall be used in accounting for a settlement of a payable in a troubled debt restructuring. That guidance is not intended to preclude using the fair value of the payable settled if more clearly evident than the fair value of the assets transferred or of the equity interest granted in a full settlement of a payable (paragraphs 13 and 15). (See paragraph 21 of FASB Statement No. 141 (revised 2005), *Business Combinations* ~~paragraph 6 of FASB Statement No. 141, *Business Combinations*~~.) However, in a partial settlement of a payable (paragraph 19), the fair value of the assets transferred or of the equity interest granted shall be used in all cases to avoid the need to allocate the fair value of the payable between the part settled and the part still outstanding.

b. Footnote 6 to paragraph 13, as amended by Statement 141:

   Some factors that may be relevant in estimating the fair value of various kinds of assets are described in paragraphs A5–A15 of Statement 141(R), ~~paragraphs 37 and 38 of Statement 141,~~ paragraphs 12–14 of *APB Opinion No. 21,* "Interest on Receivables and Payables," and paragraph 25 of *APB Opinion No. 29,* "Accounting for Nonmonetary Transactions."

c. Footnote 16 to paragraph 28, as amended by Statement 141:

   Paragraphs 28 and 33 indicate that the fair value of assets received shall be used in accounting for satisfaction of a receivable in a troubled debt restructuring. That guidance is not intended to preclude using the fair value of the receivable satisfied if more clearly evident than the fair value of the assets received in full satisfaction of a receivable (paragraph 28). (See

paragraph 21 of Statement 141(R)~~See paragraph 6 of Statement 141~~.) However, in a partial satisfaction of a receivable (paragraph 33), the fair value of the assets received shall be used in all cases to avoid the need to allocate the fair value of the receivable between the part satisfied and the part still outstanding.

E13. FASB Statement No. 52, *Foreign Currency Translation,* is amended as follows:

a. Paragraph 101, as amended by Statement 141:

The functional currency approach applies equally to translation of financial statements of foreign investees whether accounted for by the equity method or consolidated. It also applies to translation after a business combination. Therefore, the foreign statements and the foreign currency transactions of an investee that are accounted for by the equity method should be translated in conformity with the requirements of this Statement in applying the equity method. Likewise, after a business combination ~~accounted for by the purchase method~~, the amount allocated at the date of acquisition to the assets acquired and the liabilities assumed (including goodwill or the excess of the fair value of the business acquired (taken as a whole) over the net amount of the recognized identifiable assets acquired and liabilities assumed ~~an excess of fair value of acquired net assets over cost~~ as those terms are used in FASB Statement No. 141(revised 2005), *Business Combinations* ~~FASB Statement No. 141, *Business Combinations*~~) should be translated in conformity with the requirements of this Statement. Accumulated translation adjustments attributable to minority interests should be allocated to and reported as part of the minority interest in the consolidated enterprise.

E14. FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, is amended as follows:

a. Paragraph 33:

A premium deficiency shall be recognized if the sum of expected claim costs and claim adjustment expenses, expected **dividends to policyholders**, unamortized acquisition costs, intangible assets recognized for acquired contracts, and maintenance costs exceeds related unearned premiums.[6]

[6] Disclosure is required regarding whether the insurance enterprise considers anticipated investment income in determining if a premium deficiency relating to short-duration contracts exists (paragraph 60(e)).

E15. FASB Statement No. 68, *Research and Development Arrangements,* is amended as follows:

a. Paragraph 11 and its related footnote 3, as amended by FASB Statement No. 142, *Goodwill and Other Intangible Assets*:

If the enterprise's obligation is to perform research and development for others and the enterprise subsequently decides to exercise an option to purchase the other parties' interests in the research and development arrangement or to obtain the exclusive rights to the results of the research and development, the nature of those results and their future use shall determine the accounting for the purchase transaction or business combination.[3]

[3] ~~Paragraph 5 of FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*, states: ". . . the accounting for the cost of an item to be used in research and development activities is the same under paragraphs 11 and 12 of Statement 2 whether the item is purchased singly, or as part of a group of assets, or as part of an entire enterprise in a business combination accounted for by the purchase method."~~ The accounting for other recognized intangible assets acquired by the enterprise is specified in FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

E16. FASB Statement No. 87, *Employers' Accounting for Pensions,* is amended as follows:

a. Paragraph 74, as amended by Statement 141:

~~When an employer is acquired in a business combination and that employer~~ If the acquired entity sponsors a single-employer defined benefit pension plan, the assignment of the purchase price by the acquiring entity to individual assets acquired and liabilities assumed shall include a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation, thereby eliminating any previously existing unrecognized net gain or loss, unrecognized prior service cost, or unrecognized net obligation or net asset existing at the date of initial application of this Statement. Subsequently, to the extent that those amounts are considered in determining the amounts of contributions, differences between the purchaser's net pension cost and amounts contributed will reduce the liability or asset recognized at the date of the combination. ~~If it is expected that the plan will be terminated or curtailed, the effects of those actions shall be considered in measuring the projected benefit obligation~~. Any amendment, curtailment or termination made or expected to be made on the date of or subsequent to the business

combinations that relates to the acquired plan shall not affect the determination of the fair value of the business acquired.

b. Paragraph 75 and the heading preceding it:
~~*Amendment to Opinion 16*~~
~~The reference to accruals for pension cost in paragraph 88(h) of Opinion 16 and footnote 13 to that Opinion are deleted. The following footnote is added to the end of the last sentence of paragraph 88 of Opinion 16:~~

> ~~Paragraph 74 of FASB Statement No. 87, *Employers' Accounting for Pensions*, specifies how the general guidelines of this paragraph shall be applied to assets and liabilities related to pension plans.~~

E17. FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, is amended as follows:

a. Paragraph 87:

Any amendment, curtailment, or termination made or expected to be made on the date of or subsequent to the business combinations that relates to the acquired plan shall not affect the determination of the fair value of the business acquired. ~~If the postretirement benefit plan of the acquired entity is amended as a condition of the business combination (for example, if the change is required by the seller as part of the consummation of the acquisition), the effects of any improvements attributed to services rendered by the participants of the acquired entity's plan prior to the date of the business combination shall be accounted for as part of the accumulated postretirement benefit obligation of the acquired entity. Otherwise, if improvements to the postretirement benefit plan of the acquired entity are not a condition of the business combination, credit granted for prior service shall be recognized as a plan amendment as discussed in paragraphs 50-55. If it is expected that the plan will be terminated or curtailed, the effects of those actions shall be considered in measuring the accumulated postretirement benefit obligation. Otherwise, no future changes to the plan shall be anticipated.~~

E18. FASB Statement No. 109, *Accounting for Income Taxes,* is amended as follows:

a. Paragraph 11(h), as amended by Statement 141:

Business combinations. There may be differences between the ~~assigned~~ recognized values of assets acquired and liabilities assumed in a business combination and the best estimate of the tax bases of ~~the~~ those assets and liabilities ~~recognized in a business combination~~ that will ultimately be accepted by the tax authority. Those differences will result in taxable or

deductible amounts when the reported amounts of the assets and liabilities are recovered and settled, respectively.

b. Paragraph 16:

An enterprise shall recognize a deferred tax liability or asset for all temporary differences[6] and operating loss and tax credit carryforwards in accordance with the provisions of paragraph 17. **Deferred tax expense** or **benefit** is the change during the year in an enterprise's deferred tax liabilities and assets.[7] For deferred tax liabilities and assets acquired in a ~~purchase~~ business combination during the year, it is the change since the combination date. Total income tax expense or benefit for the year is the sum of deferred tax expense or benefit and income taxes currently payable or refundable.

c. Paragraph 26:

The effect of a change in the beginning-of-the-year balance of a valuation allowance that results from a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years ordinarily shall be included in income from continuing operations. The only exceptions are the initial recognition (that is, by elimination of the valuation allowance) of certain tax benefits ~~that are allocated~~ that are recognized within one year following the acquisition date as required by paragraph 30 and tax benefits of items covered by paragraph 36 (items (c) and (e)-(g)). The effect of other changes in the balance of a valuation allowance are allocated among continuing operations and items other than continuing operations as required by paragraph 35.

d. Paragraph 30, as amended by Statement 141:

A deferred tax liability or asset shall be recognized in accordance with the requirements of this Statement for differences between the ~~assigned~~ recognized values of assets acquired and liabilities assumed in a business combination and the best estimate of the tax bases of ~~the~~ those assets and liabilities that will ultimately be accepted by the tax authority (except the portion of goodwill for which amortization is not deductible for tax purposes, unallocated excess over cost (also referred to as negative goodwill), leveraged leases, and acquired Opinion 23 differences[8]). ~~recognized in a purchase business combination~~ ~~(r~~Refer to paragraphs 259-272 for additional guidance~~)~~. A deferred tax asset shall also be recognized for an acquired entity’s operating loss or tax credit carryforwards. If a valuation allowance is recognized for the deferred tax asset for an acquired entity's deductible temporary differences or operating loss or tax credit carryforwards at the acquisition date, there is a rebuttable presumption[*] that the tax benefits for those items that are recognized within one year following the acquisition date (that is, by elimination of that valuation

allowance) shall be applied (a) first to reduce to zero any goodwill related to the acquisition and (b) second to reduce income tax expense (refer to paragraph 16). The rebuttable presumption is overcome[‡] if the recognition of the tax benefits results from a discrete event or circumstance that occurred subsequent to the acquisition date and, thus, was appropriately excluded from the acquirer's assessment in arriving at the valuation allowance at the date of acquisition. If the rebuttable presumption is overcome, the tax benefits for those items shall be reported as a reduction of income tax expense. Tax benefits that are recognized after one year following the acquisition date (that is, by elimination of that valuation allowance) shall also be reported as a reduction to income tax expense.

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[8]Acquired Opinion 23 differences are accounted for in accordance with the requirements of Opinion 23, as amended by this Statement.

[*]That rebuttable presumption would not be applicable to the effect of a change in tax law or regulation or to a change in tax status that results in a decrease in a valuation allowance. Refer to paragraphs 27 and 28.

[‡]The following is an example of how the rebuttable presumption is overcome: A natural disaster occurs subsequent to the acquisition that directly results in the acquired company (Company A) obtaining a new major cleanup contract. Company A's normal business activities are construction and demolition, and the company has not provided any natural disaster cleanup services in the past. However, Company A's equipment could be used for disaster cleanup services, and due to the equipment's availability and physical proximity to the disaster site, Company A is hired to provide those emergency cleanup services. The increase in taxable earnings from that contract clearly could not be foreseen and was not part of the acquirer's assumptions in establishing the valuation allowance at the date of acquisition. Therefore, the resulting change in the valuation allowance would decrease the income tax expense for the current period.

e. Footnote * added to paragraph 36(d) by Statement 141:

FASB Statement No. 141, *Business Combinations*, prohibiteds the use of the pooling-of-interests method for all business combinations initiated after June 30, 2001. FASB Statement No. 141 (revised 2005), *Business Combinations,* continues to prohibit use of the pooling-of-interests method.

f. Paragraph 37(a):

Tax effects of deductible temporary differences and carryforwards that existed at the date of a ~~purchase~~ business combination and for which a tax benefit is initially recognized in subsequent years in accordance with the provisions of paragraph 30

g. Paragraph 48:

An enterprise shall disclose (a) the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes and (b) any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or

other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36). In periods subsequent to a business combination, an enterprise also shall disclose the events or change in circumstances that caused a change in judgment about the realizability of deferred tax benefits (that is, by elimination of the valuation allowance) related to the acquired deductible temporary differences).

h. Paragraph 54:

For a ~~purchase~~ business combination consummated prior to the beginning of the year for which this Statement is first applied, any balance remaining as of that date for goodwill or negative goodwill shall not be adjusted to equal the amount it would be if financial statements for the year of the combination and subsequent years were restated. However, except for leveraged leases and except as provided in paragraph 55, (a) remaining balances as of the date of initially applying this Statement for assets and liabilities acquired in that combination shall be adjusted from their net-of-tax amounts to their pretax amounts and (b) any differences between those adjusted remaining balances and their tax bases are temporary differences. A deferred tax liability or asset shall be recognized for those temporary differences pursuant to the requirements of this Statement as of the beginning of the year for which this Statement is first applied.

i. Paragraph 259, as amended by Statement 141:

This Statement requires recognition of deferred tax liabilities and deferred tax assets (and related valuation allowances, if necessary) for the deferred tax consequences of differences between the ~~assigned~~ recognized values of assets acquired and liabilities assumed in a business combination and the best estimate of the tax bases of ~~the~~ those assets and liabilities that will ultimately be accepted by the tax authority~~recognized in a business combination~~. That requirement includes the recognition of tax benefits arising from tax deductible goodwill in excess of goodwill for financial reporting for both taxable and nontaxable business combinations. A deferred tax liability or asset is not recognized for a difference between the reported amount and the tax basis of goodwill or the portion thereof for which amortization is not deductible for tax purposes (paragraph 262 ~~and 263~~), unallocated "negative" goodwill, and leveraged leases (paragraphs 256–258). Acquired Opinion 23 differences are accounted for in accordance with the requirements of Opinion 23, as amended by this Statement (paragraphs 31–34).

j. Paragraph 260:

The following example illustrates recognition and measurement of a deferred tax liability and asset in a nontaxable business combination. The assumptions are as follows:

a. The enacted tax rate is 40 percent for all future years, and amortization of goodwill is not deductible for tax purposes.
b. A~~n~~ wholly owned enterprise is acquired for $20,000, and the enterprise has no leveraged leases.
c. The best estimate of the ultimate tax basis of the net assets acquired is $5,000, and the ~~assigned~~ recognized value (other than goodwill) is $12,000. Future recovery of the assets and settlement of the liabilities at their assigned values will result in $20,000 of taxable amounts and $13,000 of deductible amounts that can be offset against each other. Therefore, no valuation allowance is necessary.

The amounts recorded to account for the purchase transaction are as follows:

~~Assigned~~ Recognized value of the net assets (other than goodwill) acquired	$12,000
Deferred tax liability for $20,000 of taxable temporary differences	(8,000)
Deferred tax asset for $13,000 of deductible temporary differences	5,200
Goodwill	10,800
~~Purchase price~~ Fair value of the acquired enterprise	$20,000

k. Paragraph 261:

In a taxable business combination, the assets acquired and liabilities assumed are recognized for financial reporting purposes and the purchase price is also assigned to ~~the~~ those assets and liabilities ~~recognized~~ for tax purposes ~~as well as for financial reporting~~. However, the amounts ~~assigned to~~ recognized for particular assets and liabilities may differ for financial reporting and tax purposes. A deferred tax liability and asset are recognized for the deferred tax consequences of those temporary differences in accordance with the recognition and measurement requirements of this Statement. For example, a portion of the amount of goodwill for financial reporting may be allocated to some other asset for tax purposes, and amortization of that other asset may be deductible for tax purposes. If a valuation allowance is recognized for that deferred tax asset at the acquisition date, recognized benefits for those tax deductions after the acquisition date should be applied in accordance with paragraph 30. ~~(a) first to reduce to zero any goodwill related to that acquisition, (b) second to reduce to zero other noncurrent intangible assets related to that acquisition, and (c) third to reduce income tax expense.~~

l. Paragraph 262:

Amortization of goodwill is deductible for tax purposes in some tax jurisdictions. In those tax jurisdictions, the reported amount of goodwill and the tax basis of goodwill are each separated into two components as of the ~~combination~~ <u>acquisition</u> date for purposes of deferred tax calculations. The first component of each equals the lesser of (a) goodwill for financial reporting or (b) tax-deductible goodwill. The second component of each equals the remainder of each, that is, (1) the remainder, if any, of goodwill for financial reporting or (2) the remainder, if any, of tax-deductible goodwill. Any difference that arises between the book and tax basis of that first component of goodwill in future years is a temporary difference for which a deferred tax liability or asset is recognized based on the requirements of this Statement. ~~No deferred taxes are recognized for the second component of goodwill.~~ If that second component is an excess of tax-deductible goodwill over the reported amount of goodwill, the tax benefit for that excess is <u>a temporary difference for which a deferred tax asset is recognized based on the requirements of this Statement (refer to paragraph 263). However, if that second component is an excess of goodwill for financial reporting over the tax-deductible amount of goodwill, no deferred taxes are recognized either at the acquisition date or in future years.</u> ~~recognized when realized on the tax return, and that tax benefit is applied first to reduce to zero the goodwill related to that acquisition, second to reduce to zero other noncurrent intangible assets related to that acquisition, and third to reduce income tax expense.~~

m. Paragraph 263 is replaced by the following:

The following example illustrates accounting for the tax consequences of goodwill when tax-deductible goodwill exceeds the goodwill recorded for financial reporting at the acquisition date. The assumptions are as follows:

a. At the acquisition date, the reported amount of goodwill for financial reporting purposes is $600 before taking into consideration the tax benefit associated with goodwill and the tax basis of goodwill is $900.
b. The tax rate is 40 percent for all years.

As of the acquisition date, the goodwill for financial reporting purposes is adjusted for the tax benefit associated with goodwill by using the simultaneous equations method as follows:

The PTD is the *preliminary temporary difference* (the excess of tax goodwill over book goodwill, before taking into consideration the tax benefit associated with goodwill) and the DTA is the resulting *deferred tax asset*.

(Tax Rate / (1-Tax Rate)) × PTD = DTA

In this example, the following variables are known:

Tax Rate = 40 percent
PTD = $300 ($900 —− $600)

The unknown variable (DTA) is solved for as $200, and the goodwill for financial reporting purposes would be adjusted with the following entry:

DTA	200	
Goodwill		200

Goodwill for financial reporting would be established at the acquisition date at $400 ($600 less the $200 credit adjustment).

n. Paragraph 265(e)

Based on assessments of all evidence available at the date of the business combination in year 3 and at the end of year 3, management concludes that a valuation allowance is needed at both dates for the entire amount of the deferred tax asset related to the acquired deductible temporary differences.

The acquired enterprise's pretax financial income and taxable income for year 3 (after the business combination) and year 4 are as follows:

	Year 3	**Year 4**
Pretax financial income	$ 15,000	$10,000
Reversals of acquired deductible temporary differences	(15,000)	(10,000)
Taxable income	$ —	$ —

At the end of year 4, the remaining balance of acquired deductible temporary differences is $15,000 ($40,000 − $25,000). The deferred tax asset is $6,000 ($15,000 at 40 percent). Based on an assessment of all available evidence at the end of year 4, management concludes that no valuation allowance is needed for that $6,000 deferred tax asset. Elimination of the $6,000 valuation allowance results in a $6,000 deferred tax benefit that is reported as a reduction of deferred income tax expense because <u>the reversal of the valuation allowance occurred in year 3, which was after the 1 year period (as described in</u>

paragraph 30)~~there is no goodwill or other noncurrent intangible assets related to the acquisition~~. ~~For the same reason, t~~ Tax benefits realized in years 3 and 4 attributable to reversals of acquired deductible temporary differences are reported as a zero current income tax expense. The consolidated statement of earnings would include the following amounts attributable to the acquired enterprise for year 3 (after the business combination) and year 4:

	Year 3	Year 4
Pretax financial income	$ 15,000	$10,000
Income tax expense (benefit):		
Current		
Deferred	—	(6,000)
Net income	$ 15,000	$ 16,000

o. Paragraphs 268 and 269 are deleted.

p. The footnote added by Statement 141 at the end of the first sentence of paragraph 270:

*Statement 141 prohibiteds the use of the pooling-of-interests method for all business combinations initiated after June 30, 2001. Statement 141(R) continues to prohibit the use of the pooling-of-interests method.

E19. FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* is amended as follows:

a. The following footnote * is added at the end of paragraph 22:

*An entity that is accounting for reserve guarantees provided by a selling enterprise in a business combination should not apply paragraphs 22–24 of this Statement. Those guarantees are no different from other guarantees of the existence of assets or the adequacy of liabilities often provided by a seller in a business combination. Thus, the accounting for reserve guarantees provided by a selling enterprise in a business combination would follow the provisions of FASB Statement No. 141 (revised 2005), *Business Combinations*.

E20. FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* is amended as follows:

a. Paragraph 11:

Notwithstanding the conditions of paragraphs 6–10, the reporting entity shall not consider the following contracts to be derivative instruments for purposes of this Statement:

a. Contracts issued or held by that reporting entity that are both (1) indexed to its own stock and (2) classified in stockholders' equity in its statement of financial position
b. Contracts issued by the entity in connection with stock-based compensation arrangements addressed in FASB Statement No. 123, *Accounting for Stock-Based Compensation*
c. Contracts between an acquirer and a seller in a business combination to buy or sell a business at a future date ~~Contracts issued by the entity as contingent consideration from a business combination. The accounting for contingent consideration issued in a business combination is addressed in FASB Statement No. 141, *Business Combinations*. In applying this paragraph, the issuer is considered to be the entity that is accounting for the combination using the purchase method.~~
d. Forward contracts that require settlement by the reporting entity's delivery of cash in exchange for the acquisition of a fixed number of its equity shares (forward purchase contracts for the reporting entity's shares that require physical settlement) that are accounted for under paragraphs 21 and 22 of FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.*

E21. FASB Statement No. 142, *Goodwill and Other Intangible Assets,* is amended as follows:

a. Paragraph 1 and its related footnote 1:

This Statement addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. FASB Statement No. 141 (revised 2005), *Business Combinations,* ~~FASB Statement No. 141, *Business Combinations,*~~ addresses financial accounting and reporting for goodwill

and other intangible assets acquired in a business combination at acquisition.~~[1]~~

~~[1] Statement 141 was issued concurrently with this Statement and addresses financial accounting and reporting for business combinations. It supersedes APB Opinion No. 16, *Business Combinations*, and FASB Statement No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises*.~~

b. Paragraph 9 and its related footnotes 6, 7, and 8:

An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially recognized and measured based on its **fair value.** Both paragraph 18 of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and paragraph 21 of Statement 141(R), note that, in general, cost (initial measure of an item acquired) should be measured based on the fair value of the consideration given or the fair value of the business acquired, whichever is more clearly evident.~~General concepts related to the initial measurement of assets acquired in exchange transactions, including intangible assets, are provided in paragraphs 5–7 of Statement 141.~~[6] The cost of a group of assets acquired in a transaction other than a business combination shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to goodwill.[7] Intangible assets acquired in a business combination are initially recognized and measured in accordance with Statement 141R, ~~Statement 141~~. ~~[8]~~ Intangible assets acquired in a business combination that are to be used in a particular research and development project shall be recognized as intangible assets and accounted for under this Statement. However, research and development expenditures related to those assets incurred internally subsequent to the date of acquisition shall not be capitalized. Statement 2 continues to apply to research and development expenditures that have no alternative future use and are acquired in an asset purchase (instead of a business combination). Statement 2 requires that those research and development expenditures be charged to expense at the acquisition date. Neither this Statement nor Statement 141(R) changes that requirement.

[6] General concepts related to the initial measurement of assets acquired in exchange transactions, including intangible assets, are provided in paragraphs A5–A8 of Statement 141(R). ~~Although those paragraphs refer to determining the cost of the assets acquired, both paragraph 6 of Statement 141 and paragraph 18 of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, note that, in general, cost should be measured based on the fair value of the consideration given or the fair value of the net assets acquired, whichever is more reliably measurable.~~

[7] Statement 141(R), ~~Statement 141~~ requires intangible assets acquired in a business combination that do not meet certain criteria to be included in the amount initially

recognized as goodwill. Those recognition criteria do not apply to intangible assets acquired in transactions other than business combinations.

~~[8] Statement 2 and Interpretation 4 require amounts assigned to acquired intangible assets that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date. Statement 141 does not change that requirement, nor does this Statement.~~

c. Paragraph 11(b):

The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate ~~(such as mineral rights to depleting assets)~~.

d. Footnote 11 to paragraph 12:

~~However, both~~ Statement 2 ~~and Interpretation 4~~ requires amounts assigned to ~~acquired~~ intangible assets acquired in an asset purchase that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date.

e. Paragraph 16:

If an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its useful life is determined to be no longer indefinite. An entity shall evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset shall be tested for impairment in accordance with paragraph 17. That intangible asset shall then be amortized prospectively over its estimated remaining useful life and accounted for in the same manner as other intangible assets that are subject to amortization. Acquired in-process research and development (IPR&D) assets that are recognized as intangible assets as part of a business combination shall be considered *indefinite-lived* until the completion or abandonment of the associated research and development efforts, at which point the acquiring entity would make a separate determination of the useful life of that asset. Accordingly, during the in-process period, acquired IPR&D assets shall not be amortized but shall be tested for impairment in accordance with paragraph 17.

f. Paragraph 21 and its related footnote 14:

The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, an entity shall assign ~~allocate~~ the fair value of a

reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination ~~and the fair value of the reporting unit was the price paid to acquire the reporting unit~~.[14] The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. That ~~allocation~~ process of assignment shall be performed only for purposes of testing goodwill for impairment; an entity shall not write up or write down a recognized asset or liability, nor should it recognize a previously unrecognized intangible asset as a result of that allocation process.

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[14]The relevant guidance in paragraphs 32–35 of Statement 141(R) ~~paragraphs 35–38 of Statement 141~~ shall be used in determining how to assign~~allocate~~ the fair value of a reporting unit to the assets and liabilities of that unit. ~~Included in that allocation would be research and development assets that meet the criteria in paragraph 32 of this Statement, even if Statement 2 or Interpretation 4 would require those assets to be written off to earnings when acquired~~. However, no portion of the fair value of the reporting unit shall be assigned to an asset or liability that would be recognizable separate from goodwill had the business combination been accounted for under Statement 141(R) if that asset or liability (a) relates to a business combination that was completed before implementation of Statement 141(R) and (b) had not been recognized separately from goodwill under provisions that existed before Statement 141(R). For example, in performing the second step of a goodwill impairment test, an entity shall not assign any fair value to an asset for a contingent gain if the contingent gain had not been separately recognized, and arose from a business combination completed before the implementation of Statement 141(R), even though that asset would be recognized separate from goodwill under the recognition requirements of Statement 141(R). Additionally, a portion of the fair value of the reporting unit shall be assigned to an asset or liability that was not recognizable separate from goodwill had the business combination been accounted for under Statement 141(R) if that asset or liability (1) relates to a business combination that was completed before implementation of Statement 141(R) and (2) was recognized separately from goodwill under provisions that existed before Statement 141(R).

g. Footnote 18 to paragraph 30:

Statement 141(R) ~~Emerging Issues Task Force Issue No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business,"~~ includes guidance on determining whether an asset group constitutes a business.

h. Paragraph 33:

Some assets or liabilities may be employed in or relate to the operations of multiple reporting units. The methodology used to determine the amount of those assets or liabilities to assign to a reporting unit shall be reasonable and supportable and shall be applied in a consistent manner. For example, assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, could be assigned~~allocated~~ according to the benefit received by the different reporting units (or based on the relative fair

values of the different reporting units). In the case of pension items, for example, a pro rata assignment~~allocation~~ based on payroll expense might be used. For use in making those assignments, the basis for and method of determining the purchase price of an acquired entity and other related factors (such as the underlying reasons for the acquisition and management's expectations related to dilution, synergies, and other financial measurements) shall be documented at the date of acquisition.

i. Paragraph 34:

For the purpose of testing goodwill for impairment, *all* goodwill acquired in a business combination shall be assigned to one or more reporting units as of the acquisition date. Goodwill shall be assigned to reporting units of the acquiring entity that are expected to benefit from the synergies of the combination even though other assets or liabilities of the acquired entity may not be assigned to that reporting unit. The total amount of acquired goodwill may be divided among a number of reporting units. The methodology used to determine the amount of goodwill to assign to a reporting unit shall be reasonable and supportable and shall be applied in a consistent manner. In addition, that methodology shall be consistent with the objectives of the process of assigning goodwill to reporting units described in paragraph 35. In an acquisition of a less than 100 percent controlling interest in the acquired entity, the amount of goodwill assigned to the noncontrolling interest shall only be assigned to the reporting unit or units in which the noncontrolling interest has an ownership interest. (A noncontrolling interest is sometimes referred to as a minority interest.).

j. Paragraph 35, as amended by FASB Statement No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*:

In concept, the amount of goodwill assigned to a reporting unit would be determined in a manner similar to how the amount of goodwill recognized in a business combination is determined. An entity would determine the fair value of the acquired business ~~(or portion thereof)~~ to be included in a reporting unit~~—in essence a "purchase price" for that business~~. The entity would then assign the fair value of the business acquired ~~allocate that purchase price~~ to the individual assets acquired and liabilities assumed related to that acquired business ~~(or portion thereof)~~.[21] Any excess of the fair value of the business acquired over the fair value of its identifiable net assets ~~purchase price~~ is the amount of goodwill assigned to that reporting unit. However, if goodwill is to be assigned to a reporting unit that has not been assigned any of the assets acquired or liabilities assumed in that acquisition, the amount of goodwill to be assigned to that unit might be determined by applying a "with and without" computation. That is, the difference between the fair value of that reporting unit before the acquisition

and its fair value after the acquisition represents the amount of goodwill to be assigned to that reporting unit.*

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[21]Paragraphs 32–35 of Statement 141(R) ~~Paragraphs 35–38 of Statement 141~~ provide guidance on assigning the fair value of the acquired business ~~allocating the purchase price~~ to the assets acquired and liabilities assumed in a business combination.
*Paragraph 48 of Statement 141(R) provides guidance for assigning goodwill to the controlling and noncontrolling interests in an acquisition of a less than 100 percent controlling interest in a subsidiary.

k. Paragraph 38, which provides guidance for goodwill impairment testing when a noncontrolling interest exists, is replaced by:

If an entity has one or more subsidiaries with an outstanding noncontrolling interest, goodwill impairment losses shall be assigned to the controlling and noncontrolling interests on a pro rata basis using the relative carrying values of goodwill. As described in paragraph 48 of Statement 141(R), in an acquisition that results in less than a 100 percent controlling interest in the acquired entity, the amount of goodwill determined in accordance with paragraph 47 of that Statement shall be assigned to the controlling and noncontrolling interests. Paragraph 48 of that Statement describes how the initial assignment shall be done. Goodwill impairment losses shall be assigned first to the components of the reporting unit if the partially owned subsidiary is part of a larger reporting unit, and then to the controlling and noncontrolling interests of the partially owned subsidiary. For example, if the partially owned subsidiary is part of a reporting unit, the portion of the impairment loss assigned to that subsidiary would be determined by multiplying the goodwill impairment loss by the proportion of the carrying value of the goodwill assigned related to that partially owned subsidiary over the carrying value of the goodwill assigned to the reporting unit as a whole. The amount of the impairment loss allocated to the partially owned subsidiary would then be allocated to the controlling and noncontrolling interests pro rata based on the relative carrying values of goodwill allocated to those interests. If the partially owned subsidiary incurs a goodwill impairment loss and is itself a reporting unit, then the impairment loss is only allocated to the controlling and noncontrolling interests based on the relative carrying values of goodwill allocated to them.

l. Paragraph 48(c) and its related footnote 24:

This Statement shall not be applied to previously recognized goodwill and intangible assets ~~acquired in a combination between two or more mutual enterprises,~~ acquired in a combination between not-for-profit organizations~~,~~ or arising from the acquisition of a for-profit business entity by a not-for-profit organization ~~until interpretive guidance related to the application of the purchase method to those transactions is issued~~ (refer to paragraph 52).[24]

[24]The Board is considering issues related to application of the acquisition method to combinations between not-for-profit organizations, and the acquisition of a for-profit business entity by a not-for-profit organization in a separate project.
~~The Board plans to consider issues related to the application of the purchase method to combinations between two or more mutual enterprises, combinations between not-for-profit organizations, and the acquisition of a for-profit business entity by a not-for-profit organization in a separate project.~~

m. The following subparagraph is added to the end of paragraph 48:

d. For combinations between two or more mutual enterprises, all of the provisions of this Statement shall be applied in fiscal years beginning after December 15, 2005, to goodwill and all other intangible assets recognized in an entity's statement of financial position at the beginning of that fiscal year, regardless of when those previously recognized assets were initially recognized. Early application is encouraged in financial statements that have not been previously issued; however, if adopted earlier, the provisions of this Statement shall be adopted concurrent with the adoption of Statement 141(R) and FASB Statement No. 1XX, *Consolidated Financial Statements*. In all cases, the provisions of this Statement shall be initially applied at the beginning of a fiscal year. Retroactive application is not permitted.

n. Paragraph 49, as amended by FASB Statement No. 147, *Acquisitions of Certain Financial Institutions*:

Paragraph 61 of Statement 141 included~~s~~ the following transition provisions related to goodwill and intangible assets acquired in business combinations for which the acquisition date was before July 1, 2001, that were accounted for by the purchase method.

a. The carrying amount of acquired intangible assets that did ~~do~~ not meet the criteria in paragraph 39 of Statement 141 for recognition apart from goodwill (and any related deferred tax liabilities if the intangible asset amortization is not deductible for tax purposes) shall be reclassified as goodwill as of the date this Statement is initially applied in its entirety.
b. The carrying amount of (1) any recognized intangible assets that ~~meet~~ met the recognition criteria in paragraph 39 of Statement 141 or (2) any unidentifiable intangible assets recognized in accordance with paragraph 5 of Statement 72 and required to be amortized ~~in accordance with paragraph 8 of FASB Statement No. 147, *Acquisitions of Certain Financial Institutions*,~~ that have been included in the amount reported as goodwill (or as goodwill and intangible assets) shall be reclassified and accounted for as an asset apart from goodwill as of the date this Statement is initially applied in its entirety.[25]

Paragraph 63 of Statement 141(R) requires similar transition provisions for combinations between mutual enterprises for fiscal years beginning after December 15, 2005.[*]

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[25]For example, when a business combination was initially recorded, a portion of the acquired entity was assigned to intangible assets that meet the recognition criteria in paragraph 39 of Statement 141. Those intangible assets have been included in the amount reported on the statement of financial position as goodwill (or as goodwill and other intangible assets). However, separate general ledger or other accounting records have been maintained for those assets.

[*]Combinations between two or more mutual enterprises were included in the scope of Statement 141. However, paragraph 60 of that Statement delayed the effective date for those combinations. Combinations between two or more mutual enterprises will no longer have a delayed effective date upon the adoption of Statement 141(R).

o. Paragraph 52:

Goodwill and intangible assets ~~acquired in a combination between two or more mutual enterprises,~~ acquired in a combination between not-for-profit organizations~~,~~ or arising from the acquisition of a for-profit business entity by a not-for-profit organization for which the acquisition date is after June 30, 2001, shall continue to be accounted for in accordance with Opinion 17 until the Board's project on accounting for business combinations between not-for-profit entities is completed (refer to footnote 24). In combinations between two or more mutual enterprises, goodwill acquired in a business combination following the adoption of this Statement shall not be amortized. Additionally, for mutual enterprises, intangible assets other than goodwill acquired in a business combination or otherwise following the adoption of this Statement, shall be accounted for in accordance with paragraphs 11–14 of this Statement.

p. Paragraph 53:

To apply this Statement to intangible assets acquired in a transaction for which the acquisition date is on or before June 30, 2001 (and following the adoption of this Statement for combinations between two or more mutual enterprises), the useful lives of those previously recognized intangible assets shall be reassessed using the guidance in paragraph 11 and the remaining amortization periods adjusted accordingly.[26] That reassessment shall be completed prior to the end of the first interim period of the fiscal year in which this Statement is initially applied. Previously recognized intangible assets deemed to have indefinite useful lives shall be tested for impairment as of the beginning of the fiscal year in which this Statement is initially applied (in accordance with paragraph 17). That transitional intangible asset impairment test shall be completed in the first interim period in which this

Statement is initially applied, and any resulting impairment loss shall be recognized as the effect of a change in accounting principle. The effect of the accounting change and related income tax effects shall be presented in the income statement between the captions *extraordinary items* and *net income*. The per-share information presented in the income statement shall include the per-share effect of the accounting change.

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[26] For example, the amortization period for a previously recognized intangible asset might be increased if its original useful life was estimated to be longer than the 40-year maximum amortization period allowed by Opinion 17.

q. The definition of goodwill in paragraph F1 (the glossary) is replaced by the following:

The excess of the fair value of the business acquired over the net amount of the fair values of the recognized identifiable assets acquired and liabilities assumed. The amount recognized as goodwill includes acquired intangible assets that do not meet the criteria in paragraph 43 of Statement 141(R) for recognition as assets apart from goodwill. In those rare circumstances in which the business combination is not an exchange of equal values (for example, a forced sale in which a seller is acting under compulsion) and the fair value of the acquiring entity's interest in the business acquired exceeds the consideration exchanged for that interest, the amount of goodwill that otherwise would be recognized (under paragraph 48 of Statement 141(R)) would be reduced, in whole or part.

E22. FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* is amended as follows:

a. The table in paragraph D1, as amended by Statement 147:

		Apply Requirement in This Statement
FASB Statement No. 141(R) ~~147~~	*Business Combinations* ~~*Acquisition of Certain Financial Institutions*~~	
	• Depositor- and borrower-relationship intangible assets	X
	• Credit cardholder intangible assets	X

b. Paragraph 5 (as amended by Statements 145 and 147):

> This Statement does not apply to (a) goodwill, (b) intangible assets not being amortized that are to be held and used, (c) servicing assets, (d) financial instruments, including investments in equity securities accounted for under the cost or equity method, (e) deferred policy acquisition costs and intangible assets recognized for acquired insurance contracts under the requirements of Statement 141(R), (f) deferred tax assets, and (g) unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting. This Statement also does not apply to long-lived assets for which the accounting is prescribed by:
> FASB Statement No. 50, *Financial Reporting in the Record and Music Industry*
> FASB Statement No. 63, *Financial Reporting by Broadcasters*
> FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*
> FASB Statement No. 90, *Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs*.

E23. FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* is amended as follows:

a. Footnote 2 to paragraph 2:

> FASB Statement No. 141 (revised 2005), *Business Combinations*, provides guidance on the accounting for costs associated with an exit activity that involves a company newly acquired in a business combination. ~~EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," provides guidance on the accounting for costs associated with an exit activity that involves a company newly acquired in a business combination. The Board is reconsidering that guidance in its project on business combinations—purchase method procedures~~.

E24. FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* is amended as follows:

a. Paragraph 16:

> This Statement does not affect the timing of recognition of financial instruments issued as contingent consideration in a business combination. The recognition and measurement of contingent consideration issued in a business combination ~~accounting for business combinations~~ is addressed in

paragraphs 30 and 31 of FASB Statement No. 141 (revised 2005), *Business Combinations*.~~[9]~~ ~~This Statement also does not alter the measurement guidance for contingent consideration set forth in paragraphs 25–36 of Statement 141.~~However, when recognized, a financial instrument within the scope of this Statement that is issued as consideration (whether contingent or noncontingent) in a business combination shall be classified pursuant to the requirements of this Statement.

~~[9] The Board currently is addressing the accounting for contingent consideration issued in a business combination in its project on purchase method procedures.~~

E25. FASB Interpretation No. 21, *Accounting for Leases in a Business Combination*, is amended as follows:

a. Paragraph 15, as amended by Statement 141:

In a business combination, the acquiring enterprise shall retain the previous classification in accordance with *FASB Statement No. 13* for the leases of an acquired enterprise unless the provisions of the lease are modified as indicated in paragraph 13 above.[2] The amounts assigned to individual assets acquired and liabilities assumed at the date of the combination shall be determined in accordance with the general guides for that type of asset or liability in paragraphs 32–35 of FASB Statement No. 141 (revised 2005), *Business Combinations*~~paragraphs 36–39 of FASB Statement No. 141, *Business Combinations*~~. Subsequent to the recording of the amounts called for by Statement 141(R)~~Statement 141~~, the leases shall thereafter be accounted for in accordance with Statement No. 13.[3] Paragraph 16 below explains the application of this paragraph to a leveraged lease by an enterprise that acquires a lessor.

b. Paragraph 16, as amended by Statement 141:

In a business combination, the acquiring enterprise shall apply the following procedures to the acquired enterprise's investment as a lessor in a leveraged lease. The acquiring enterprise shall retain the classification of a leveraged lease at the date of the combination. The acquiring enterprise shall assign an amount to the acquired net investment in the leveraged lease in accordance with the general guides in paragraphs 32–35 of Statement 141(R) ~~paragraphs 37 and 38 of Statement 141~~, based on the remaining future cash flows and giving appropriate recognition to the estimated future tax effects of those cash flows. Once determined, that net investment shall be broken down into its component parts, namely, net rentals receivable, estimated residual value, and unearned income including discount to adjust other components to present value. The acquiring enterprise thereafter shall account for that investment in a leveraged lease in accordance with the

provisions of *FASB Statement No. 13.* Appendix A illustrates the application of this paragraph.

c. Paragraph 17:

When an enterprise that has acquired another enterprise in a business combination accounted for by the purchase method prior to the effective date of this Interpretation applies the provisions of *FASB Statement No. 13* retroactively, leases acquired in the business combination shall be classified as they would have been classified if the acquired enterprise had applied Statement No. 13 retroactively at the date of the business combination. The amounts retroactively recorded for those leases shall be the amounts that would have been allocated under *APB Opinion No. 16* by the acquiring enterprise at the acquisition~~purchase~~ date if the leases had been classified in accordance with the provisions of Statement No. 13 at that date. The following examples illustrate the application of this paragraph:

d. Footnote 4 to paragraph 18, as amended by Statement 141:

~~See paragraph 59 of Statement 141 for the definition of "initiated".~~

E26. Paragraphs 81 and 82 of FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation*, are deleted. Those paragraphs address the accounting consequence for changes to the exercise price or the number of shares as a result of an exchange of fixed stock option awards in a business combination accounted for as a pooling of interests.[54]

[54] In March 2004, the Board issued an Exposure Draft of the proposed Statement, *Share-Based Payment*, which indicates that it proposes to supersede Interpretation 44. Based on current plans, that Statement is expected to supersede Interpretation 44 prior to the finalization of this proposed Statement and, thus, obviate the need for this amendment.

E27. FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* is amended as follows:

a. Paragraph 7(c):

> A guarantee issued in a business combination that represents contingent consideration (as addressed in FASB Statement No. 141 (revised 2005), *Business Combinations* ~~FASB Statement No. 141, Business Combinations~~).

E28. FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities,* is amended as follows:

a. Paragraph 4(h):

> An entity that is deemed to be a business under the definition in FASB Statement No. 141 (revised 2005) ~~Appendix C~~ need not be evaluated by a reporting enterprise to determine if the entity is a variable interest entity under the requirements of this Interpretation unless one or more of the following conditions exist (however, for entities that are excluded by this provision of this Interpretation, other generally accepted accounting principles should be applied):[2]
>
> (1) The reporting enterprise, its related parties,[3] or both participated significantly in the design or redesign of the entity. However, this condition does not apply if the entity is an operating joint venture under joint control of the reporting enterprise and one or more independent parties or a franchisee.[4]
> (2) The entity is designed so that substantially all of its activities either involve or are conducted on behalf of the reporting enterprise and its related parties.
> (3) The reporting enterprise and its related parties provide more than half of the total of the equity, subordinated debt, and other forms of subordinated financial support to the entity based on an analysis of the fair values of the interests in the entity.
> (4) The activities of the entity are primarily related to securitizations or other forms of asset-backed financings or single-lessee leasing arrangements (footnote references omitted).

b. Paragraphs 18–21 and footnote 16, which provide initial measurement guidance for the initial consolidation of a variable interest entity, are replaced by the following:

18. If the primary beneficiary of a variable interest entity is under common control with the variable interest entity, the primary beneficiary shall initially measure the assets, liabilities, and *noncontrolling interests*[16] of the variable interest entity at the amounts at which they are carried in the accounts of the enterprise that controls the variable interest entity (or would be carried if the enterprise issued financial statements prepared in conformity with generally accepted accounting principles).

19. Paragraphs 20–21 provide guidance if the primary beneficiary and variable interest entity are not under common control.

20. The initial consolidation of a variable interest entity that is a *business*[16a] is a business combination and shall be accounted for in accordance with the provisions of Statement 141 (revised 2005), *Business Combinations*.

21. If an entity becomes the primary beneficiary of a variable interest entity that is *not* a business:

(a) The primary beneficiary initially shall measure and recognize the assets (except for goodwill), and liabilities of the variable interest entity in accordance with paragraphs 31–47 of Statement 141 (revised 2005). However, the primary beneficiary shall initially measure assets and liabilities that it has transferred to that variable interest entity at, after, or shortly before the date that the entity became the primary beneficiary at the same amounts at which the assets and liabilities would have been measured if they had not been transferred. No gain or loss shall be recognized because of such transfers.

(b) The difference between (i) the fair value of consideration paid, if any, and the reported amount of previously held interests and (ii) the net amount of the variable interest entity's recognized assets, liabilities, and noncontrolling interests, shall be recognized as a gain or loss. No goodwill shall be recognized if the variable interest entity is not a business.

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[16] The term *noncontrolling interests* is used in this Interpretation with the same meaning as in Statement 1XX. That Statement defines a noncontrolling interest as

"the portion of the equity (residual interest) in a subsidiary attributable to the owners of the subsidiary other than the parent and the parent's affiliates."

[16a] Statement 141 (revised 2005) provides guidance on determining whether an entity is a business.

c. Paragraph 23:

The primary beneficiary of a variable interest entity shall make the following disclosures:

a. The primary beneficiary of a variable interest entity that is a business shall provide the disclosures required by Statement 141 (revised 2005).

b. The primary beneficiary shall disclose the amount of gain or loss recognized on the initial consolidation of a variable interest entity that is not a business.

c. In addition to disclosures required by other standards, the primary beneficiary of a variable interest entity shall disclose the following (unless the primary beneficiary also holds a majority voting interest):[17]

~~a~~i. The nature, purpose, size, and activities of the variable interest entity

~~b~~ii. The carrying amount and classification of consolidated assets that are collateral for the variable interest entity's obligations

~~c~~iii. Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary.

d. Appendix C, which provides a definition of a business, is deleted.

E29. FASB Technical Bulletin No. 84-1, *Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement,* is amended as follows:

a. Paragraph 6, as amended by Statement 141:

When an enterprise that is or was a party to a research and development arrangement acquires the results of the research and development arrangement in exchange for cash, common stock of the enterprise, or other consideration, the transaction is a purchase of tangible or intangible assets resulting from the activities of the research and development arrangement. Although such a transaction is not a business combination, paragraphs BXX–BXX of FASB Statement No. 141 (revised 2005), *Business Combinations,* ~~paragraphs 4–6 of FASB Statement No. 141, *Business*~~

~~*Combinations*~~ describes the general principles that apply in recording the purchase of such an asset.

AMENDMENTS MADE BY STATEMENTS 141 AND 147 CARRIED FORWARD INTO THIS STATEMENT

E30. This Statement supersedes the following pronouncements:

a. APB Opinion No. 16, *Business Combinations*
b. All of the AICPA Accounting Interpretations of Opinion 16
c. FASB Statement No. 10, *Extension of "Grandfather" Provisions for Business Combinations*
d. FASB Statement No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises*
e. FASB Statement No. 79, *Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises*.

E31. APB Opinion No. 20, *Accounting Changes*, is amended as follows:

a. Paragraph 12:

One special type of change in accounting principle results in financial statements which, in effect, are those of a different reporting entity. This type is limited mainly to (a) presenting consolidated or combined statements in place of statements of individual companies, (b) changing specific subsidiaries comprising the group of companies for which consolidated financial statements are presented, and (c) changing the companies included in combined financial statements. A different group of companies comprise the reporting entity after each change. ~~A business combination accounted for by the pooling of interests method also results in a different reporting entity.~~

E32. APB Opinion No. 28, *Interim Financial Reporting*, is amended as follows:

a. Paragraph 21:

Extraordinary items should be disclosed separately and included in the determination of net income for the interim period in which they occur. In determining materiality, extraordinary items should be related to the estimated income for the full fiscal year. Effects of disposals of a component of an entity and unusual and infrequently occurring transactions and events that are material with respect to the operating results of the interim period but that are not designated as extraordinary items in the interim statements should be reported separately. In addition, matters such as unusual seasonal results, ~~business combinations treated for accounting purposes as poolings of interests and acquisition of a significant business in~~

~~a purchase~~ should be disclosed to provide information needed for a proper understanding of interim financial reports. Extraordinary items, gains or losses from disposal of a component of an entity, and unusual or infrequently occurring items should not be pro-rated over the balance of the fiscal year.

E33. APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, is amended as follows:

a. Paragraph 7:

This Opinion supersedes paragraphs 20 through 23, paragraph 29 insofar as it refers to examples of financial statements, and Exhibits A through D of APB Opinion No. 9. It also amends paragraph 13 and footnote 8 of APB Opinion No. 15, Earnings per Share, insofar as this Opinion prescribes the presentation and computation of earnings per share of continuing and discontinued operations. This Opinion does not modify or amend the conclusions of FASB Statement No. 109, *Accounting for Income Taxes*, paragraph 37, ~~or of APB Opinion No. 16, Business Combinations, paragraph 60,~~ with respect to the classification of the effects of certain events and transactions as extraordinary items. Prior APB Opinions that refer to the superseded paragraphs noted above are modified to insert a cross reference to this Opinion (footnote reference omitted).

E34. FASB Statement No. 16, *Prior Period Adjustments,* the phrase a change in accounting method permitted by paragraph 52 of APB Opinion No. 16, is amended as follows:

a. Footnote 6 to paragraph 12:

In addition to transition requirements of these pronouncements, accounting changes resulting in restatement of previously issued financial statements of prior periods include ~~a change in accounting method permitted by paragraph 52 of APB Opinion No. 16,~~ a change in the reporting entity described in paragraph 34 of APB Opinion No. 20, and special changes in accounting principle described in paragraphs 27 and 29 of APB Opinion No. 20. See also footnote 5 to APB Opinion No. 20.

E35. FASB Statement No. 45, *Accounting for Franchise Fee Revenue*, is amended as follows:

a. Paragraph 19:

> A transaction in which a franchisor acquires the business of an operating franchisee ordinarily shall be accounted for as a business combination in accordance with FASB Statement No. 141, *Business Combinations*, ~~APB Opinion No. 16, *Business Combinations*,~~ assuming no relationship existed at the time of the franchise sale to preclude revenue recognition (paragraphs 10 and 11). ~~If the transaction is accounted for as a pooling of interests, the financial statements of the two entities are retroactively combined and the original franchise sales transaction as well as any product sales shall be eliminated in the combined financial statements. If the transaction is accounted for as a purchase, the financial statements of the two entities are not retroactively combined and revenue shall not be adjusted.~~ If such a transaction is, in substance, a cancellation of an original franchise sale, the transaction shall be accounted for in accordance with paragraph 18.

E36. FASB Statement No. 87, *Employers' Accounting for Pensions,* is amended as follows:

a. The first sentence of Illustration 7—Accounting for a Business Combination—in paragraph 261:

> The following example illustrates how the liability (or asset) recognized by the acquiring firm at the date of a business combination ~~accounted for as a purchase~~ would be reduced in years subsequent to the date of the business combination.

E37. FASB Statement No. 95, *Statement of Cash Flows*, is amended as follows:

a. Paragraph 134(g):

> Company M purchased all of the capital stock of Company S for $950 in a business combination. ~~The acquisition was recorded under the purchase method of accounting.~~ The fair values of Company S's assets and liabilities at the date of acquisition are presented as follows:…

E38. FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* is amended as follows:

a. Paragraph 86:

> When an employer is acquired in a business combination ~~that is accounted for by the purchase method under Opinion 16~~ and that employer sponsors a single-employer defined benefit postretirement plan, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the accumulated postretirement benefit obligation in excess of the fair value of the plan assets or an asset for the fair value of the plan assets in excess of the accumulated postretirement benefit obligation. The accumulated postretirement benefit obligation assumed shall be measured based on the benefits attributed by the acquired entity to employee service prior to the date the business combination is consummated, adjusted to reflect (a) any changes in assumptions based on the purchaser's assessment of relevant future events (as discussed in paragraphs 23-42) and (b) the terms of the substantive plan (as discussed in paragraphs 23-28) to be provided by the purchaser to the extent they differ from the terms of the acquired entity's substantive plan.

b. Paragraph 444:

> On January 1, 1991, Company F acquires Company G ~~and accounts for the business combination as a purchase pursuant to APB Opinion No. 16, Business Combinations~~ in a business combination. Company G has a postretirement health care plan that Company F agrees to combine with its own plan. Company F assumes the accumulated postretirement benefit obligation of Company G's plan as part of the acquisition agreement. However, at the date the business combination is consummated, no liability is recognized for the postretirement benefit obligation assumed.

E39. FASB Statement No. 109, *Accounting for Income Taxes*, is amended as follows:

a. Paragraph 11(h):

> Business combinations ~~accounted for by the purchase method~~. There may be differences between the assigned values and the tax bases of the assets and liabilities recognized in a business combination ~~accounted for as a purchase under APB Opinion No. 16, *Business Combinations*~~. Those

differences will result in taxable or deductible amounts when the reported amounts of the assets and liabilities are recovered and settled, respectively.

b. Paragraph 13:

This Statement refers collectively to the types of differences illustrated by those eight examples and to the ones described in paragraph 15 as temporary differences. Temporary differences that will result in taxable amounts in future years when the related asset or liability is recovered or settled are often referred to in this Statement as taxable temporary differences (examples (a), (d), and (e) in paragraph 11 are taxable temporary differences). Likewise, temporary differences that will result in deductible amounts in future years are often referred to as deductible temporary differences (examples (b), (c), (f), and (g) in paragraph 11 are deductible temporary differences). Business combinations ~~accounted for by the purchase method~~ (example (h)) may give rise to both taxable and deductible temporary differences.

E40. FASB Statement No. 123, *Accounting for Stock-Based Compensation*, is amended as follows:

a. Paragraph 8:

Except for transactions with employees that are within the scope of Opinion 25, all transactions in which goods or services are the consideration received for the issuance of equity instruments shall be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The fair value of goods or services received from suppliers other than employees frequently is reliably measurable and therefore indicates the fair value of the equity instruments issued. The fair value of the equity instruments issued shall be used to measure the transaction if that value is more reliably measurable than the fair value of the consideration received. [6] A common example of the latter situation is the use of the fair value of tradable equity instruments issued in a ~~purchase~~ business combination to measure the transaction because the value of the equity instruments issued is more reliably measurable than the value of the business acquired.

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[6] The consideration received for issuing equity instruments, like the consideration involved in a repurchase of treasury shares, may include intangible rights. FASB Technical Bulletin No. 85-6, Accounting for a Purchase of Treasury Shares at a Price Significantly in Excess of the Current Market Price of the Shares and the Income Statement Classification of Costs Incurred in Defending against a Takeover Attempt, provides pertinent guidance.

b. Paragraph 36:

> Exchanges of options or changes to their terms in conjunction with business combinations, spinoffs, or other equity restructurings, ~~except for those made to reflect the terms of the exchange of shares in a business combination accounted for as a pooling of interests,~~ are modifications for purposes of this Statement. However, a change to the terms of an award in accordance with antidilution provisions that are designed, for example, to equalize an option's value before and after a stock split or a stock dividend is not a modification of an award for purposes of this Statement.

E41. FASB Statement No. 128, *Earnings per Share*, is amended as follows:

a. Paragraph 59:

> When common shares are issued to acquire a business in a ~~transaction accounted for as a purchase~~ business combination, the computations of earnings per share shall recognize the existence of the new shares only from the acquisition date. ~~When a business combination is accounted for as a pooling of interests, EPS computations shall be based on the aggregate of the weighted-average outstanding shares of the constituent businesses, adjusted to equivalent shares of the surviving business for all periods presented.~~ In reorganizations, EPS computations shall be based on analysis of the particular transaction and the provisions of this Statement.

E42. FASB Statement No. 142, *Goodwill and Other Intangible Assets,* is amended as follows:

a. Paragraph D11, which amended Interpretation 9, is deleted.

E43. FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* is amended as follows:

a. Paragraph 5:

> This Statement does not apply to (a) goodwill, (b) intangible assets not being amortized, (c) ~~long-term customer relationships of a financial institution, such as core deposit intangibles, credit cardholder intangibles, and servicing assets,~~ (d) financial instruments, including investments in equity securities accounted for under the cost or equity method, (e) deferred policy acquisition costs, (f) deferred tax assets, and (g) unproved oil and gas properties that are being accounted for using the successful-efforts method

of accounting. This Statement also does not apply to long-lived assets for which the accounting is prescribed by:

- FASB Statement No. 50, Financial Reporting in the Record and Music Industry
- FASB Statement No. 63, Financial Reporting by Broadcasters
- FASB Statement No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed
- FASB Statement No. 90, Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs.

b. Appendix D:

		Apply Requirement in This Statement	Apply Existing Requirement	Existing Requirement Paragraph Number
~~FASB Statement No. 72~~	~~*Accounting for Certain Acquisitions of Banking or Thrift Institutions*~~		~~X~~	~~4~~

E44. FASB Interpretation No. 21, *Accounting for Leases in a Business Combination*, is amended as follows:

a. Paragraph 13:

If in connection with a business combination~~, whether accounted for by the purchase method or by the pooling of interests method,~~ the provisions of a lease are modified in a way that would require the revised agreement to be considered a new agreement under paragraph 9 of *FASB Statement No. 13*, the new lease shall be classified by the combined enterprise according to the criteria set forth in Statement No. 13, based on conditions as of the date of the modification of the lease.

b. Paragraph 14 and the heading preceding it:

~~**Application of FASB Statement No. 13 in a Pooling of Interests**~~

~~In a business combination that is accounted for by the pooling of interests method, each lease shall retain its previous classification under *FASB Statement No. 13* unless the provisions of the lease are modified as indicated in paragraph 13 above and shall be accounted for by the combined enterprise~~

~~in the same manner that it would have been classified and accounted for by the combining enterprise.~~

c. Paragraph 19 and the heading preceding it:

Appendix A: ILLUSTRATION OF THE ACCOUNTING FOR A LEVERAGED LEASE IN A <u>BUSINESS</u> ~~PURCHASE~~ COMBINATION

This appendix illustrates one way that a lessor's investment in a leveraged lease might be valued by the acquiring enterprise in a business combination ~~accounted for by the purchase method~~ and the subsequent accounting for the investment in accordance with FASB Statement No. 13. The elements of accounting and reporting illustrated for this example are as follows:

Appendix F

IMPACT ON RELATED EITF ISSUES AND SEC AND AICPA GUIDANCE

F1. This appendix addresses the impact of this Statement on authoritative accounting guidance included in categories (a), (b), and (c) in the generally accepted accounting principles (GAAP) hierarchy discussed in AICPA Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report.* It does not address literature included in category (d) of that hierarchy.

EITF Consensuses

F2. The following table lists each issue discussed by the Emerging Issues Task Force (EITF) relating to business combinations and indicates (a) the status of the EITF consensus after issuance of this Statement (also referred to as Statement 141(R)), (b) the impact of this Statement on that consensus (if any), (c) or the reasons that the specific issues are beyond the scope of this Statement. The status sections of the *EITF Abstracts* were updated accordingly upon issuance of this Statement.

Status Legend	
Nullified—incorporated	Guidance provided by the consensus is consistent with provisions in this Statement
Nullified—unnecessary	Guidance provided by consensus is changed or deemed unnecessary upon adoption of this Statement
Resolved	Issue is addressed by this Statement (EITF consensus never reached)
Not Applicable (N/A)	Guidance is outside the scope of this Statement

EITF Issue No.	Title	Status	Commentary	Status Section Update
84-35	Business Combinations: Sale of Duplicate Facilities and Accrual of Liabilities	Resolved	This Issue discusses whether the costs associated with closing a duplicate facility owned by the acquiree after the business combination should result in an adjustment of the	Statement 141(R) was issued in XX, 2005. Statement 141(R) resolves this Issue because it provides guidance on which liabilities should be included as part of the business combination accounting. Under Statement 141(R), costs expected to be

			purchase price and what types of liabilities should be accrued in a business combination. The Task Force did not reach a consensus on either of those issues.	incurred by the acquiring entity pursuant to a plan to (1) exit an activity of an acquired entity, (2) involuntarily terminate employees of an acquired entity, or (3) relocate employees of an acquired entity should not be recognized as liabilities by the acquiring entity as part of the business combination accounting because they do not meet the definition of liabilities at the acquisition date. However, if the acquired entity previously recorded a liability for such costs under U.S. GAAP and that liability will be assumed by the acquirer, that liability will be recorded by the acquirer under Statement 141(R) as an assumed liability at the acquisition date.
84-39	Transfers of Monetary and Nonmonetary Assets among Individuals and Entities under Common Control	Resolved	The Issue addresses whether the corporation should record the transferred asset at fair value or its historical cost to the individual when an asset is transferred from an individual to a corporation controlled by that individual. The Task Force did not reach a consensus on this Issue.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not change the accounting for transfers of net assets or exchanges of equity interests between entities under common control. However, paragraph D6 [not included in this summary] of Statement 141(R), which carries forward guidance from [paragraph D12 of] Statement 141, requires transfers of assets between entities under common control to be recorded at their carrying amounts. Therefore, Statement 141(R) resolves this issue.

85-8	Amortization of Thrift Intangibles	Nullified—Unnecessary	This Issue addresses whether unidentifiable intangible assets acquired (goodwill) should be amortized in accordance with Statement 72 or Opinion 17. The Task Force reached a consensus that goodwill should be amortized in accordance with paragraph 5 of Statement 72.	Statement 141(R) was issued in XX, 2005. Statement 141(R) supersedes Statement 72 and, therefore, nullifies this consensus.
85-21	Changes of Ownership Resulting in a New Basis of Accounting	N/A (Status Update)	These issues are (1) what level of ownership change in a company results in a new basis of accounting, (2) how would the new basis be reported, and (3) at what amount would the minority interest be reported. The Task Force did not reach a consensus on these issues.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not address new basis issues. Thus, this Issue is outside the scope of Statement 141(R).
85-41	Accounting for Savings and Loan Associations under FSLIC Management Consignment Program	N/A (Status Update)	This Issue concerns the appropriate basis of accounting for a newly chartered institution on the date of its creation and on an ongoing basis. The consensus in Issue 85-41 is that on the date of creation, transactions in the scope of this Issue are not business combinations but are similar transactions that warrant a revaluation of assets and liabilities consistent with a business combination.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect this consensus. However, the measurement guidance in paragraphs 37–39 of Statement 141 (which was carried forward from paragraphs 87–89 of Opinion 16) is replaced by paragraphs 32–35 of Statement 141(R).
85-42	Amortization of Goodwill Resulting from Recording Time Savings Deposits at Fair Values	Nullified—Unnecessary	This Issue addresses the appropriate period and method for amortizing Statement 72 goodwill. The Task Force reached a consensus that goodwill should be amortized in	Statement 141(R) was issued in XX, 2005. Statement 141(R) supersedes Statement 72 and, therefore, nullifies this consensus.

			accordance with paragraph 5 of Statement 72. (Statement 147 removed financial institution acquisitions from the scope of Statement 72.)	
86-14	Purchased Research and Development Projects in a Business Combination	Resolved	This Issue addresses whether in a business combination, incomplete research and development projects of the acquired company should be allocated a portion of the purchase price, and, if so, should that amount be capitalized or written off. Although the Task Force did not reach a consensus on this issue, the Task Force Chairman explained the accounting for research and development projects purchased in a business combination contained in Interpretation 4.	Statement 141(R) was issued in XX, 2005. Statement 141(R) resolves this issue because it requires that in-process research and development (IPR&D) acquired in a business combination be measured and recognized in the consolidated financial statements at fair value. Future research and development expenditures related to those acquired assets which are incurred subsequent to the date of acquisition will continue to be subject to the guidance contained in Statement 2. Subsequent to the acquisition date, acquired IPR&D assets should be considered indefinite-lived. In accordance with paragraph 16 of Statement 142, an indefinite-lived intangible asset is tested for impairment but is not amortized until its useful life is determined to be no longer indefinite.
87-21	Change of Accounting Basis in Master Limited Partnership Transactions	First Issue—N/A (Status Update) Second Issue—Nullified—Incorporated	The Task Force reached a consensus on the first issue that a new basis of accounting is not appropriate in certain circumstances. The Task Force reached a consensus on the second issue that the MLP should expense transaction costs in a roll-up.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the Task's Force's determination of which transactions warrant a new basis of accounting. Statement 141(R) was issued in XX, 2005. Statement 141(R) requires that all transaction costs in a business combination be expensed, which is consistent with the Task Force's consensus.
88-16	Basis in Leveraged Buyout Transactions	N/A (Status Update)	The Task Force concluded that LBO transactions within the scope of this Issue are not business combinations,	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not address new basis issues.

			but are similar transactions which should analogize to Opinion 16.	
88-19	FSLIC-Assisted Acquisitions of Thrifts	Issue 1—N/A (Status Update)	Issue 1 addresses how an acquirer should account for a tax-sharing arrangement with the FSLIC in which the FSLIC is entitled to share in a specified percentage of certain income tax benefits that are realized by the Thrift.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not address the accounting for income taxes which will continue to be accounted for under Statement 109. However, the status section of this Issue refers to paragraph 30 of Statement 109, which is amended by Statement 141(R).
		Issue 2—Nullified—Unnecessary	Issue 2 addresses how an acquirer should account for assistance from the FSLIC in the form of yield maintenance. The Task Force reached a consensus that relies on Statement 72.	Statement 141(R) was issued in XX, 2005. Statement 141(R) supersedes Statement 72 and requires transactions to be assessed to determine whether any portion of the consideration exchanged by the acquiring entity is for something other than the integrated set of activities and assets (liabilities) that are the business acquired.
		Issue 3—Nullified—Unnecessary	Issue 3 addresses what interest rate should be used by the acquirer to determine the fair value of assets covered by yield maintenance assistance when allocating the purchase price. The Task Force reached a consensus that there is a rebuttable presumption that the stated interest rate in the agreement should be considered a market rate for purposes of determining the fair value of the assets acquired.	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies the consensus reached by the Task Force because it requires all assets acquired and liabilities assumed to be recognized at fair value (with certain exceptions). Fair value first relies on market interest rates rather than stated rates.
89-19	Accounting for a Change in Goodwill Amortization for Business Combinations	Nullified—Unnecessary	This Issue addresses whether an enterprise can adopt the provisions of Statement 72 for goodwill that arose in a business combination that	Statement 141(R) was issued in XX, 2005. Statement 141(R) supersedes Statement 72 and, therefore, nullifies this consensus.

	Initiated Prior to the Effective Date of FASB Statement No. 72		occurred prior to the effective date of Statement 72.	
90-12	Allocating Basis to Individual Assets and Liabilities for Transactions within the Scope of Issue No. 88-16	Nullified—Unnecessary	The Issue addresses how NEWCO's investment in OLDCO should be allocated to individual assets and liabilities of OLDCO in LBO transactions within the scope of Issue 88-16 in which a portion of NEWCO's investment in OLDCO is valued at predecessor basis. The consensus in Issue 90-12 is that NEWCO's basis in OLDCO should be allocated to individual assets and liabilities in a manner similar to a step acquisition (that is, the partial purchase method).	Statement 141(R) was issued in XX, 2005. Statement 141(R) changes the accounting for step acquisitions and eliminates the "partial purchase method." Statement 141(R) requires that in a step acquisition, all assets acquired and liabilities assumed should be recorded at full fair value. When there is a change in control, there is no carryover of predecessor basis (unless the consideration exchanged includes assets, liabilities, or both that do not leave the controlled group after the acquisition.)
90-13	Accounting for Simultaneous Common Control Mergers	Issue 1—N/A (Status Update) Issue 2(b)—Nullified—Unnecessary	The Task Force reached a consensus on Issue 1 that when the transfer of a subsidiary to a target is negotiated in conjunction with a parent obtaining control of the target, the two steps (obtaining control and the transfer) cannot be separated and, therefore, should be viewed as one transaction. For Issue 2(b), the Task Force reached a consensus that, in determining the values assigned to the target's and the subsidiary's assets and liabilities and the minority interest for purposes of the parent's consolidated financial statements, the parent should step up the target's	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect this consensus. Statement 141(R) was issued in XX, 2005. Statement 141(R) addresses the accounting for business combinations in the consolidated financial statements and nullifies this consensus because it requires the assets acquired and liabilities assumed to be recognized at fair value (with limited exceptions). To the extent that the consideration exchanged in the form of assets, liabilities, or a

			assets and liabilities to the extent acquired by the parent and should step up the subsidiary's assets and liabilities to the extent the subsidiary was sold.	business does not leave the consolidated group after the acquisition, the entire gain related to the step-up is eliminated in the consolidated financial statements.
		Issue 2(c)—Nullified—Unnecessary	For Issue 2(c), the Task Force reached a consensus that the transaction should be accounted for in the target's separate financial statements as a reverse acquisition of the target by the subsidiary. In this situation, the target's separate financial statements would reflect its assets and liabilities at fair value to the extent acquired. However, the subsidiary's assets and liabilities should not be revalued.	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies this consensus because it requires the assets acquired and liabilities assumed to be recognized at fair value (with limited exceptions), not only fair value to the extent acquired. To the extent that the consideration exchanged in the form of assets, liabilities, or a business do not leave the consolidated group after the acquisition, the entire gain related to the step up is eliminated in the consolidated financial statements.
91-5	Nonmonetary Exchange of Cost-Method Investments	N/A (Status Update)	This Issue addresses how an investor that carries its investment at cost would account for that investment if the entity in which the investment is held is the acquirer in a business combination or the acquiree in a business combination. This Issue refers to the guidance in Opinion 16 for identifying the acquiring company.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the consensus reached by the Task Force.
92-9	Accounting for the Present Value of Future Profits Resulting from the Acquisition of a Life Insurance Company	N/A (Status Update)	This issue addresses the business combination and subsequent accounting for the present value of future profits (PVP), representing the present value of estimated net cash flows embedded in the existing contracts acquired. The PVP may relate to traditional life insurance contracts	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the consensus reached by the Task Force.

			covered by Statement 60 or other long-duration contracts covered by Statement 97.	
93-7	Uncertainties Related to Income Taxes in a Purchase Business Combination	N/A (Status Update)	The issues are whether Statement 38 is applicable to any income tax uncertainties that arise in a business combination and, if not, how income tax uncertainties should be accounted for under Statement 109.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the consensus reached by the Task Force that income tax uncertainties should be accounted for in accordance with Statement 109, nor does Statement 141(R) change the guidance contained in question 17 of the Special Report on Statement 109. However, this Statement amends the guidance for the subsequent recognition of deferred tax benefits acquired in a business combination in paragraph 30 of Statement 109.
95-3	Recognition of Liabilities in Connection with a Purchase Business Combination	Nullified—Unnecessary	This Issue addresses what type of direct, integration, or exit costs should be accrued as liabilities in a business combination. The consensus in Issue 95-3 is that costs expected to be incurred by the acquiring entity pursuant to its plan to (1) exit an activity of an acquired entity, (2) involuntarily terminate employees of an acquired entity, or (3) relocate employees of an acquired entity should be recognized as assumed liabilities if certain conditions are met.	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies this consensus. Under Statement 141(R), those costs expected to be incurred by the acquiring entity in (1)–(3) are not liabilities of the acquired entity, and, therefore, are not recognized as liabilities assumed by the acquiring entity when the business combination is initially recorded. However, if the acquired entity has recognized a liability for costs that continue to meet the definition of a liability (and related criteria in Statement 146) at the acquisition date, that liability will be assumed by the acquirer and will be recognized by the acquirer at its fair value at the acquisition date.
95-8	Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination	Nullified—Incorporated	This Issue addresses the criteria that should be used to determine whether contingent consideration based on earnings or other performance measures should be accounted for as an adjustment of the purchase price or as compensation. The Task	Statement 141(R) was issued in XX, 2005. Statement 141(R) incorporates this guidance and, therefore, this Issue has been nullified.

			Force reached a consensus that the determination is a matter of judgment that depends upon the relevant facts and circumstances and provided some indicators for making the determination.	
96-5	Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination	N/A (Status Update)	The issue is whether a liability for *termination benefits* and *curtailment losses under employee benefit plans* that will be triggered by the consummation of the business combination should be recognized when it is probable that the business combination will be consummated or when the business combination is consummated. The Task Force reached a consensus that those liabilities should be recognized when the business combination is consummated.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the consensus reached by the Task Force.
96-7	Accounting for Deferred Taxes on In-Process Research and Development Activities Acquired in a Purchase Business Combination	Partially Nullified—Unnecessary	The issue is whether a deferred tax liability should be recognized at the consummation date for the initial difference before the write-off of IPR&D between the amounts assigned for financial reporting purposes and its underlying tax basis. The Task Force reached a consensus that the write-off occurs prior to the measurement of deferred taxes in a business combination.	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies this consensus as it relates to IPR&D acquired in a business combination. Statement 141(R) requires that assets acquired in a business combination to be used in a particular research and development activity, including those that may have no alternative future use, be recognized and measured at the acquisition date at fair value. However, this Issue will continue to apply to IPR&D assets acquired outside a business combination.
97-2	Application of FASB Statement No. 94 and APB	Issues 2 and 4—N/A (Status	Issue 2 addresses whether there are circumstances in which a transaction	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not change the consensuses reached

	Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements	Update)	between a PPM and a physician practice in which the PPM executes a management agreement with the physician practice should be considered a business combination. Issue 4 addresses the common types of intangible assets that should be considered if the transaction is accounted for as a business combination. The Task Force reached the conclusion that Issue 2 is a business combination. The Task Force did not address Issue 4.	in Issue 2; however, entities are required to apply the requirements Statement 141(R) in accounting for a business combination.
97-8	Accounting for Contingent Consideration Issued in a Purchase Business Combination	Nullified—Unnecessary	The consensus reached in this Issue is that the security or separate financial instrument should be recorded by the issuer at fair value at the date of acquisition if the instrument is publicly traded or indexed to a security that is publicly traded.	Statement 141(R) was issued in XX, 2005. Statement 141(R) requires that *all* contingent consideration in a business combination be measured and recognized at fair value on the acquisition date.
97-15	Accounting for Contingency Arrangements Based on Security Prices in a Purchase Business Combination	Issue 1—Nullified—Unnecessary Issue 2—Nullified—Unnecessary	Issue 1 addresses how contingent consideration based on future security prices should be recorded when the arrangement guarantees a future security price that is below the price of such securities on the acquisition date. The Task Force reached a consensus that those arrangements should be recorded at fair value. Issue 2 addresses how contingent consideration based on a future security price should be recorded	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies this consensus because it requires that *all* contingent consideration in a business combination be measured and recognized at fair value on the acquisition date. Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies this consensus because it requires that *all* contingent

			when the arrangement does not result in a guarantee of the minimum value of the total consideration. The Task Force reached a consensus that the cost of the acquisition should be recorded at an amount equal to the maximum number of shares that could be issued multiplied by the fair value per share.	consideration in a business combination be measured and recognized at fair value on the acquisition date.
98-1	Valuation of Debt Assumed in a Purchase Business Combination	Nullified—Incorporated	The Issue concerns whether debt assumed in a business combination should be assigned an amount equal to its fair value or some other value determined from the present value of contractual cash flows. The Task Force reached a consensus that the amount assigned to debt assumed in a business combination should be its fair value.	Statement 141(R) was issued in XX, 2005. Statement 141(R) also requires that the amount assigned to debt assumed in a business combination be its fair value. Since Statement 141(R) incorporates this guidance, this Issue has been nullified.
98-3	Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business	Nullified—Unnecessary	This Issue provides a definition of a business that should be used to determine whether a group of net assets acquired is a business.	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies the consensus reached in Issue 98-3 and provides a new definition of a business that replaces the definition in Issue 98-3.
98-11	Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations	N/A (Status Update)	The Task Force's consensus is that subsequent accounting for an acquired valuation allowance should be in accordance with paragraph 30 of Statement 109.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the consensuses reached by the Task Force. However, Statement 141(R) amends the guidance in paragraph 30 of Statement 109.
99-12	Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in	Nullified—Unnecessary	The Task Force reached a consensus that the value of the acquirer's marketable equity securities issued to effect	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies this consensus because it requires that equity securities issued as consideration in a business

	a Purchase Business Combination		a purchase business combination should be determined based on the market price of the securities over a reasonable period of time before and after the terms of the acquisition are agreed to and announced.	combination be measured at their fair value on the acquisition date.
99-15	Accounting for Decreases in Deferred Tax Asset Valuation Allowances Established in a Purchase Business Combination As a Result of a Change in Tax Regulations	N/A (Status Update)	The Issue relates to whether the effect of a change in tax law that results in a decrease of a valuation allowance that initially was recorded in the allocation of the purchase price in a purchase business combination should be included in income from continuing operations pursuant to paragraph 27 of Statement 109 or as an adjustment to the purchase price allocation pursuant to paragraph 30. The Task Force reached a consensus that the effect of a change in tax law should be accounted for under paragraph 27.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not amend or change paragraph 27 (but amends paragraph 30). Therefore, Statement 141(R) does not affect the consensus reached in this Issue.
00-19	Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock	N/A (Status Update)	This Issue applies to security price guarantees or other financial instruments indexed to, or otherwise based on, the price of the company's stock that are issued in connection with a purchase business combination and that are accounted for as contingent consideration only if those instruments meet the criteria in Issue 97-8 for recording as part of the cost of the business acquired in a purchase business combination. This Issue addresses how freestanding contracts	Statement 141(R) was issued in XX, 2005. Consistent with the consensus, Statement 141(R) requires that contingent consideration issued in a business combination be measured at fair value and recognized at the acquisition date. Statement 141(R) does not affect classification required by this Issue. Under Statement 141(R), contingent consideration is classified in the consolidated financial statements as a liability or equity based on the relevant accounting guidance.

			that are indexed to, and potentially settled in, a company's own stock should be classified and measured by the company. The consensus reached requires all contracts to be initially measured at fair value and subsequently accounted for based on their classification.	
00-23	Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44			The proposed Statement, *Share-Based Payment*, was issued in March 2004. When finalized, that proposed Statement would to nullify this Issue.
		Issues 8, 9, 10, 11, 14, 29(a), 29(b), 44—N/A (Status Update)	Issues 8, 9, 10, 11, 14, 29(a), 29(b), 44—These Issues address certain business combination issues.	Statement 141(R) was issued in XX, 2005. Those Issues did not change as a result of Statement 141(R).
		N/A (Status Update)	In Issue 12, the Task Force concluded that the exchange of parent consideration in return for employee stock options or awards in a subsidiary's stock should be accounted for as the acquisition of minority interests if those awards were outstanding as of the date the parent first gained control of the subsidiary and had not been modified.	Statement 141(R) was issued in XX, 2005. This Statement requires that the acquisition of minority interest be accounted for as capital transactions rather than by the partial purchase method as required by Statement 141 (and Opinion 16).
		Nullified—Unnecessary	Issue 13 addresses the measurement date for stock options or awards granted as consideration in a business combination to employees of the acquiree in exchange for their outstanding awards. The Task Force reached a	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies Issue 99-12 and requires that equity securities issued as consideration in a business combination be measured at their fair value on the acquisition date. Thus, Statement 141(R) nullifies the guidance in Issue 13.

			consensus that the guidance in Issue 99-12 should be used. Issue 99-12 required using the market price of the securities over a reasonable period of time before and after the terms of the acquisition are agreed to and announced.	
		Nullified—Unnecessary	For Issue 32, The Task Force reached a consensus that a liability for employer payroll taxes associated with the future exercise of vested options should not be recognized in the purchase accounting if the event that triggers measurement and payment of the tax has not occurred by the acquisition date.	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies the consensus reached in this Issue. Statement 141(R) requires all liabilities assumed in a business combination be measured at fair value at the acquisition date (with limited exceptions). Subsequent to initial recognition, any contingent liabilities assumed that are not financial instruments are measured on a fresh-start basis.
01-2	Interpretations of APB Opinion No. 29			The proposed Statement, *Exchanges of Productive Assets*, which would amend APB 29, was issued in December 2003. When finalized, that proposed Statement would nullify this Issue.
		N/A (Status Update)	Issues 1(a) and 1(b) address issues related to business combinations. The proposed Statement on exchanges of productive assets proposes nullifying those issues.	Statement 141(R) was issued in XX, 2005. Statement 141(R) has no impact on Issue 01-2.
01-3	Accounting in a Business Combination for Deferred Revenue of an Acquiree	Issue 1—Nullified—Unnecessary	Issue 1 addresses whether deferred revenue of an acquired entity represents a liability that should be recorded in the purchase accounting and measurement of that liability. The Task Force reached a consensus that a liability related to	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies the consensuses reached in Issue 1 and requires that all assets acquired and liabilities assumed in a business combination be recognized at fair value on the acquisition date (with limited exceptions).

			deferred revenue should only be recognized if it represents a legal obligation assumed by the acquiring entity.	
02-5	Definition of "Common Control" in Relation to FASB Statement No. 141	N/A (Status Update)	This Issue addresses how to determine whether separate entities are under common control in the context of Statement 141. The Task Force did not reach a consensus on this Issue.	Statement 141(R) was issued in XX, 2005. Transfers of net assets or exchanges of equity interest between entities under common control are excluded from the scope of Statement 141(R). Guidance for such transactions previously contained in Appendix D of Statement 141 was carried forward to Statement 141(R).
02-7	Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets	N/A (Status Update)	The Issue is what unit of account should be used for purposes of testing indefinite-lived intangible assets for impairment.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the Task Force's consensus on this Issue. Statement 141(R) requires the guidance contained in this Issue be used to determine the unit of accounting for acquired intangible assets at the date of the initial recognition.
02-11	Accounting for Reverse Spinoffs	N/A (Status Update)	This Issue addresses when reverse spin-off accounting is appropriate. Footnote 1 to paragraph 4 refers to Issue 01-2 and to the definition of a business in Issue 98-3.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not impact the consensus reached in this Issue. However, Statement 141(R) nullifies Issue 98-3.
02-17	Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination	Nullified—Incorporated	This Issue addresses customer relationship intangible assets acquired in a business combination.	Statement 141(R) was issued in XX, 2005. Statement 141(R) incorporates this guidance. Thus, this Issue has been nullified.
D-33	Timing of Recognition of Tax Benefits for Pre-reorganization Temporary Differences and Carryforwards	Partially Nullified—Unnecessary	The announcement relates to the approach that should be used to determine whether recognized tax benefits are attributable to pre- or post-reorganization carryforwards.	Statement 141(R) was issued in XX, 2005. Statement 141(R) amends paragraph 30 of Statement 109 and eliminates the illustration of that paragraph, which is included in paragraph 268 of Statement 109.

D-54	Accounting by the Purchaser for a Seller's Guarantee of the Adequacy of Liabilities for Losses and Loss Adjustment Expenses of an Insurance Enterprise Acquired in a Purchase Business Combination	Nullified—Incorporated	This Issue addresses the accounting by a purchaser for reserve guarantees relating to the adequacy of liabilities existing at the acquisition date of a business combination for short-duration insurance contracts on an insurance enterprise. The FASB staff concluded that a purchaser, when accounting for such reserve guarantees, should not apply paragraphs 22–24 of Statement 113, which addresses retroactive reinsurance arrangements. Rather, they should be accounted for consistent with other guarantees in a business combination.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the conclusion reached in this Issue. Thus, the guidance in this Issue is incorporated in Statement 141(R).
D-84	Accounting for Subsequent Investments in an Investee After Suspension of Equity Method Loss Recognition When an Investor Increases Its Ownership Interest from Significant Influence to Control through a Market Purchase of Voting Securities	Nullified—Unnecessary	This Issue addresses the accounting for a step acquisition in which an investor had an investment that was accounted for under the equity method, for which the attribution of equity method losses was suspended, and then acquires an additional interest that gives that investor control of the investee. The SEC staff stated that that transaction should follow step accounting guidance.	Statement 141(R) was issued in XX, 2005. Statement 141(R) nullifies the guidance in this Issue and provides new guidance for accounting for step acquisitions, which is different than step acquisition guidance that existed when this Issue became effective.
D-87	Determination of the Measurement Date for Consideration Given by the Acquirer in a Business	Nullified—Incorporated	In this Issue, the FASB staff concluded that securities other than those issued by the acquirer that are issued as consideration in a business combination	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the FASB staff's response in this Issue. Statement 141(R) requires that the fair value of all consideration issued in a business combination be measured on the

	Combination When That Consideration Is Securities Other Than Those Issued by the Acquirer		should be measured on the date the business combination is consummated.	acquisition date.
D-100	Clarification of Paragraph 61(b) of FASB Statement No. 141 and Paragraph 49(b) of FASB Statement No. 142	N/A (Status Update)	This Issue clarifies the guidance in paragraph 61(b) of Statement 141 (and paragraph 49(b) of Statement 142) related to a transition provision that requires intangible assets that were included in goodwill to be reclassified when Statement 142 was adopted.	Statement 141(R) was issued in XX, 2005. Statement 141(R) carries forward the guidance in Statement 141 related to intangible assets without reconsideration and, therefore, does not affect the FASB staff's announcement.
D-101	Clarification of Reporting Unit Guidance in Paragraph 30 of FASB Statement No. 142	N/A (Status Update)	This Issue addresses what is meant by discrete financial information in paragraph 30 of Statement 142. This Issue refers to the definition of a business in Issue 98-3 for determining whether a component constitutes a business.	Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect the consensus reached in this Issue. However, Statement 141(R), which provides a definition of a business, nullifies Issue 98-3.
04-2	Whether Mineral Rights are Tangible Assets	First Issue—Incorporated Second Issue—N/A (Status Update)	The Task Force reached a consensus that mineral rights, as defined by this Issue, are tangible assets, and, accordingly, an entity should account for mineral rights as tangible assets. The Task Force also concluded that an entity should report the aggregate carrying amount of mineral rights as a separate component of property, plant, and equipment either on the face of the financial statements or in the notes to the financial statements.	Statement 141(R) was issued in XX, 2005. Statement 141(R) states that certain mineral rights are considered tangible assets, which is consistent with the Task Force's consensus. Statement 141(R) was issued in XX, 2005. Statement 141(R) does not affect this Issue.

F3. The following are EITF Issues that were either resolved, nullified or superseded by FASB Statement No. 141, *Business Combinations*, but were not deleted because they were still applicable to combinations between mutual enterprises. This Statement removes that delayed effective date and thus nullifies the following:

- EITF 84-22: Prior Years' Earnings per Share following a Savings and Loan Association Conversion and Pooling [Resolved]
- EITF 85-14: Securities That Can Be Acquired for Cash in a Pooling of Interests [Nullified]
- EITF 86-10: Pooling with 10 Percent Cash Payout Determined by Lottery [Nullified]
- EITF 86-31: Reporting the Tax Implications of a Pooling of a Bank and a Savings and Loan Association [Nullified]
- EITF 87-15: Effect of a Standstill Agreement on Pooling-of-Interests Accounting [Nullified]
- EITF 87-16: Whether the 90 Percent Test for a Pooling of Interests Is Applied Separately to Each Company or on a Combined Basis [Nullified]
- EITF 87-27: Poolings of Companies That Do Not Have a Controlling Class of Common Stock [Nullified]
- EITF 88-26: Controlling Preferred Stock in a Pooling of Interests [Nullified]
- EITF 88-27: Effect of Unallocated Shares in an Employee Stock Ownership Plan on Accounting for Business Combinations [Nullified]
- EITF 90-10: Accounting for a Business Combination Involving a Majority-Owned Investee of a Venture Capital Company [Resolved]
- EITF 93-2: Effect of Acquisition of Employer Shares for/by an Employee Benefit Trust on Accounting for Business Combinations [Resolved]
- EITF 95-12: Pooling of Interests with a Common Interest in a Joint Venture [Nullified]
- EITF 96-8: Accounting for a Business Combination When the Issuing Company Has Targeted Stock [Nullified]
- EITF 96-23: The Effects of Financial Instruments Indexed to, and Settled in, a Company's Own Stock on Pooling-of-Interests Accounting for a Subsequent Business Combination [Resolved]
- EITF 97-9: Effect on Pooling-of-Interests Accounting of Certain Contingently Exercisable Options or Other Equity Instruments [Nullified]
- EITF 99-6: Impact of Acceleration Provisions in Grants Made between Inititation and Consummation of a Pooling-of-Interest Business Combination [Nullified]
- EITF 99-18: Effect on Pooling-of-Interests Accounting of Contracts Indexed to a Company's Own Stock [Resolved]
- EITF D-19: Impact on Pooling-of-Interests Accounting of Treasury Shares Acquired to Satisfy Conversions in a Leveraged Preferred Stock ESOP [Nullified]
- EITF D-40: Planned Sale of Securities following a Business Combination Expected to Be Accounted for as a Pooling of Interests [Superseded]
- EITF D-59: Payment of a Termination Fee in Connection with a Subsequent Business Combination That Is Accounted for Using the Pooling-of-Interests Method [Nullified]

AICPA Guidance

F4. The following table lists guidance issued by the AICPA or its staff that the FASB staff believes may be affected by the tentative decisions made by the Board in this Statement. It is presented for informational purposes only. Decisions whether to amend AICPA or AICPA staff guidance are made by the AICPA and its staff.

AICPA Guidance	Title	Analysis
SOP 78-9	Accounting for Investments in Real Estate Ventures	This SOP addresses the accounting for differences that arise between the carrying amount of an investment in a real estate venture and the investor's equity in the underlying net assets recorded by the venture. Paragraph 27 of this SOP requires that those differences be accounted for in accordance with the provisions of Statement 141. This Statement replaces Statement 141.
SOP 90-7	Financial Reporting by Entities in Reorganization Under the Bankruptcy Code	The third bullet of paragraph 38 states "deferred taxes should be reported in conformity with generally accepted accounting principles. Benefits realized from preconfirmation net operating loss carryforwards should first reduce reorganization value in excess of amounts allocable to identifiable assets and other intangibles until exhausted and thereafter be reported as a direct addition to paid-in capital." This Statement amends paragraph 30 of Statement 109 to require that tax benefits that are recognized after 1 year following the acquisition date (that is, by elimination of that valuation allowance) be reported as a reduction to income tax expense (not goodwill).
SOP 96-1	Environmental Remediation Liabilities	Paragraph 147 requires that in conjunction with the initial recording of a business combination or the final estimate of a preacquisition contingency at the end of the allocation period following the guidance in Opinion 16, the environmental remediation liability is considered in the determination and allocation of the purchase price. By analogy to the accounting for a purchase business combination, the recording of an environmental remediation liability in conjunction with the acquisition of property would affect the amount recorded as an asset. Statement 141 superseded Opinion 16 and Statement 38. This Statement supersedes Statement 141 and provides guidance for determining which liabilities should be included in the business combination accounting.
SOP 03-3	Accounting for Certain Loans or Debt Securities Acquired in a Transfer	This SOP prohibits "carrying over" or creation of valuation allowances in the initial accounting of all loans acquired in transfers that are within the scope of this SOP, including purchase business combinations. This Statement requires that acquired receivables (including loans) be measured at fair value at the date of acquisition and, therefore, that a separate allowance for uncollectible amounts not be established upon initial recognition of those receivables. (Footnote 7 in this SOP should be amended to refer to Statement 141(R) instead of Statement 141.)

Practice Bulletin 6	Amortization of Discounts on Certain Acquired Loans	This SOP provides guidance for accounting for loan loss reserves acquired in a business combination. This Statement requires that acquired loans be measured at fair value at the date of acquisition. Therefore, a separate allowance for uncollectible amounts should not be established upon initial recognition of those loans.

SEC Guidance

F5. The following table lists guidance issued by the SEC or its staff that the FASB staff believes may be affected by the decisions made by the Board in this Statement. It is presented for informational purposes only. Decisions whether to amend SEC or SEC staff guidance are made by the SEC and its staff.

SEC Guidance	Title	Analysis
SAB Topic 2.A.5	Adjustments to Allowances for Loan Losses in Connection with Business Combinations	This Topic states that generally the acquirer's estimation of the uncollectible portion of the acquiree's loans should not change from the acquiree's estimation before the acquisition. This Statement requires that acquired receivables (including loans) be measured at fair value at the date of acquisition. Therefore, a separate allowance for uncollectible amounts would not be established upon initial recognition of those receivables.
SAB Topic 2.A.7	Loss Contingencies Assumed in a Business Combination	This Topic states that in accordance with Statement 141, the acquiring company should allocate the cost of an acquired company to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. With respect to contingencies for which a fair value is not determinable at the date of acquisition, the guidance in Statement 5 should be applied. This Statement requires that contingencies that meet the definition of a liability assumed in a business combination be initially measured and recognized at fair value. This Statement eliminates the alternative described in paragraph 40(b) of Statement 141,, which allows for recognition under an approach consistent with Statement 5.
SAB Topic 2.A.8	Business Combinations Prior to an Initial Public Offering	This Topic states that the combination of two or more businesses should be accounted for under Statement 141. This Statement supersedes Statement 141.

SAB Topic 2.A.9	Liabilities Assumed in a Purchase Business Combination	This Topic states that the correction of a seller's erroneous application of GAAP should not occur through the purchase price allocation. Rather, the acquiree's financial statements should be restated to reflect an appropriate amount, with the resultant adjustment being applied to the historical income statement of the acquiree. This Statement does not address the seller's accounting for assets and liabilities sold in a business combination. However, this Topic does contain a reference to Statement 141, and this Statement will supersede Statement 141.
SAB Topic 2.D	Financial Statements of Oil and Gas Exchange Offers—Question 1	Question 1 addresses basis questions in oil and gas exchange offers. This Statement does not affect the SEC's response. However, this Topic refers to the guidance provided in the standard of Statement 141 for business combinations and in paragraphs D11–D13 for entities under common control.

Appendix G

GLOSSARY

G1. This appendix contains definitions of certain terms used in this Statement.

Acquisition date

The date on which the acquirer obtains control of the business acquired.

Business combination

A transaction or other event in which an acquiring entity obtains control of one or more businesses. A business combination typically occurs through the purchase of the net assets or equity interests of a business (or businesses) but may occur through other means.

Business

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing (a) a return to investors or (b) lower costs or other economic benefits directly and proportionately to owners, members, or participants.

Customer relationship

[(FAS 141, ¶F1) For purposes of this Statement, a customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Relationships may arise from contracts (such as supplier contracts and service contracts). However, customer relationships may arise through means other than contracts, such as through regular contact by sales or service representatives.]

Fair value

[(FAS 141, ¶F1) The ~~amount~~ price at which an asset ~~(~~or liability~~)~~ could be ~~bought (or incurred) or sold (or settled)~~ exchanged in a current transaction between knowledgeable, unrelated willing parties (FASB Statement No. 15X, Fair Value Measurements, paragraph 5).~~, that is, other than in a forced or liquidation sale.~~]

Goodwill

The excess of the fair value of the business acquired (taken as a whole) over the net amount of the recognized identifiable assets acquired and liabilities assumed (paragraph 48). (The amount recognized as goodwill includes acquired intangible assets that do not meet the criteria in paragraph 43 for recognition as assets apart from goodwill. In those rare circumstances in which the business combination is not an exchange of equal values (for example, a forced sale in which a seller is acting under compulsion) and the fair value of the acquiring entity's interest in the business acquired exceeds the consideration exchanged for that interest, the amount of goodwill that otherwise would be recognized under paragraph 48 would be reduced, in whole or part (paragraph 50).)

Intangible assets

[(FAS 141, ¶F1) Assets (not including financial assets) that lack physical substance.]

Intangible asset class

[(FAS 141, ¶F1) A group of intangible assets that are similar, either by their nature or by their use in the operations of an entity.]

Mutual enterprise

[(FAS 141, ¶F1) An entity other than an investor-owned entity that provides dividends, lower costs, or other economic benefits directly and proportionately to its owners, members, or participants. Mutual insurance companies, credit unions, and farm and rural electric cooperatives are examples of mutual enterprises (FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations,* paragraph 7).]

Noncontrolling interest

The portion of the equity (residual interest) in a subsidiary attributable to the owners of the subsidiary other than the parent and the parent's affiliates.

Not-for-profit organization

[(FAS 141, ¶F1) An entity that possesses the following characteristics that distinguish it from a business enterprise: (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interests like those of business enterprises. Not-for-profit organizations have those characteristics in varying degrees (Concepts Statement 4, paragraph 6). Entities that clearly fall outside this definition include all investor-owned entities and mutual enterprises.]

Public business enterprise

[(FAS 141, ¶F1) An enterprise that has issued debt or equity securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), that is required to file financial statements with the Securities and Exchange Commission, or that provides financial

statements for the purpose of issuing any class of securities in a public market (FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* paragraph 9).]

Reporting unit

[(FAS 141, ¶F1) The level of reporting at which goodwill is tested for impairment. A reporting unit is an operating segment or one level below an operating segment (as that term is defined in paragraph 10 of Statement 131) (FASB Statement No. 142, *Goodwill and Other Intangible Assets,* paragraph F1).]

Residual value

[(FAS 141, ¶F1) The estimated fair value of an intangible asset at the end of its useful life to the entity, less any disposal costs.]

Servicing asset

[(FAS 141, ¶F1) A contract to service financial assets under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing the servicing. A servicing contract is either (a) undertaken in conjunction with selling or securitizing the financial assets being serviced or (b) purchased or assumed separately (FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* paragraph 364).]