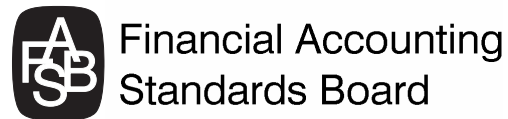


MINUTES



To: Board Members

From: Business Combinations: Applying the Acquisition Method Team
(Cronin, ext. 443)

Subject: Minutes of the March 1, 2006 Board Meeting: The Definition of a Business Combination and Joint Ventures Scope Exclusion **Date:** March 8, 2006

cc: FASB: Bielstein, Smith, MacDonald, Petrone, Bossio, Tamulis, Posta, Vessels, Cronin, Bennett, Todorova, Lapolla, Polley, Gabriele, Sutay, Carney, Mahoney, FASB Intranet; IASB: Leisenring, Upton, Hickey, Teixeira, Buschhueter, Quiring

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic: The Definition of a Business Combination and the Joint Ventures Scope Exclusion

Basis for Discussion: Board Memorandums No. 5, 6, and 7

Length of Discussion: 1:00 p.m. to 1:20 p.m.

Attendance:

Board members present: Batavick, Crooch, Herz, Schipper, Seidman, Trott, and Young

Staff in charge of topic: Tamulis

Other staff at Board table: Bielstein, Bossio, Vessels, Bennett, and Cronin

Outside participants: Teixeira and Buschhueter (by phone)

Summary of Decisions Reached:

The Board affirmed that the formation of a joint venture should be excluded from the scope of the final Statement on business combinations.

Objectives of Meeting:

The objectives of the meeting were for the Board to:

1. Reach a decision about whether to exclude joint ventures from the scope of the final Statement
2. Decide how to address respondents' concerns with the definition of a *business combination* in the FASB Exposure Draft, *Business Combinations*
3. Discuss the staff's plan for the issues to be presented at the next Board meeting.

The Board will wait for further staff analysis related to the second objective before deciding on a final definition of a business combination. The remaining objectives were met.

Matters Discussed and Decisions Reached:

1. Ms. Tamulis stated that the purpose of the Board meeting was to discuss (a) a scope exclusion for joint ventures, (b) the definition of a business combination, and (c) the staff's plan for the issues to be addressed at the next Board meeting.

Issue 1: Joint Ventures

2. Ms. Tamulis stated that the business combinations Exposure Draft proposed to exclude from the scope of its guidance the formation of joint ventures, which is consistent with IFRS 3, *Business Combinations*, and FASB Statement No. 141, *Business Combinations*. She noted the Board's previous decision that the definition of a joint venture and the accounting for joint ventures should be considered more broadly in a later phase of the business combinations project or in a separate project. Few respondents to the business combinations Exposure Draft commented on the exclusion of joint ventures from the scope of that Exposure Draft. Of those that did, some agreed with the proposed scope

exclusion while others stated that they were disappointed the issue was not addressed because there is a need for guidance for joint venture accounting. Ms. Tamulis asked the Board to affirm the decision not to consider the accounting for joint ventures in this phase of the project and, therefore, to exclude the formation of joint ventures from the application of the acquisition method.

3. The Board unanimously decided to exclude the formation of joint ventures from the scope of the final Statement. Mr. Trott noted that a predecessor Board already considered this issue in its original deliberations of Statement 141 and ultimately decided to exclude joint ventures.

Issue 2: Definition of a Business Combination

4. Ms. Tamulis stated that the Board agreed in January for the staff to analyze potential resolutions to respondents' concerns that the definition of a business combination, as proposed in the business combinations Exposure Draft, does not include "true mergers." She noted that the business combinations Exposure Draft defines a business combination as "a transaction or other event in which an acquirer obtains control of one or more businesses." However, the business combinations Exposure Draft also requires application of the acquisition method to those rare combinations, if they exist, in which one of the combining entities does not obtain control of the other combining entity. To address concerns that the definition of a business combination in the business combinations Exposure Draft might not include some transactions or events that the Board intends to result in the application of the acquisition method, the staff identified the following three alternatives for the Board to consider:

- a. **Alternative A**—Provide a broad definition of a business combination along with scope exceptions that would limit the transactions that would result in applying the acquisition method. For example, the Board could define a business combination as "a transaction or other event in which one or more businesses are brought into a reporting entity."

The standards section then would include the following scope exceptions:

- (1) Formations of joint ventures
- (2) Combinations involving only entities or businesses under common control
- (3) Combinations between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization.

b. **Alternative B**—Develop a more descriptive definition of a business combination. The objective would be to develop a simple, principles-based definition that:

- (1) Defines the scope of the final Statement (that is, which transactions would apply the acquisition method)
- (2) Is clear that a business combination is the result of a transaction or other event
- (3) Is based on control
- (4) Is clear that the acquiree has to be a business,
- (5) Scopes in “true mergers,” multi-party combinations, and reverse mergers
- (6) Scopes out joint ventures and common control transactions.

c. **Alternative C**—Retain the business combinations Exposure Draft’s definition of a business combination and provide supplemental guidance in the standards section, rather than in the basis for conclusions. That guidance would clarify that particular transactions for which some argue do not result in one entity obtaining control of another are in the scope of the final Statement, such as:

- (1) True mergers
- (2) Control by contract (like stapling transactions)
- (3) Reverse acquisitions
- (4) Multi-party business combinations.

5. Ms. Tamulis stated that a benefit of Alternative A would be that the definition applies to true mergers, reverse acquisitions, and combinations by contract alone. However, Ms. Tamulis noted that Alternative A fails to reflect the importance of control in the application of the acquisition method. Additionally, Alternative A implies that some transactions that meet the definition of a business

combination would be accounted for by another method besides the acquisition method (for example, joint ventures).

6. Ms. Tamulis stated that Alternative B would be responsive to respondents' concerns that some transactions that result in the application of the acquisition method under the business combinations Exposure Draft are not included in that Exposure Draft's definition of a business combination. However, the staff believes this is likely to take some time and may only provide minimal benefit since the definition in the business combinations Exposure Draft (Alternative C) already accomplishes most of the objectives set out under Alternative B. The remainder could be accomplished through supplemental guidance.

7. Ms. Tamulis noted that Alternative C meets most of the objectives outlined under Alternative B and can be accomplished most quickly. In addition, she stated that Alternative C is consistent with the Board's previous discussions in which the Board acknowledged that true mergers either do not exist or are so rare that they do not warrant differential accounting. Despite the aforementioned benefits, Ms. Tamulis noted that Alternative C will not provide a satisfactory answer for those respondents who believe that true mergers exist.

8. Ms. Tamulis stated that the IASB discussed this issue at its February meeting and decided on Alternative B. The IASB asked the staff to develop a definition of a business combination that meets the objectives set out under Alternative B. She stated that the agreed-upon ground rules for conducting this joint project require that if one Board wants to look at an issue, then both Boards must consider that issue. As a result, the staff is only asking the FASB for its preferences at this meeting, namely whether Board members prefer a definition that is more like Alternative A or a definition that is more like Alternative C.

9. Messrs. Batavick and Crooch and Ms. Schipper and Seidman support Alternative C. Ms. Schipper disputed that developing a definition under Alternative B would be responsive to constituents' concerns. She stated that respondents who objected to the existing definition of a business combination are

in actuality objecting to the application of the acquisition method to arrangements that are currently undefined and might not exist. She further noted that both the FASB and IASB previously considered this issue in exhaustive detail through their respective deliberations of the business combinations Exposure Draft, Statement 141, and IFRS 3. Ms. Schipper stated that she favors Alternative C; however, she will support Alternative A as long as it can be made operational and will not delay the project. Ms. Seidman noted a significant concern about pursuing Alternative A because it removes the notion of control from the definition, thereby undermining the basis that a change in control constitutes a remeasurement event. Messrs. Herz, Trott, and Young prefer Alternative A. Mr. Trott stated that he believes that Alternative A is the most communicative manner to deal with the issue.

Issue 3: Staff Plans for Next Board Meeting

11. Ms. Tamulis stated that the next Board meeting is scheduled for March 28, 2006. (This meeting was originally scheduled for March 29, 2006.) At that meeting, the staff plans to present papers that will describe the principles on which the proposals are developed and the implications of those principles. The staff will ask the Board to affirm the basic principles on which the proposals are developed and the implications of those principles, including:

- a. The fair value measurement attribute in a business combination
- b. The accounting for partial acquisitions
- c. The accounting for step acquisitions
- d. The accounting for obtaining and losing control of an entity
- e. The accounting for bargain purchases and overpayments
- f. Presentation of noncontrolling interests in the consolidated financial statements.

Follow-Up Items:

12. The staff will conduct additional work on the definition of a business combination.

General Announcements:

13. None.