REVISED MINUTES

Financial Accounting Standards Board

To: Board Members

From: Business Combinations—Purchase Method Procedures Team (Hamilton, ext. 330)

Subject: Minutes of the February 25, 2004 Board Meeting **Date:** March 15, 2004

cc: FASB: Bielstein, Smith, Petrone, Bossio, Lott, Tamulis, Munro, Pinson, Manders, Rohrkemper, Hamilton, Swift, Polley, Cropsey, McIntosh, Thompson, Gabriele, Sutay, Lapolla, FASB Intranet; IASB: Leisenring, Lloyd, Ryltsova, Kimmitt; CICA: Walsh; AICPA: Hekker; Purchase Method Procedures Resource Group Members and Observers

Topics: Issues identified in drafting the business combinations Exposure Draft

Basis for Discussion: Board memorandum dated February 19, 2004 and audience handout dated February 25, 2004

Length of Discussion: 9:00 a.m. to 10:10 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schieneman, Schipper, Seidman, Trott

IASB Board/staff present: Leisenring, Ryltosova (by phone)

Board members absent: Crooch

Staff in charge of topics: Bossio, Tamulis, Manders, Hamilton

Other staff at Board table: Bielstein, Cassel, McIntosh

Outside Participants: None

Summary of Decisions Reached:

The Board discussed certain issues that were identified in drafting the purchase method procedures Exposure Draft (referred to as Statement 141(R)). The Board decided:

1. To require disclosure of the total amount of consideration exchanged for the business acquired and the fair value of each major component of consideration.

2. To include an exception to the principle that would require the recognition and measurement of assets and liabilities at their fair values so that assets and liabilities for operating leases of the business acquired would continue to be classified and accounted for in accordance with existing GAAP.

3. In relation to accounting for income taxes in a business combination:

    a. To affirm that an acquirer would be required to apply a rebuttable presumption that acquired deferred tax benefits recognized within one year following the acquisition should be reported as an adjustment to goodwill, rather than as a reduction of income tax expense. Otherwise, deferred tax benefits recognized subsequent to the acquisition (that is, by reduction of any valuation allowance for acquired deferred tax assets) would be reported as a reduction of income tax expense. That conclusion would apply to both valuation allowances recognized at the date of a business combination after application of Statement 141(R), as well as those recognized in previous purchase business combinations (under FASB Statement No. 141, *Business Combinations,* and APB Opinion No. 16, *Business Combinations*).

    b. To require the tax benefit arising from tax deductible goodwill in excess of goodwill for financial reporting to be accounted for at the date of the acquisition as a deferred tax asset (similar to the accounting for other temporary differences under FASB Statement No. 109, *Accounting for Income Taxes*).

4. For the purpose of measuring the implied fair value of goodwill in the second step of the impairment test:

    a. No portion of the fair value of the reporting unit would 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 (i) relates to a business combination that was completed before implementation of Statement 141(R) and (ii) 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 would 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).

b. A portion of the fair value of the reporting unit would 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 (i) relates to a business combination that was completed before implementation of Statement 141(R) and (ii) was recognized separately from goodwill under provisions that existed before Statement 141(R).

5. To make certain limited modifications to the application guidance for the definition of a business that the Board agreed to at the February 4, 2004 meeting. Those modifications are intended to:

   a. Clarify that the assessment of whether a set of assets and activities is a business should be made in terms of a hypothetical potential acquirer rather than only the specific acquirer.

   b. Make the definition of a business and its application guidance applicable to variable interest entities. Therefore, Appendix C to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities,* which provides a definition of a business for purposes of that Interpretation, would be superseded.

The Board also:

1. Suggested that the staff explore conforming the initial measurement guidance in paragraphs 18–21 of Interpretation 46(R) to the measurement guidance in Statement 141(R).

2. Directed the joint project staff to determine how to clarify and resolve differing interpretations of the October 2003 FASB-IASB joint decision about which assets and liabilities should be considered part of the business combination accounting.

3. Asked the staff for further information for purposes of reconsidering the proposed effective date of Statement 141(R).

Matters Discussed:

Disclosure of the Total Consideration Exchanged, Including Each Major Class

The staff stated that it recommends that the Board adopt a suggestion from an external reviewer of a staff draft of proposed Statement 141(R). That reviewer suggested that the Board consider requiring disclosure of the total consideration exchanged in a business combination and the fair value of each major component of consideration. The staff stated that it believes the disclosure of this information would be useful to investors, creditors, and other users of financial statements, and recommended that it be required in all business combinations.

Mr. Trott stated that consideration may not always be exchanged in a business combination since control of a business can occur through means other than a purchase of its net assets or equity interests. However, he stated that he supported the disclosure requirement for those business combinations in which consideration is exchanged.

Mr. Schieneman questioned whether the additional disclosure was useful. The staff noted that presently the Board tentatively has agreed to continue to require disclosure of the fair value of certain types of components of consideration (for example, equity securities of the acquirer and contingent consideration) but not all major components of consideration. It also was noted that disclosing the fair values of other major components, including cash, in one place seems to result in a cleaner, more understandable disclosure of relevant information without imposing a significant cost.

No Board members objected to the staff's recommendation to require this disclosure.

Recognition and Measurement of Operating Leases Acquired in a Business Combination

The staff stated that the proposed Statement 141(R) would require, with limited exceptions, the recognition of all assets acquired and liabilities assumed in a business combination at fair value. The staff further stated that the Board has not decided whether this principle should apply to what are presently unrecognized assets and liabilities related to operating leases acquired or assumed in a business combination.

For practical reasons (similar to those underlying the exceptions made for pensions, employee benefits, and income taxes), the staff believes that until the FASB (or IASB) addresses whether and how to recognize and measure assets and liabilities arising on operating leases on the acquisition date and subsequently, consistency in lease accounting should take primacy over consistency in the application of the business combination working principle.

The staff recommended that assets acquired and liabilities assumed related to operating leases of an acquired business be recorded in accordance with existing GAAP. The staff proposed to include the following exception for operating leases of an acquired business:

> 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*.

Messrs. Leisenring and Trott observed that that draft language could be misinterpreted as an exception for all leases and suggested that it be modified consistent with the intended exception for operating leases.

Ms. Seidman asked whether favorable operating leases are recognized as an intangible asset. Mr. Bossio responded that under Statement 141 and current practice, favorable and unfavorable operating leases (based on the market rate for a similar operating lease) are recognized as an intangible asset (if favorable) or liability (if unfavorable).

Mr. Herz asked if any Board members would be opposed to making an exception to the working principle for leases and accounting so that operating leases would be accounted for under existing GAAP. No Board members objected.

Accounting for Income Taxes in a Business Combination

Transition Issue for the Reversal of Deferred Tax Asset Valuation Allowances

The staff stated that during earlier project discussions, the Board decided that income taxes should continue to be recognized and measured under FASB Statement No. 109, *Accounting for Income Taxes*, and existing related interpretative guidance. However, the Board decided to address the subsequent reduction of a valuation allowance for acquired deferred tax assets. The Board's tentative conclusions included the following:

- To amend paragraph 30 of Statement 109 to require that deferred tax benefits recognized subsequent to the acquisition be reported as a reduction of income tax expense. However, the Board decided to modify that decision as follows:
- To include a rebuttable presumption[1] that acquired deferred tax benefits recognized within one year following the acquisition date (that is, by reduction of any valuation allowance for acquired deferred tax assets) be reported as an adjustment to goodwill, rather than as a reduction of income tax expense. However, if the rebuttable presumption is overcome, the deferred tax benefit would be reported as a reduction of income tax expense for that period. The rebuttable presumption is overcome if the recognition of the acquired deferred tax benefit 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.
- To require disclosure of the events or change in circumstances that resulted in the subsequent recognition of deferred tax benefits. [FASB website, Business Combinations project update link]

[1]That rebuttable presumption is not applicable to deferred tax benefits associated with changes in tax laws or rates. Rather, the effect of a change in tax laws or rates would be included in income for the period that includes the enactment date. Refer to paragraph 27 of Statement 109.

The staff asked the Board to consider the following alternatives related to how its earlier decision for the subsequent reduction of a valuation allowance should apply to business combinations that occurred prior to the effective date of Statement 141(R):

> Alternative A: Apply the decision only to valuation allowances recognized in business combinations following initial application of Statement 141(R).
>
> Alternative B: Apply the decision to all business combinations. This alternative would include valuation allowances recognized in business combinations following initial application of Statement 141(R), as well as those recognized in previous purchase business combinations (under Statement 141 and, possibly, Opinion 16).

The staff indicated that some of the valuation allowances from previous combinations were for combinations that occurred more than one year ago. In those circumstances, the rebuttable presumption in the Board's decision would not apply to these older valuation allowances (because the one-year window would have passed already). Therefore, rather than continuing to reduce goodwill and intangible assets (as currently required by Statement 109), any prospective changes in these older valuation allowances would be recognized as a current reduction to income tax expense. The staff recommended Alternative B because it requires prospectively only one accounting model for the subsequent reduction of a valuation allowance.

Mr. Trott noted that there are valid reasons that support both the Statement 109 approach and the proposed Statement 141(R) approach. He indicated that he agreed with the staff's recommendation because a single approach to reversing the valuation allowance was simpler. He clarified that Alternative B would include only the subset of valuation allowances related to business combinations, and not *all* valuation allowances.

All Board members were in favor of Alternative B.

Excess Tax Goodwill

The staff stated that Statement 109 requires that the tax benefit resulting from any excess amount of tax-deductible goodwill over the goodwill for financial reporting purposes be recognized when the excess reduces taxes payable. The staff further stated that for taxable business combinations, as indicated in paragraph 262 of Statement 109, this benefit would be applied subsequently to (1) reduce to zero the goodwill related to that acquisition, (2) reduce to zero other noncurrent intangible assets related to that acquisition, and (3) reduce income tax expense. The staff stated that an external reviewer suggested that the Board consider allowing the benefit arising from excess tax goodwill to be recorded as a deferred tax asset at the acquisition date.

The staff indicated that excess tax goodwill is more common in *taxable business combinations*. However, there also are circumstances in nontaxable business combinations when there is excess tax goodwill. Therefore, the alternatives and staff recommendation may be more relevant for taxable business combinations, but would apply to both types of combinations. The staff asked the Board to consider the following alternatives:

> <u>Alternative A:</u> Make no further modifications to Statement 109.
>
> <u>Alternative B:</u> Require the benefit arising from excess tax goodwill to be accounted for at the date of the acquisition as a deferred tax asset (similar to other temporary differences under Statement 109).
>
> <u>Alternative C:</u> Record no benefit arising from excess tax goodwill at the date of the acquisition and recognize the benefit arising from excess tax goodwill as income (a reduction to income tax expense) in periods following the acquisition.

The staff stated that both Alternatives B and C are more acceptable approaches than Alternative A. These alternatives were chosen because goodwill would not be adjusted under those methods related to events and circumstances that arise following the combination, which is a primary rationale for many decisions in this project. The staff stated that from a conceptual standpoint, the excess tax goodwill meets the definition of a temporary difference, and not recognizing the tax benefit of that temporary difference at the date of the business combination is inappropriate. Lastly, the staff stated that Alternative B was preferable to Alternative C, as Alternative B would not imbed the tax benefit in goodwill. Therefore, the staff recommended Alternative B, which would require the tax benefit of the temporary difference related to the excess tax goodwill to be accounted for at the date of the acquisition as a deferred tax asset (similar to other temporary differences under Statement 109).

Mr. Trott said that he agreed with the staff's assessment, but cautioned that the staff should use the term "best estimate of the tax basis" rather than "tax basis" in drafting the proposed modifications to Statement 109 because there often are adjustments to the tax basis that are submitted on the tax return. Mr. Schieneman preferred Alternative C over Alternative B because it would be more operational, but added that he did not find Alternative B objectionable. Mr. Herz asked whether any Board members would be opposed to Alternative B. No Board members objected.

Transition Issue Related to the Goodwill Impairment Test

The staff stated that Statement 141(R) will require that assets and liabilities for contingent gains and losses and contingent consideration (referred to as *contingencies*) be recognized at fair value on the acquisition date. The staff further stated that this requirement could lead to an issue in performing the second step of the goodwill impairment test under Statement 142*.* The staff stated that the second step of the goodwill impairment test compares the *implied fair value of goodwill* to the carrying amount of goodwill in order to determine the amount of the impairment loss. The staff continued that in calculating the implied fair value of goodwill, paragraph 21 of Statement 142 requires that an entity "allocate the fair value of the 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…." The staff stated that absent an amendment to paragraph 21 of Statement 142, after Statement 141(R) is implemented an entity likely would assign a value to contingencies that are assets and liabilities for purposes of the goodwill impairment test regardless of whether the related business combination occurred before or after the implementation of Statement 141(R).

The staff stated that it was concerned that if the contingencies are assets related to pre-Statement 141(R) acquisitions and are subsumed in goodwill, "recognition" of those assets for purposes of the second step of the goodwill impairment test would result in a *lower implied fair value of goodwill*, which would lead to a larger goodwill impairment loss. The staff further stated that if the contingencies are liabilities related to pre-Statement 141(R) acquisitions and are subsumed in goodwill, "recognition" of those liabilities for purposes of the second step of the goodwill impairment test would result in a *higher implied fair value of goodwill*, which would lead to a smaller goodwill impairment loss.

The staff stated that they had considered four possible alternatives to address this issue:

> Alternative A: Require an impairment test on implementation of Statement 141(R). Any goodwill impairment loss could be recorded as a cumulative effect of a change in accounting principle.
>
> Alternative B: Require that entities retroactively identify, measure, and recognize contingencies (with a corresponding adjustment to goodwill) for acquisitions completed prior to implementation of Statement 141(R) immediately upon adoption of Statement 141(R).
>
> Alternative C: That the Board do nothing and accept that for pre-Statement 141(R) acquisitions, the *unrecognized* contingencies for those acquisitions likely have been resolved (except possibly those within one to three years of Statement 141(R) implementation).
>
> Alternative D: Amend paragraph 21 of Statement 142. Require that assets and liabilities *not* be assigned a portion of the fair value of the reporting unit for purposes of measuring the implied fair value of goodwill if they:
>
> - Have not been recognized separately from goodwill because they arose from business combinations completed before the implementation of Statement 141(R),
> - But, would have been recognized separately had the business combination been accounted for under Statement 141(R).

The staff recommended Alternative D because it is the most simple to apply and, unlike Alternatives A–C, it will not produce inaccurate impairment losses or cushions.

Ms. Seidman stated that this issue is broader than just contingencies and could occur with other assets and liabilities that would not be recognized separately under Statement 141(R) but may have been under Statement 141. The staff stated that the intent is to capture those previously unrecognized assets and liabilities and that the wording of the amendment to Statement 142 will be worked on further.

Mr. Trott stated that he was torn between Alternatives C and D. He further stated that if Alternative D is worded so that it captures only the items that would be the result of transition to Statement 141(R), then he would support Alternative D.

Mr. Batavick asked if there was an illustration for Alternative D and stated that he would like to have an example included in the guidance.

Mr. Herz asked, assuming Alternative D is further clarified, if there would be any objections to the staff's recommendation of Alternative D. No Board members objected. Accordingly, the Board decided to amend paragraph 21 of Statement 142. For the purpose of measuring the implied fair value of goodwill in the second step of the impairment test:

- No portion of the fair value of the reporting unit would 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 (i) relates to a business combination that was completed before implementation of Statement 141(R) and (ii) 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 would 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).
- A portion of the fair value of the reporting unit would 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 (i) relates to a business combination that was completed before implementation of Statement 141(R) and (ii) was recognized separately from goodwill under provisions that existed before Statement 141(R).

Clarifications and Proposed Modifications to the Application Guidance for the Definition of a Business

The staff stated that subsequent to the Board meeting on February 4, 2004, a few issues were identified in drafting the application guidance for the definition of a business. The staff proposed changes to the application guidance for the following items (see Appendix A to these minutes for a marked version [additions or ~~deletions~~] of the application guidance from the version agreed to by the Board on February 4, 2004):

- To clarify that the definition of a business and its application guidance is intended to focus on the set of activities and assets acquired and is an assessment to be made in terms of any acquirer (that is, a hypothetical marketplace acquirer), rather than only the specific acquirer.
- To eliminate the last sentence of the application guidance that was agreed to by the Board on February 4 because it implies that the set has to continue operating in the same manner after it is acquired to be considered a business. That sentence is "it is only relevant to the evaluation whether the acquirer is capable of using the transferred set in the same manner as the transferor."
- To make the definition of a business and related application guidance applicable to variable interest entities (VIEs). Therefore, Appendix C to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities,* would be superseded and Interpretation 46(R) would be amended to refer to the definition of a business and its application guidance in Statement 141(R).
- To make other nonsubstantive changes to the application guidance to improve its consistency and clarity.

Ms. Seidman wanted to clarify that "any acquirer" is not meant to include every possible acquirer and that it only would include realistic potential acquirers.

Mr. Herz asked if there were any objections to the proposed modifications. No Board members objected.

Potential Impact of Statement 141(R) on the Initial Measurement Guidance in Interpretation 46(R)

The staff asked the Board for guidance about whether the staff should explore the possibility of conforming the initial measurement guidance in paragraphs 18–21 of Interpretation 46(R) to the measurement guidance in Statement 141(R).

Mr. Trott suggested that the staff also consider whether the guidance in paragraph 20 of Interpretation 46(R) related to assets and liabilities transferred to the VIE at, after, or shortly before the date an entity becomes the primary beneficiary possibly should be included in Statement 141(R).

No Board members objected to the staff performing this research.

Modification to Clarify FASB-IASB October 2003 Joint Decision Regarding Assets and Liabilities to Be Considered Part of the Combination

The staff asked for clarification of the joint decision regarding assets and liabilities to be considered part of a combination as it was issued in October. Specifically, the clarification regarded what parties are considered *external parties*. Based on the joint decision and the minutes for that meeting, the staff draft of the proposed Statement 141(R) states:

> In addition [to recognizing the assets and liabilities of the business acquired that meet the definitions of assets and liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements*], an asset acquired or liability assumed shall be considered part of the business combination if it results from actions or requirements of laws, regulators, or other *external parties* to the combination. Employees, suppliers, customers, and other parties that are within the control of or can be influenced by the acquirer or the business acquired, are not considered external parties.

The staff recommended that for purposes of applying the joint decision, the Board explicitly indicate that employees, suppliers, customers, and *related parties* (as defined in current GAAP) are not considered external parties. It was noted that that would obviate the concerns raised by several reviewers about how, without further guidance, one would judge whether an employee, supplier, or customer can be influenced by the acquirer or the business acquired.

The staff also indicated that the clarification of who are *external parties* is a narrower drafting issue that is related to a broader issue. That is, different interpretations of the joint decision between the FASB and IASB is a more significant issue that the staff believes the Boards need to readdress. The staff noted that the FASB might wish to table the issue of clarifying who are *external parties* until after further progress is made on the different interpretations.

The staff stated that the IASB staff has interpreted the joint decision regarding assets and liabilities to be considered part of a combination differently than the FASB staff.

Mr. Leisenring suggested that the staff and certain Board members from both the FASB and IASB clarify the decision reached at the October 2003 joint meeting and reconcile the different interpretations about which assets and liabilities should be considered part of the business combination accounting. Mr. Bossio stated that the staff supports the establishment of such a joint collaborative group.

Mr. Trott stated that there appeared to be sufficient confusion between the FASB and the IASB about the joint decision and also what is meant by *contingent assets and liabilities*. He suggested that the recommended joint collaborative group explore both issues.

Mr. Batavick asked the staff to include examples of prevalent transactions in its analysis of assets and liabilities that should be considered a part of the business combination as a result of the joint decision.

The Board did not object to the establishment of this group. No further decisions were reached on the issue of clarification of the guidance related to external parities. That matter was tabled.

Effective Date

The staff stated that the previously agreed upon effective date is no longer feasible based on current assessments of the timeline for the issuance of an Exposure Draft. The staff asked the Board whether it would like to discuss this issue now or at a later meeting.

Mr. Herz stated that the issue of whether to postpone the effective date should be discussed at a later meeting. All Board members agreed.

Mr. Trott stated that at this time his preference is to change the effective date to December 15, 2005. He also requested that the staff prepare additional analysis with regard to other documents expected to be issued and implementation challenges to the financial reporting system in that same time frame.

Follow-up Items:

The Board requested that the staff explore the possibility of conforming the initial measurement guidance in paragraphs 18–21 of Interpretation 46(R) to the measurement guidance in Statement 141(R).

The Board requested the staff and certain Board members from both the FASB and IASB clarify the decision reached at the October 2003 joint meeting and reconcile the different interpretations about which assets and liabilities should be considered part of the business combination accounting.

The Board requested that the staff prepare additional analysis regarding the establishment of a new effective date. The Board specifically requested that the staff prepare additional analysis with regard to other documents expected to be issued by the FASB in the same time frame.

General Announcements:

None.

Appendix A

Definition of a Business and Related Application Guidance

Definition:

A business is an integrated set of activities and assets 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. A business consists of inputs, processes applied to those inputs, and resulting outputs that are or will be used to generate revenues.

Application Guidance:

The elements of a business will vary by industry and by how an entity structures its operations, including the stage of its development, but normally would include the following elements:

Inputs:
(a) Long-lived assets, including intangible assets, or rights to the use of long-lived assets
(b) Intellectual property
(c) The ability to obtain access to necessary materials or rights
(d) Employees.

Processes:
(e) The existence of systems, standards, protocols, conventions, and rules that act to define the processes necessary for operations, such as (i) strategic management processes, (ii) operational processes, and (iii) resource management processes.

Outputs:
(f) The ability to obtain access to the customers that purchase or will purchase the outputs of the ~~transferred~~ set.

If the ~~transferred~~ set is missing an element or elements ~~item or items~~ that prevent the set ~~transferee~~ from being capable of continuing operations ~~operating the transferred set in the same manner as the transferor , the transferee should assess whether the excluded item or items are only minor. If~~ and the excluded element or elements ~~item or items~~ are only minor (based on the degree of difficulty and the level of investment necessary to obtain access to or acquire the missing element or elements ~~item or items~~), then the ~~transferred~~ set is a business. The assessment of whether an excluded element or elements ~~item or items are~~ is only minor should be made without regard to the attributes of the *acquirer*[1] ~~transferee~~ and should consider such factors as the uniqueness or scarcity of the excluded element or elements ~~item or items~~, the time frame, the level of effort, and the cost required to obtain the excluded element or elements ~~item or items~~.

Some development stage entities may not yet have outputs used to generate revenues. In that case, other factors should be assessed to determine whether such a development stage entity is a business. Those factors would include whether the entity:

- Has commenced planned principal activities
- Has employees, intellectual property, and other inputs and processes
- Is operating in accordance with a plan to produce outputs
- Has the ability to obtain access to the customers that will purchase the outputs.

Whether the *acquirer*[2] ~~transferee~~ intends to continue using the set in the same manner as the set was used before the acquirer obtained control of it ~~as the transferor~~ is not relevant to the evaluation of whether the ~~transferred~~ set is a business. [~~It is only relevant to the evaluation whether the transferee is *capable* of using the transferred set in the same manner as the transferor~~.]

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[1] The term *acquirer* in this sentence is used in the context of a business combination accounted for in accordance with this Statement. For purposes of this sentence under the provisions of Interpretation 46(R), the term *acquirer* should be replaced by *primary beneficiary* or *the reporting enterprise that has an interest in the entity being evaluated*.

[2] The term *acquirer* in this sentence is used in the context of a business combination accounted for in accordance with this Statement. For purposes of applying the application guidance for the definition of a business under the provisions of Interpretation 46(R), the term *acquirer* should be replaced by *primary beneficiary.*