MINUTES

To:	Board Members
From:	Business Combinations—Purchase Method Procedures Team (Manders, ext. 207)
Subject:	Minutes of the April 22, 2004 FASB-IASB Joint Board Meeting
Date:	April 29, 2004
cc:	FASB: Bielstein, Smith, Petrone, Bossio, Lott, Tamulis, Munro, Pinson, Manders, Rohrkemper, Hamilton, Swift, Polley, Cropsey, McIntosh, Thompson, Gabriele, Sutay, Lapolla, FASB Intranet; CICA: Walsh; AICPA: Hekker; Purchase Method Procedures Resource Group Members and Observers

Topic: Purchase Method Convergence Issues

Basis for Discussion: "Revisiting What Is Considered Part of the Combination" memorandum, distributed on April 6, 2004 (Memo 2 of 2 and its attachment), IASB Agenda Paper 5B for the IASB's April 2004 Board meeting, and the Board audience handout and its attachment (attached).

Length of Discussion: 6:45 a.m. (11:45 GMT) to 7:00 a.m. (12:00 GMT)

Attendance:

FASB Board present:	Herz, Batavick, Crooch, Schieneman, Schipper, Seidman, Trott
IASB Board present:	Tweedie, Jones, Barth, Bruns, Cope, Garnett, Gélard, Leisenring, McGregor, O'Malley, Schmid, Smith, Whittington, Yamada
Board members absent:	None
Staff in charge of topic:	Ryltsova
Other staff at Board table:	Bielstein, Bossio (by phone), Kimmit, Stevenson, Upton
Outside participants:	None

Summary of Matters Discussed:

This joint project is viewed by both Boards as a broad reconsideration of existing purchase accounting guidance. An important objective of the joint project is to achieve convergence between FASB and IASB guidance on purchase method accounting.

The Boards discussed the status of the following issues for which the Boards had previously reached either a different conclusion or a different interpretation of the same conclusion:

- Which assets and liabilities should be included as part of the business combination accounting.
- The treatment in a business combination of contingent liabilities[1] of the acquiree.

A collaborative group of FASB and IASB members and staff (the Group) had been formed to discuss those convergence issues and develop recommendations for both Boards. The Group reported at the joint meeting that each Board had considered the Group's recommendations at their separate April 2004 meetings preceding the joint meeting and had reached converged decisions. Those decisions are reported in the FASB Action Alert and IASB Update.

It was noted that the use of the Group as a mechanism for resolving convergence issues proved to be effective and that such a mechanism should continue to be used in the future as needed.

In addition, the IASB staff reported that the IASB decided at its separate April 2004 meeting to extend its decisions on "recycling" amounts recognized directly in equity when control of a subsidiary is lost to circumstances in which an investor loses significant influence or joint control of an associate or joint venture (see the *IASB meeting–Business Combinations* section of the IASB April 2004 Update). The FASB asked the staff to consider whether the FASB also should consider proposing similar amendments.

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[1] The IASB has tentatively concluded that a *contingent liability* should be defined as a "conditional obligation that arises from past events that may require an outflow of resources

Objective of Meeting:

The objective of this meeting was to report and discuss issues for which the IASB and FASB reached different interpretations or conclusions in this project. The primary issues were considered at their separate April 2004 meetings preceding the joint meeting, and converged decisions were reached on (1) determining which assets and liabilities should be included in the business combination accounting and (2) whether risks that result from the acquired entity's past actions constitute a stand-ready obligation that should be recognized on the acquisition date.

Matters Discussed and Decisions Reached:

See above for matters discussed. No decisions were reached.

Follow-up Items:

Consider whether the FASB should extend its decisions on "recycling" amounts recognized directly in equity when control of a subsidiary is lost to circumstances in which an investor loses significant influence or joint control of an associate or joint venture proposing similar amendments.

General Announcements:

None.

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embodying economic benefits based on the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity."

Financial Accounting Standards Board

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This document is provided as a convenience to observers at the joint FASB/ IASB meeting, to assist them in following the Board's' discussion. It does not represent an official position of the FASB or the IASB. Board positions are set out in Statements and Standards.

INFORMATION FOR OBSERVERS

JOINT FASB/IASB MEETING: **21/22APRIL 2004, LONDON**

PROJECT: **BUSINESS COMBINATIONS II**

BUSINESS COMBINATIONS II—APPLICATION OF THE PURCHASE METHOD

The application of the purchase method is a joint project of the IASB and FASB. An important objective of the joint project is to achieve convergence between FASB and IASB guidance in the area of accounting for business combinations.

At this joint meeting the Boards will consider the decision reached at the October 2003 joint meeting of the FASB and the IASB about which assets and liabilities are to be considered part of the business combination accounting. The objective will be to reconcile FASB and IASB members' interpretations of that decision.

The Boards will first discuss this issue at their separate April meetings (at the FASB meeting on 14 April 2004 and the IASB meeting on 21 April 2004). If the Boards reach the same conclusions at those separate meetings, it is unlikely that the issue will be discussed further at the joint meeting (the Boards' conclusions will, however, be reported at the joint meeting). If the Boards reach different tentative conclusions at their separate meetings, those differences will be reported and discussed at the joint meeting, with the objective of establishing whether any new information might cause either Board to reconsider its tentative conclusion.

REVISITING WHAT IS CONSIDERED PART OF THE COMBINATION

BACKGROUND

At the February 25, 2004 FASB meeting,[2] certain Board members and staff suggested that the Boards form a collaborative group of FASB and IASB Board and staff members (the Group) to:

a. Clarify the decision reached at the October 2003 joint meeting of the FASB and the IASB about which assets and liabilities are to be considered part of the business combination accounting, with the objective of reconciling FASB and IASB members' different interpretations of that decision.

b. Consider the concerns and unintended consequences that were identified by external reviewers about an aspect of the October 2003 decision.

c. Determine whether the Boards have a common understanding of, and approach to differentiating, items that meet the definition of a liability and circumstances that do not give rise to a liability, and how to account in a business combination for circumstances that (1) do not give rise to liabilities but (2) involve negative factors (risks) that affect (reduce) the price that a buyer would be willing to pay for the acquiree.

The Group met and developed recommendations for items **a** and **b**, and will ask each of the Boards to consider those recommendations at their separate April meetings (FASB meeting - on 14 April 2004 and IASB meeting - on 21 April 2004). The Boards will also discuss item **c**.

a. WHICH ASSETS AND LIABILITIES SHOULD BE CONSIDERED PART OF THE BUSINESS COMBINATION: FUNDAMENTAL PRINCIPLE

The October 2003 joint decision was reported by each Board as follows:

IASB Decision Summary:

> … [T]he Boards agreed to [include] in the business combination accounting:
>
> - The fair values of the identifiable assets and liabilities of the acquiree immediately before the business combination, determined assuming that, from the acquiree's perspective, there is no prospect of it being acquired in a business combination.
> - The other identifiable assets arising from the business combination and liabilities assumed by the acquirer, but only provided they result from the actions or requirements of external parties (such as regulators, legislative provisions, etc).

[2] Minutes of the meeting are available at http://www.fasb.org/board_meeting_minutes/02-25-04_bcpm.pdf. (Refer to pages 13–14.)

FASB Action Alert:

The Boards decided that the following assets and liabilities, other than goodwill, should be included as part of the business combination accounting:

- All identifiable assets and liabilities of the acquired business that meet the definition of an *asset* or a *liability* immediately before the combination and that would have been assets or liabilities absent the prospects of a business combination.

- Those identifiable assets acquired and liabilities assumed by the combined entity that arise from the combination as a result of actions and requirements of external parties—parties not within the control of either the acquirer or the acquired business. For example, actions of a regulator to induce a combination, requirements of laws that impose obligations as a result of a combination, and so forth.

In considering the October 2003 decision, members of the Group raised concerns about the application of the decision, in particular that it might result in similar circumstances being treated inconsistently when accounting for a business combination. For example, under the Boards' decision that the fair values of the net assets acquired in a business combination should be determined assuming that there is no prospect of a business combination, a payment triggered by a business combination under a pre-existing contractual agreement with a third party would not have been considered a liability that is part of the business combination, even though it is a present obligation of the acquirer assumed in the business combination. Therefore, the Group agreed that both Boards should revisit the October 2003 decision.

Additionally, the Group observed that for business combinations in which the acquiree has *contingent liabilities*[3], issues arise when considering whether a liability exists the moment before a combination. Group members agreed that when the business combination itself is the event that causes a conditional obligation to become unconditional, that obligation (1) is no longer conditional at the acquisition date and (2) ought to be recognised as part of the liabilities assumed in the business combination. [4]

[3] The IASB has tentatively agreed that a *contingent liability* should be defined as a "conditional obligation that arises from past events that may require an outflow of resources embodying economic benefits based on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity."

[4] An exception would be for those circumstances in which there is evidence of an 'abusive' transaction (ie a transaction that is structured to circumvent the principles regarding which assets and liabilities should be included as part of, and which should be excluded from, the business combination, so as to achieve favourable accounting results—for example, moving post-combination expenses of the acquirer to pre-combination expenses of the acquiree or its owner (seller)). The identification of abusive transactions is the subject of the second part of the Group's recommendation and is discussed in part **b** of these Observer Notes.

As a result, the Group will ask the Boards to consider an approach to determining which assets and liabilities should be included as part of the business combination accounting that focuses on the circumstances that exist at the acquisition date. This would include circumstances stemming from the terms and conditions of the combination agreement between the seller and the buyer. More particularly, the Boards will be asked by the Group to consider adopting the following fundamental principle for the recognition and measurement of assets acquired (other than goodwill[5]) and liabilities assumed:

> In a business combination, the acquirer shall recognise the assets acquired (other than goodwill) and liabilities assumed *as part of the combination* at their fair values at the acquisition date. [6]

b. WHICH ASSETS AND LIABILITIES SHOULD BE CONSIDERED PART OF THE BUSINESS COMBINATION: ABUSIVE TRANSACTIONS AND ASSESSING THE SUBSTANCE

The Group will suggest an approach for assessing transactions to determine whether they may have been arranged to achieve specific favourable accounting results—for example, moving post-combination expenses of the acquirer to pre-combination expenses of the acquiree or its owner (seller).

The Group noted certain concerns about the application of the fundamental principle, primarily the possibility of the acquirer or the combined entity shifting its expenses into the business combination accounting. These expenses could include both post-combination expenses of the combined entity and those incurred by the acquirer prior to the combination, such as acquisition related transaction costs. To address this concern, the Group developed an approach to assessing transactions entered into by parties to the combination (the acquirer, the acquiree, and the owners of the acquiree) to determine whether the transactions should be excluded from the business combination accounting.

The approach requires a critical assessment of whether a particular transaction is substantive to the combination, with transactions entered into during negotiations or in contemplation of a business combination likely to be more questionable. Because the approach is directed at identifying transactions entered into for the purpose of shifting expenses, its application (and the factors proposed to facilitate its application) would be directed at liabilities arising from transactions entered by (or on behalf of) the acquiree, the seller, the acquirer, or their related parties.

Specifically, the proposed approach would require a determination of whether the transaction relates to benefits received (or to be received) by:

[5] Goodwill would be measured as a residual, being the excess of the fair value of the business acquired over the sum of the fair values of the assets acquired other than goodwill less the fair values of the liabilities assumed.

[6] Exceptions to the fair value measurement principle would be retained, as previously decided by the Boards, for deferred income taxes and pension, other post-employment benefit, and other employee benefit liabilities.

(1) The acquiree, or

(2) The combined entity.

If the transaction relates to benefits received by the acquiree (or its owners), the associated liability is substantive and, therefore, should be included as part of the business combination accounting, assuming it satisfies the fundamental principle. However, if the transaction relates to benefits received or to be received by the combined entity, the associated liability is non-substantive to the combination and the acquirer should not recognise it as part of the business combination accounting.

Because this approach requires judgment—an assessment of whether transactions entered into relate to benefits received by the acquiree—the Group will also propose factors to consider in applying that judgment. Although the factors are related, they are not mutually exclusive and no factor is individually conclusive. To the extent that information is available, all factors should be assessed in applying judgment.

Those factors are:

a. The timing of the obligating event or transaction,
b. The reason for the contract or transaction,
c. Who initiated the contract or transaction, and
d. Whether the acquiree and its owners (or the acquirer or combined entity) is the most significant beneficiary of the arrangement.

In analysing the fundamental principle outlined in **a** and the approach to dealing with abusive transactions outlined above, the Boards will consider their application to a set of examples. Those examples are included in Attachment A (refer to pages 1-3 of Attachment A [pages 11-14 of these minutes]).

c. Standalone Contingent Liabilities (Contingencies That are Not Liabilities)

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* currently defines a contingent liability as

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

The IASB has tentatively agreed to redefine a contingent liability as:

> …a conditional obligation that arises from past events that *may require* an outflow of resources embodying economic benefits based on the

> occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. [Emphasis added.]

This means that items that satisfy part (b) of the current definition of a contingent liability (ie present obligations that are not recognised) would no longer be defined as contingent liabilities. Instead, such items would be defined as unrecognised *liabilities*. They would therefore qualify as liabilities to be considered for recognition by an acquirer in a business combination.

The IASB has observed that in some (but not all) cases a contingent liability (conditional obligation) is accompanied by an associated unconditional obligation that satisfies the definition of a liability.[7] Where a contingent liability is accompanied by an associated liability, an acquirer in a business combination would recognise the liability that is associated with the contingent liability and would not recognise separately the contingent liability itself (because the fair value of the contingent liability would be reflected in the fair value measurement of the accompanying liability).

The IASB has also observed that conditional obligations of an acquiree may not be accompanied by associated liabilities. For ease of reference, such contingent liabilities may be referred to as 'standalone' contingent liabilities. The IASB observed that contingent liabilities have a fair value and therefore affect the price an acquirer is prepared to pay for an acquiree. In addition, the IASB observed that in some cases, an acquirer might assume contingent liabilities and recognise a gain because of an insufficient amount of positive goodwill to absorb the fair values of those contingent liabilities. The IASB expressed a concern about circumstances in which an identifiable business risk exists at the acquisition date (ie contingent liability) that does not meet the definition of a liability, but which affects (reduces) the price that a buyer would be willing to pay for the acquiree.

The FASB, however, has decided not to use the term *contingent liability,* in part, because:

a. FASB Statement No. 5, *Accounting for Contingencies*, does not define the term.

b. Constituents may misunderstand the term to include possible liabilities.

c. Most importantly, the fundamental principle in the business combinations project limits recognition only to those items that qualify as assets or liabilities; thus, there is no compelling need to define any particular class of contingencies (contingent gains or contingent losses) that are not assets or liabilities.

The Boards will discuss the issues surrounding contingent liabilities to determine how to address concerns raised about circumstances in which an identifiable business risk exists at the acquisition date that does not meet the definition of a liability, but which affects (reduces) the price that a buyer would be willing to pay for the acquiree. The critical

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[7] For example, an entity that issues a guarantee or provides a warranty has: (i) a contingent liability (conditional obligation) that becomes unconditional when the specified triggering event occurs (ie debtor defaults, product develops a fault) and (ii) an unconditional obligation that satisfies the definition of a liability because the entity has a present obligation to stand ready to perform under the terms of the contract.

issue is whether or not there is a need to recognise and measure apart from goodwill any items (potential risks assumed) that do not qualify as a liability at the acquisition date. The concern about this issue seems most heightened when a potential risk becomes identifiable and measurable.

An example of a standalone contingent liability that the Boards may refer to in the discussion is as follows (Examples “New 6” and “New 7” on page 4 of Attachment A [page 15 of these minutes]):

> In September 2000, the European Commission enacted the end-of-life vehicle (ELV) directive. This directive required member states to set legislation to encourage re-use, recycling and other forms of recovery of ELVs. A key requirement of the directive is the free take-back of ELVs at no cost to the final vehicle owner. The EU directive does not set common EU-wide standards but leaves it to member states to define how the requirements should be implemented in their country. Under the directive, manufacturers (or importers of cars into member states) are financially responsible for at least a portion of the cost of the take-back of vehicles placed in service after July 2002 and all vehicles placed in service prior to July 2002 that are still in operation after 31 December 2006.
>
> Therefore, in 2000 (and earlier), car manufacturers operating in Europe knew that they were very likely to be faced with legislation that would result in decommissioning liabilities not only for vehicles sold in the future, but also, after 2006, for vehicles that they had already sold.

When the IASB considered this example in March, it decided that, *prior to substantive enactment of the directive*, European vehicle manufacturers and importers had a contingent liability for the conditional obligation to take back those vehicles that they had previously manufactured and which would be in operation after 2006. The IASB also decided that in this example there was no unconditional obligation that satisfied the definition of a liability. Therefore, outside of a business combination, the IASB agreed that, prior to substantive enactment of the directive, European vehicle manufacturers and importers should not recognise a liability, regardless of the likelihood of the directive being enacted.

Under the staff recommendation, an acquirer of a European car manufacturer or importer would not recognise a liability as part of the business combination for the obligation to take back cars, unless the directive had been substantively enacted by the date of the business combination. Instead, the fair value of the contingent liability would be subsumed into goodwill.

The FASB tentatively agreed at its meeting on 14 April 2004 that no exceptions should be made to the fundamental principle in the business combinations project that only those items that qualify as assets or liabilities should be recognised in a business combination separately from goodwill.

Business Combinations II—Application of the Purchase Method
Attachment A to the Audience Handout

	Example	**Part of the Combination under the Oct. 2003 Joint Decision?**
	Agreements that Exist Prior to Business Combination Negotiations	
L	***Employee Benefits Part IV – Plan Obligations for which Payment is Conditioned on the Completion of the Business Combination*** Acquirer Co. acquires 100% of Sub Co. Sub Co.'s has a pre-existing contractual agreement that requires Sub Co. to make payments to its employees in the event that Sub Co. is acquired. Are the payments. . .	No.
NEW 2	<u>Example 2:</u> Target Co. seeks to hire a new chief executive (Candidate). The highly-desired and sought Candidate agrees to accept a position with Target provided that Target agrees to pay Candidate $10 million in the event that Target is acquired prior to Candidate's voluntary retirement or resignation for certain specified causes not within the control of Target (a golden parachute contract). Ten years later, on December 30, 200X, it becomes virtually certain that Target is to be acquired by Acquirer Co. and that the closing will occur in the first week of January. Is the payment . . .	Not applicable.
NEW 3	<u>Example 3:</u> Target Co. is the target of a much-publicized hostile takeover bid by Acquirer Co. Certain key employees of Target, including the CEO, are concerned that the management of Acquirer Co. intends to replace the executives at Target with its own senior staff. Consequently, the CEO begins to seek employment elsewhere. Worried about its CEO's departure during a critical moment, Target's directors offer solace to its CEO by drawing up a golden parachute contract that guarantees the CEO $1 million if Target is acquired. A few weeks later, Acquirer raises its tender offer and Target is acquired anyway. Is the payment . . .	Not applicable.
G	***Payments Triggered by a Business Combination Part I*** Acquirer Co. acquires 100% of Sub Co. Sub Co. has an existing contractual agreement with one of its suppliers. That agreement requires Sub Co. to make a fixed payment to the supplier in the event Sub Co. is acquired in a business combination. These future payments meet the definition of a liability at the date of acquisition. Is the future payment to the supplier (which is triggered by the business combination) . . . ?	No.
B	***Restructuring Reserves Part II*** Acquirer Co. purchases 100% of Sub Co. Sub Co. planned to sell its Division A and met the criteria under existing guidance to recognize a liability <u>**for certain exit costs**</u>	Yes.

	Example	**Part of the Combination under the Oct. 2003 Joint Decision?**
	associated with the planned sale (IAS 37 or Statement 146). The sale of Division A to another buyer is pending. Acquirer Co. agrees to assume Sub Co.'s liability **for the exit costs** relating to the sale of Division A. Is Sub Co.'s liability . . .	
	Agreements Entered into During Business Combination Negotiations or as a Condition of a Combination	
K	***Employee Benefits Part III – Plan Amendments that are a Condition of the Business Combination*** Acquirer Co. acquires 100% of Sub Co. It is asserted that Sub Co.'s owners require that as a condition of the business combination, Acquirer Co. improve the post-employment benefit plan for Sub Co.'s employees. Are the effects of the condition. . .	No.
NEW 4	<u>Example 4:</u> Acquirer Co. is attempting to purchase Target Co. and has made a tender offer for Target's shares at a modest premium. Acquirer would like to the CEO of Target to "sell" (push) the deal to Target's shareholders and directors, who haven't shown a great deal of enthusiasm for the "merger." Accordingly, Acquirer promises to compensate the CEO in exchange for his best efforts in seeing to that the business combination is consummated. However, Acquirer would like to avoid recognition of a post-combination compensation expense. So prior to the closing date, Acquirer makes a "quiet" arrangement with the key directors of Target to set up a golden parachute for the CEO—that is, to induce him to sell the deal, an arrangement is made through Target's directors that promises to pay CEO $10 million in the event that a business combination is consummated. As part of that arrangement, Acquirer agrees that any increase in the liabilities of Target 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. Is the payment . . .	Not applicable.
NEW 5	***Acquisition Expenses Paid by the Seller*** Acquirer Co. seeks to acquire Target Co., a subsidiary of Seller Co. Acquirer Co. would like to avoid recognition of $1m expense for its costs incurred related to legal fees and due diligence associated with the deal. Prior to the closing date, Acquirer Co. makes deal with Seller Co. to pay $1m additional "consideration for Target Co." if Seller Co. will assume the liabilities for Acquirer Co.'s acquisition related costs. Are Acquirer Co.'s acquisition related costs . . .	Not applicable.
C	***Branding Part I*** Acquirer Co. purchases 100% of Sub Co. from Trade Co. Sub Co. owns a fleet of trucks that are branded with Trade Co.'s name. Because Trade Co. will continue to operate	No.

	Example	**Part of the Combination under the Oct. 2003 Joint Decision?**
	other similar truck fleets, it insists that its brand name is removed from Sub Co.'s trucks as a condition of the combination. Is the requirement to remove Trade Co.'s brand name from Sub Co.'s trucks . . .	
H	***Payments Triggered by a Business Combination Part II*** A law is passed that requires the removal of asbestos. As part of that law, certain companies (including Sub Co.) are "grandfathered" and not required to remove the asbestos unless they are acquired in a business combination. Acquirer Co. acquires 100% of Sub Co., and as a result the combined entity is required to incur the costs to remove the asbestos. Is the obligation to remove the asbestos . . .	Yes.
Previous	***Weak Bank-Strong Bank*** To induce an acquisition of an acquiree (Weak Bank), as a condition of a combination agreement, a regulatory authority agrees to provide financial assistance in the form of cash, a receivable, or guarantees. That assistance is transferred to the acquirer (Strong Bank) or to the newly merged combined entity upon the closing of the combination agreement. Strong Bank and the owners of Weak Bank would not otherwise accept the terms of the combination without the inducement from the regulatory authority. That is, Strong Bank would not pay the amount it agreed to pay to the owners of Weak Bank or the owners of Weak Bank were unwilling to accept lower offers from Strong Bank and other potential buyers. Is the financial assistance from the regulatory authority . . .	Yes.
NEW 1	Acquirer Co. seeks to acquire Target Co., a subsidiary of Seller Co. Target is a standalone business that performs all of its manufacturing in a building owned by its parent (Seller). Seller has been renting that building to Target on a month-to-month basis at market rates. Target owns all of the manufacturing assets in the building (including specialized machinery) in addition to a nearby warehousing and distribution facility. Because Target's business relies on its continuing ability to use the manufacturing building, Acquirer arranges with Seller (as a condition of its acquisition of Target) to also acquire the building. The price of the building is not separately negotiated or identified in the acquisition agreement. At issue is whether Acquirer should consider the acquisition of the building as part of its acquisition of Target. Alternatively, Acquirer could "parse out" the fair value of the building and separately account for its acquisition of (1) Target as a business acquired in a business combination and (2) the manufacturing building as an asset acquisition. Is Acquirer Co.'s agreement to purchase the manufacturing building . . .	Not applicable.

	Example	**Part of the Combination under the Oct. 2003 Joint Decision?**
E	***Constructive Obligations*** As a result of the business combination, Acquirer Co. assumes a liability of $16,000 that meets the definition of a constructive obligation. The constructive obligation arises because Acquirer Co. has a widely published policy that is historically honored. Under the policy, Acquirer Co. rectifies faults in its products and faults of acquired companies' products even if these faults become apparent after the warranty period has expired. Sub Co. did not have a similar constructive obligation relating to product faults. Is the constructive obligation . . .	No.
	Measurement and Contemplated Commitments	
I	***Employee Benefits Part I – Actuarial Assumptions*** Acquirer Co. acquires 100% of Sub Co. Acquirer Co.'s actuarial assumptions for its postretirement benefit plan are different than those of Sub Co. Should the measurement of the post-retirement benefit obligation assumed be based on the acquirer's actuarial assumptions as part of the combination?	Yes.
J	***Employee Benefits Part II – Contemplated or Expected Benefit Plan Amendments*** Acquirer Co. acquires 100% of Sub Co. Acquirer Co. expects to change the terms of the acquiree's post-employment benefit plan. Those changes are not made before the acquisition date. Should the effect of expected changes . . .	No.
A	***Restructuring Reserves Part I*** Acquirer Co. purchases 100% of Sub Co. Acquirer Co. plans to sell one of Sub Co.'s divisions (Division A). Do the costs that Acquirer Co. expects to incur give rise to a liability that should be part of the business combination accounting?	No.
D	***Branding Part II*** Acquirer Co. purchases 100% of Sub Co. from Trade Co. Sub Co. owns a fleet of trucks that are branded with the Sub Co.'s name. Acquirer Co. plans to integrate Sub Co. into its operations and plans to brand the trucks using its name. Trade Co. does not insist that the Sub Co. brand name on the trucks be removed. Are the costs to remove the Sub Co.'s brand name from Sub Co.'s trucks and replace it with its own brand name. . .	No.

Contingent Liabilities (conditional obligations)

	Example	**Part of the Combination under the October 2003 Joint Decision?**
NEW 6	**(From IASB March 2004 Agenda Paper 12)** ***Assuming it is August 2000 (prior to the substantive enactment of the directive)*** In September 2000, the European Commission enacted the end-of-life vehicle (ELV) directive. This directive required member states to set legislation to encourage re-use, recycling and other forms of recovery of ELVs. A key requirement of the directive is the free-take-back of ELVs at no cost to the final vehicle owner. The EU directive does not set common EU-wide standards but leaves it to Member States to define how the requirements should be implemented in their country. Under the directive, manufacturers (or importers of cars into Member States) are financially responsible for at least a portion of the cost of the take-back of vehicles placed in service after July 2002 and all vehicles placed in service prior to July 2002 that are still in operation in January 2007. Therefore, in 2000, car manufacturers operating in Europe knew that they were very likely to be faced with legislation that would result in decommissioning liabilities not only for ELVs sold in the future, but also, after 2007, for cars that they had already sold. (In fact the EU directive was widely trailed—we note that some entities highlighted the risk in their 1999 financial statements.)	Not applicable.
NEW 7	***Assuming it is after the substantive enactment of the directive*** Using the same facts as the above example. However, assume the EU directive has been substantively enacted.	Not applicable.