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(Acts whose publication is obligatory)

COMMISSION REGULATION (EC) No 2236/2004

of 29 December 2004

amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards (IFRSs) Nos 1, 3 to 5, International Accounting Standards (IASs) Nos 1, 10, 12, 14, 16 to 19, 22, 27, 28, 31 to 41 and the interpretations by the Standard Interpretation Committee (SIC) Nos 9, 22, 28 and 32

(Text with EEA relevance)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards [1], and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1725/2003 [2], certain international standards and interpretations that were extant at 1 September 2002 were adopted.

(2) On 31 March 2004, the International Accounting Standard Board (IASB) published among others three new standards, International Financial Reporting Standards (IFRSs) Nos 3 to 5, and two revised standards, IASs Nos 36 and 38, containing consequential changes. Those new standards further complete the 'stable platform', that is the set of standards which listed Community companies will have to apply in their consolidated accounts from 1 January 2005 onwards. The general objective is to improve the quality of International Accounting Standards (IASs) as well as to increase convergence of accounting standards around the world.

(3) The consultation with technical experts in the field confirms that the new IFRSs and the revised IASs meet the technical criteria for adoption set out in Article 3 of Regulation (EC) No 1606/2002, and in particular the requirement of being conducive to the European public good.

(4) The adoption of IAS 36 implies, by way of consequence, amendments to IAS 16, which was adopted by Regulation (EC) No 1725/2003, in order to ensure consistency between the accounting standards concerned.

(5) The adoption of IFRS 3, 4 and 5 implies, by way of consequence, amendments to other international accounting standards and interpretations in order to ensure consistency between international accounting standards. Those consequential amendments are affecting International Financial Reporting Standard (IFRS) No 1, International Accounting Standards (IASs) Nos 1, 10, 12, 14, 16 to 19, 27, 28, 31 to 34, 36 to 41 and interpretation issued by the Standard Interpretation Committee (SIC) No 32. In addition, the adoption of IFRS 3 makes redundant the International Accounting Standard (IAS) 22 and the interpretations issued by the Standard Interpretation Committee (SIC) Nos 9, 22 and 28; they should accordingly be replaced. Furthermore, adoption of IFRS 5 should lead to a replacement of IAS 35.

(6) Regulation (EC) No 1725/2003 should therefore be amended accordingly.

(7) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

The Annex to Regulation (EC) No 1725/2003 is amended as follows:

(1) The International Accounting Standard (IAS) 22 and the interpretations by the Standard Interpretation Committee (SIC) Nos 9, 22 and 28 are replaced by International Financial Reporting Standard (IFRS) 3 [*Business combinations*] as set out in the Annex to this Regulation;

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[1] OJ L 243, 11.9.2002, p. 1.

[2] OJ L 261, 13.10.2003, p. 1. Regulation as last amended by Regulation (EC) No 2086/2004 (OJ L 363, 9.12.2004, p. 1).

(2) The (IFRS) Nos 4 [*Insurance contracts]* is inserted as set out in the Annex to this Regulation;

(3) IAS 35 is replaced by IFRS 5 [*Non-current assets held for sale and discontinued operations]* as set out in the Annex to this Regulation;

(4) IASs Nos 36 and 38 are replaced by IASs Nos 36 and 38 as set out in the Annex to this Regulation;

(5) The adoption of IFRS 3 implies, by way of consequence, amendments to IFRS 1, to IASs 12, 14, 16, 19, 27, 28, 31, 32, 33, 34, 37, 39 and to SIC 32 in order to ensure consistency between accounting standards;

(6) The adoption of IFRS 4 implies, by way of consequence, amendments to IFRS 1 and to IASs 18, 19, 32, 37, 39, 40 in order to ensure consistency between international accounting standards;

(7) The adoption of IFRS 5 implies, by way of consequence, amendments to IFRS 1, IFRS 3 and to IASs 1, 10, 16, 17, 27, 28, 31, 36, 37, 38, 40, 41 in order to ensure consistency between international accounting standards;

Article 2

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

It shall apply from 1 January 2005 at the latest.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 29 December 2004.

For the Commission
Charlie McCREEVY
Member of the Commission

ANNEX

INTERNATIONAL FINANCIAL REPORTING STANDARDS

No	Title
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 5	Non-current assets held for sale and discontinued operations
IAS 36	Impairment of assets
IAS 38	Intangible assets

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INTERNATIONAL FINANCIAL REPORTING STANDARD 3

Business combinations

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OBJECTIVE

1. The objective of this IFRS is to specify the financial reporting by an entity when it undertakes a *business combination*. In particular, it specifies that all business combinations should be accounted for by applying the purchase method. Therefore, the acquirer recognises the acquiree's identifiable assets, liabilities and *contingent liabilities* at their *fair values* at the *acquisition date*, and also recognises *goodwill*, which is subsequently tested for impairment rather than amortised.

SCOPE

2. Except as described in paragraph 3, entities shall apply this IFRS when accounting for business combinations.

3. This IFRS does not apply to:

   (a) business combinations in which separate entities or *businesses* are brought together to form a *joint venture*.

   (b) business combinations involving entities or businesses under common control.

   (c) business combinations involving two or more *mutual entities*.

   (d) business combinations in which separate entities or businesses are brought together to form a *reporting entity* by contract alone without the obtaining of an ownership interest (for example, combinations in which separate entities are brought together by contract alone to form a dual listed corporation).

Identifying a business combination

4. A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains *control* of one or more other businesses, the acquiree. If an entity obtains control of one or more other entities that are not businesses, the bringing together of those entities is not a business combination. When an entity acquires a group of assets or net assets that does not constitute a business, it shall allocate the cost of the group between the individual identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition.

5. A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may involve the purchase by an entity of the equity of another entity, the purchase of all the net assets of another entity, the assumption of the liabilities of another entity, or the purchase of some of the net assets of another entity that together form one or more businesses. It may be effected by the issue of equity instruments, the transfer of cash, cash equivalents or other assets, or a combination thereof. The transaction may be between the shareholders of the combining entities or between one entity and the shareholders of another entity. It may involve the establishment of a new entity to control the combining entities or net assets transferred, or the restructuring of one or more of the combining entities.

6. A business combination may result in a parent-subsidiary relationship in which the acquirer is the *parent* and the acquiree a *subsidiary* of the acquirer. In such circumstances, the acquirer applies this IFRS in its consolidated financial statements. It includes its interest in the acquiree in any separate financial statements it issues as an investment in a subsidiary (see IAS 27 *Consolidated and Separate Financial Statements*).

7. A business combination may involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the equity of the other entity. Such a combination does not result in a parentsubsidiary relationship.

8. Included within the definition of a business combination, and therefore the scope of this IFRS, are business combinations in which one entity obtains control of another entity but for which the date of obtaining control (ie the acquisition date) does not coincide with the date or dates of acquiring an ownership interest (ie the *date or dates of exchange*). This situation may arise, for example, when an investee enters into share buy-back arrangements with some of its investors and, as a result, control of the investee changes.

9. This IFRS does not specify the accounting by venturers for interests in joint ventures (see IAS 31 *Interests in Joint Ventures*).

Business combinations involving entities under common control

10. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

11. A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities. Therefore, a business combination is outside the scope of this IFRS when the same group of individuals has, as a result of contractual arrangements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory.

12. An entity can be controlled by an individual, or by a group of individuals acting together under a contractual arrangement, and that individual or group of individuals may not be subject to the financial reporting requirements of IFRSs. Therefore, it is not necessary for combining entities to be included as part of the same consolidated financial statements for a business combination to be regarded as one involving entities under common control.

13. The extent of *minority interests* in each of the combining entities before and after the business combination is not relevant to determining whether the combination involves entities under common control. Similarly, the fact that one of the combining entities is a subsidiary that has been excluded from the consolidated financial statements of the group in accordance with IAS 27 is not relevant to determining whether a combination involves entities under common control.

METHOD OF ACCOUNTING

14. **All business combinations shall be accounted for by applying the purchase method.**

15. The purchase method views a business combination from the perspective of the combining entity that is identified as the acquirer. The acquirer purchases net assets and recognises the assets acquired and liabilities and contingent liabilities assumed, including those not previously recognised by the acquiree. The measurement of the acquirer's assets and liabilities is not affected by the transaction, nor are any additional assets or liabilities of the acquirer recognised as a result of the transaction, because they are not the subjects of the transaction.

APPLICATION OF THE PURCHASE METHOD

16. Applying the purchase method involves the following steps:

    (a) identifying an acquirer;

(b) measuring the cost of the business combination;

and

(c) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

Identifying the acquirer

17. **An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses.**

18. Because the purchase method views a business combination from the acquirer's perspective, it assumes that one of the parties to the transaction can be identified as the acquirer.

19. Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. A combining entity shall be presumed to have obtained control of another combining entity when it acquires more than one-half of that other entity's voting rights, unless it can be demonstrated that such ownership does not constitute control. Even if one of the combining entities does not acquire more than one-half of the voting rights of another combining entity, it might have obtained control of that other entity if, as a result of the combination, it obtains:

(a) power over more than one-half of the voting rights of the other entity by virtue of an agreement with other investors;

or

(b) power to govern the financial and operating policies of the other entity under a statute or an agreement;

or

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the other entity;

or

(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other entity.

20. Although sometimes it may be difficult to identify an acquirer, there are usually indications that one exists. For example:

(a) if the fair value of one of the combining entities is significantly greater than that of the other combining entity, the entity with the greater fair value is likely to be the acquirer;

(b) if the business combination is effected through an exchange of voting ordinary equity instruments for cash or other assets, the entity giving up cash or other assets is likely to be the acquirer;

and

(c) if the business combination results in the management of one of the combining entities being able to dominate the selection of the management team of the resulting combined entity, the entity whose management is able so to dominate is likely to be the acquirer.

21. In a business combination effected through an exchange of equity interests, the entity that issues the equity interests is normally the acquirer. However, all pertinent facts and circumstances shall be considered to determine which of the combining entities has the power to govern the financial and operating policies of the other entity (or entities) so as to obtain benefits from its (or their) activities. In some business combinations, commonly referred to as reverse acquisitions, the acquirer is the entity whose equity interests have been acquired and the issuing entity is the acquiree. This might be the case when, for example, a private entity arranges to have itself 'acquired' by a smaller public entity as a means of obtaining a stock exchange listing. Although legally the issuing public entity is regarded as the parent and the private entity is regarded as the subsidiary, the legal subsidiary is the acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities. Commonly the acquirer is the larger entity; however, the facts and circumstances surrounding a combination sometimes indicate that a smaller entity acquires a larger entity. Guidance on the accounting for reverse acquisitions is provided in paragraphs B1-B15 of Appendix B.

22. When a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination shall be identified as the acquirer on the basis of the evidence available.

23. Similarly, when a business combination involves more than two combining entities, one of the combining entities that existed before the combination shall be identified as the acquirer on the basis of the evidence available. Determining the acquirer in such cases shall include a consideration of, amongst other things, which of the combining entities initiated the combination and whether the assets or revenues of one of the combining entities significantly exceed those of the others.

Cost of a business combination

24. **The acquirer shall measure the cost of a business combination as the aggregate of:**

    (a) **the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree;**

    plus

    (b) **any costs directly attributable to the business combination.**

25. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date. However, a business combination may involve more than one exchange transaction, for example when it is achieved in stages by successive share purchases. When this occurs:

    (a) the cost of the combination is the aggregate cost of the individual transactions;

    and

    (b) the date of exchange is the date of each exchange transaction (ie the date that each individual investment is recognised in the financial statements of the acquirer), whereas the acquisition date is the date on which the acquirer obtains control of the acquiree.

26. Assets given and liabilities incurred or assumed by the acquirer in exchange for control of the acquiree are required by paragraph 24 to be measured at their fair values at the date of exchange. Therefore, when settlement of all or any part of the cost of a business combination is deferred, the fair value of that deferred component shall be determined by discounting the amounts payable to their present value at the date of exchange, taking into account any premium or discount likely to be incurred in settlement.

27. The published price at the date of exchange of a quoted equity instrument provides the best evidence of the instrument's fair value and shall be used, except in rare circumstances. Other evidence and valuation methods shall be considered only in the rare circumstances when the acquirer can demonstrate that the published price at the date of exchange is an unreliable indicator of fair value, and that the other evidence and valuation methods provide a more reliable measure of the equity instrument's fair value. The published price at the date of exchange is an unreliable indicator only when it has been affected by the thinness of the market. If the published price at the date of exchange is an unreliable indicator or if a published price does not exist for equity instruments issued by the acquirer, the fair value of those instruments could, for example, be estimated by reference to their proportional interest in the fair value of the acquirer or by reference to the proportional interest in the fair value of the acquiree obtained, whichever is the more clearly evident. The fair value at the date of exchange of monetary assets given to equity holders of the acquiree as an alternative to equity instruments may also provide evidence of the total fair value given by the acquirer in exchange for control of the acquiree. In any event, all aspects of the combination, including significant factors influencing the negotiations, shall be considered. Further guidance on determining the fair value of equity instruments is set out in IAS 39 *Financial Instruments: Recognition and Measurement*.

28. The cost of a business combination includes liabilities incurred or assumed by the acquirer in exchange for control of the acquiree. Future losses or other costs expected to be incurred as a result of a combination are not liabilities incurred or assumed by the acquirer in exchange for control of the acquiree, and are not, therefore, included as part of the cost of the combination.

29. The cost of a business combination includes any costs directly attributable to the combination, such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination. General administrative costs, including the costs of maintaining an acquisitions department, and other costs that cannot be directly attributed to the particular combination being accounted for are not included in the cost of the combination: they are recognised as an expense when incurred.

30. The costs of arranging and issuing financial liabilities are an integral part of the liability issue transaction, even when the liabilities are issued to effect a business combination, rather than costs directly attributable to the combination. Therefore, entities shall not include such costs in the cost of a business combination. In accordance with IAS 39, such costs shall be included in the initial measurement of the liability.

31. Similarly, the costs of issuing equity instruments are an integral part of the equity issue transaction, even when the equity instruments are issued to effect a business combination, rather than costs directly attributable to the combination. Therefore, entities shall not include such costs in the cost of a business combination. In accordance with IAS 32 *Financial Instruments: Disclosure and Presentation*, such costs reduce the proceeds from the equity issue.

Adjustments to the cost of a business combination contingent on future events

32. **When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is *probable* and can be measured reliably.**

33. A business combination agreement may allow for adjustments to the cost of the combination that are contingent on one or more future events. The adjustment might, for example, be contingent on a specified level of profit being maintained or achieved in future periods, or on the market price of the instruments issued being maintained. It is usually possible to estimate the amount of any such adjustment at the time of initially accounting for the combination without impairing the reliability of the information, even though some uncertainty exists. If the future events do not occur or the estimate needs to be revised, the cost of the business combination shall be adjusted accordingly.

34. However, when a business combination agreement provides for such an adjustment, that adjustment is not included in the cost of the combination at the time of initially accounting for the combination if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

35. In some circumstances, the acquirer may be required to make a subsequent payment to the seller as compensation for a reduction in the value of the assets given, equity instruments issued or liabilities incurred or assumed by the acquirer in exchange for control of the acquiree. This is the case, for example, when the acquirer guarantees the market price of equity or debt instruments issued as part of the cost of the business combination and is required to issue additional equity or debt instruments to restore the originally determined cost. In such cases, no increase in the cost of the business combination is recognised. In the case of equity instruments, the fair value of the additional payment is offset by an equal reduction in the value attributed to the instruments initially issued. In the case of debt instruments, the additional payment is regarded as a reduction in the premium or an increase in the discount on the initial issue.

Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed

36. **The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in paragraph 37 at their fair values at that date, except for noncurrent assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which shall be recognised at fair value less costs to sell. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised shall be accounted for in accordance with paragraphs 51-57.**

37. **The acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:**

    (a) **in the case of an asset other than an *intangible asset*, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;**

    (b) **in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;**

    (c) **in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.**

38. The acquirer's income statement shall incorporate the acquiree's profits and losses after the acquisition date by including the acquiree's income and expenses based on the cost of the business combination to the acquirer. For example, depreciation expense included after the acquisition date in the acquirer's income statement that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, ie their cost to the acquirer.

39. Application of the purchase method starts from the acquisition date, which is the date on which the acquirer effectively obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalised at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.

40. Because the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in paragraph 37 at their fair values at the acquisition date, any minority interest in the acquiree is stated at the minority's proportion of the net fair value of those items. Paragraphs B16 and B17 of Appendix B provide guidance on determining the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities for the purpose of allocating the cost of a business combination.

Acquiree's identifiable assets and liabilities

41. In accordance with paragraph 36, the acquirer recognises separately as part of allocating the cost of the combination only the identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the acquisition date and satisfy the recognition criteria in paragraph 37. Therefore:

    (a) the acquirer shall recognise liabilities for terminating or reducing the activities of the acquiree as part of allocating the cost of the combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;

    and

    (b) the acquirer, when allocating the cost of the combination, shall not recognise liabilities for future losses or other costs expected to be incurred as a result of the business combination.

42. A payment that an entity is contractually required to make, for example, to its employees or suppliers in the event that it is acquired in a business combination is a present obligation of the entity that is regarded as a contingent liability until it becomes probable that a business combination will take place. The contractual obligation is recognised as a liability by that entity in accordance with IAS 37 when a business combination becomes probable and the liability can be measured reliably. Therefore, when the business combination is effected, that liability of the acquiree is recognised by the acquirer as part of allocating the cost of the combination.

43. However, an acquiree's restructuring plan whose execution is conditional upon its being acquired in a business combination is not, immediately before the business combination, a present obligation of the acquiree. Nor is it a contingent liability of the acquiree immediately before the combination because it is not a possible obligation arising from a past event whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the acquiree. Therefore, an acquirer shall not recognise a liability for such restructuring plans as part of allocating the cost of the combination.

44. The identifiable assets and liabilities that are recognised in accordance with paragraph 36 include all of the acquiree's assets and liabilities that the acquirer purchases or assumes, including all of its financial assets and financial liabilities. They might also include assets and liabilities not previously recognised in the acquiree's financial statements, eg because they did not qualify for recognition before the acquisition. For example, a tax benefit arising from the acquiree's tax losses that was not recognised by the acquiree before the business combination qualifies for recognition as an identifiable asset in accordance with paragraph 36 if it is probable that the acquirer will have future taxable profits against which the unrecognised tax benefit can be applied.

Acquiree's intangible assets

45. In accordance with paragraph 37, the acquirer recognises separately an intangible asset of the acquiree at the acquisition date only if it meets the definition of an intangible asset in IAS 38 *Intangible Assets* and its fair value can be measured reliably. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset and its fair value can be measured reliably. IAS 38 provides guidance on determining whether the fair value of an intangible asset acquired in a business combination can be measured reliably.

46. A non-monetary asset without physical substance must be identifiable to meet the definition of an intangible asset. In accordance with IAS 38, an asset meets the identifiability criterion in the definition of an intangible asset only if it:

(a) is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability;

or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Acquiree's contingent liabilities

47. Paragraph 37 specifies that the acquirer recognises separately a contingent liability of the acquiree as part of allocating the cost of a business combination only if its fair value can be measured reliably. If its fair value cannot be measured reliably:

(a) there is a resulting effect on the amount recognised as goodwill or accounted for in accordance with paragraph 56;

and

(b) the acquirer shall disclose the information about that contingent liability required to be disclosed by IAS 37.

Paragraph B16(l) of Appendix B provides guidance on determining the fair value of a contingent liability.

48. **After their initial recognition, the acquirer shall measure contingent liabilities that are recognised separately in accordance with paragraph 36 at the higher of:**

(a) the amount that would be recognised in accordance with IAS 37,

and

(b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

49. The requirement in paragraph 48 does not apply to contracts accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. However, loan commitments excluded from the scope of IAS 39 that are not commitments to provide loans at below-market interest rates are accounted for as contingent liabilities of the acquiree if, at the acquisition date, it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or if the amount of the obligation cannot be measured with sufficient reliability. Such a loan commitment is, in accordance with paragraph 37, recognised separately as part of allocating the cost of a combination only if its fair value can be measured reliably.

50. Contingent liabilities recognised separately as part of allocating the cost of a business combination are excluded from the scope of IAS 37. However, the acquirer shall disclose for those contingent liabilities the information required to be disclosed by IAS 37 for each class of provision.

Goodwill

51. **The acquirer shall, at the acquisition date:**

   (a) **recognise goodwill acquired in a business combination as an asset;**

   and

   (b) **initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 36.**

52. Goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised.

53. To the extent that the acquiree's identifiable assets, liabilities or contingent liabilities do not satisfy the criteria in paragraph 37 for separate recognition at the acquisition date, there is a resulting effect on the amount recognised as goodwill (or accounted for in accordance with paragraph 56). This is because goodwill is measured as the residual cost of the business combination after recognising the acquiree's identifiable assets, liabilities and contingent liabilities.

54. **After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less any accumulated impairment losses.**

55. Goodwill acquired in a business combination shall not be amortised. Instead, the acquirer shall test it for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with IAS 36 *Impairment of Assets*.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost

56. **If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 36 exceeds the cost of the business combination, the acquirer shall:**

   (a) **reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination;**

   and

   (b) **recognise immediately in profit or loss any excess remaining after that reassessment.**

57. A gain recognised in accordance with paragraph 56 could comprise one or more of the following components:

(a) errors in measuring the fair value of either the cost of the combination or the acquiree's identifiable assets, liabilities or contingent liabilities. Possible future costs arising in respect of the acquiree that have not been reflected correctly in the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities are a potential cause of such errors.

(b) a requirement in an accounting standard to measure identifiable net assets acquired at an amount that is not fair value, but is treated as though it is fair value for the purpose of allocating the cost of the combination. For example, the guidance in Appendix B on determining the fair values of the acquiree's identifiable assets and liabilities requires the amount assigned to tax assets and liabilities to be undiscounted.

(c) a bargain purchase.

Business combination achieved in stages

58. A business combination may involve more than one exchange transaction, for example when it occurs in stages by successive share purchases. If so, each exchange transaction shall be treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the acquirer's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step.

59. When a business combination involves more than one exchange transaction, the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different at the date of each exchange transaction. Because:

(a) the acquiree's identifiable assets, liabilities and contingent liabilities are notionally restated to their fair values at the date of each exchange transaction to determine the amount of any goodwill associated with each transaction;

and

(b) the acquiree's identifiable assets, liabilities and contingent liabilities must then be recognised by the acquirer at their fair values at the acquisition date,

any adjustment to those fair values relating to previously held interests of the acquirer is a revaluation and shall be accounted for as such. However, because this revaluation arises on the initial recognition by the acquirer of the acquiree's assets, liabilities and contingent liabilities, it does not signify that the acquirer has elected to apply an accounting policy of revaluing those items after initial recognition in accordance with, for example, IAS 16 *Property, Plant and Equipment*.

60. Before qualifying as a business combination, a transaction may qualify as an investment in an associate and be accounted for in accordance with IAS 28 *Investments in Associates* using the equity method. If so, the fair values of the investee's identifiable net assets at the date of each earlier exchange transaction will have been determined previously in applying the equity method to the investment.

Initial accounting determined provisionally

61. The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination.

62. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognise any adjustments to those provisional values as a result of completing the initial accounting:

   (a) within twelve months of the acquisition date;

   and

   (b) from the acquisition date. Therefore:

      (i) the carrying amount of an identifiable asset, liability or contingent liability that is recognised or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognised from that date.

      (ii) goodwill or any gain recognised in accordance with paragraph 56 shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognised or adjusted.

      (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date. This includes any additional depreciation, amortisation or other profit or loss effect recognised as a result of completing the initial accounting.

Adjustments after the initial accounting is complete

63. Except as outlined in paragraphs 33, 34 and 65, adjustments to the initial accounting for a business combination after that initial accounting is complete shall be recognised only to correct an error in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Adjustments to the initial accounting for a business combination after that accounting is complete shall not be recognised for the effect of changes in estimates. In accordance with IAS 8, the effect of a change in estimates shall be recognised in the current and future periods.

64. IAS 8 requires an entity to account for an error correction retrospectively, and to present financial statements as if the error had never occurred by restating the comparative information for the prior period(s) in which the error occurred. Therefore, the carrying amount of an identifiable asset, liability or contingent liability of the acquiree that is recognised or adjusted as a result of an error correction shall be calculated as if its fair value or adjusted fair value at the acquisition date had been recognised from that date. Goodwill or any gain recognised in a prior period in accordance with paragraph 56 shall be adjusted retrospectively by an amount equal to the fair value at the acquisition date (or the adjustment to the fair value at the acquisition date) of the identifiable asset, liability or contingent liability being recognised (or adjusted).

Recognition of deferred tax assets after the initial accounting is complete

65. If the potential benefit of the acquiree's income tax loss carry-forwards or other deferred tax assets did not satisfy the criteria in paragraph 37 for separate recognition when a business combination is initially accounted for but is subsequently realised, the acquirer shall recognise that benefit as income in accordance with IAS 12 *Income Taxes*. In addition, the acquirer shall:

   (a) reduce the carrying amount of goodwill to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date;

   and

   (b) recognise the reduction in the carrying amount of the goodwill as an expense.

However, this procedure shall not result in the creation of an excess as described in paragraph 56, nor shall it increase the amount of any gain previously recognised in accordance with paragraph 56.

DISCLOSURE

66. **An acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that were effected:**

    (a) during the period.

    (b) after the balance sheet date but before the financial statements are authorised for issue.

67. To give effect to the principle in paragraph 66(a), the acquirer shall disclose the following information for each business combination that was effected during the period:

    (a) the names and descriptions of the combining entities or businesses.

    (b) the acquisition date.

    (c) the percentage of voting equity instruments acquired.

    (d) the cost of the combination and a description of the components of that cost, including any costs directly attributable to the combination. When equity instruments are issued or issuable as part of the cost, the following shall also be disclosed:

        (i) the number of equity instruments issued or issuable;

        and

        (ii) the fair value of those instruments and the basis for determining that fair value. If a published price does not exist for the instruments at the date of exchange, the significant assumptions used to determine fair value shall be disclosed. If a published price exists at the date of exchange but was not used as the basis for determining the cost of the combination, that fact shall be disclosed together with: the reasons the published price was not used; the method and significant assumptions used to attribute a value to the equity instruments; and the aggregate amount of the difference between the value attributed to, and the published price of, the equity instruments.

    (e) details of any operations the entity has decided to dispose of as a result of the combination.

    (f) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, and, unless disclosure would be impracticable, the carrying amounts of each of those classes, determined in accordance with IFRSs, immediately before the combination. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

    (g) the amount of any excess recognised in profit or loss in accordance with paragraph 56, and the line item in the income statement in which the excess is recognised.

    (h) a description of the factors that contributed to a cost that results in the recognition of goodwill — a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset's fair value could not be measured reliably — or a description of the nature of any excess recognised in profit or loss in accordance with paragraph 56.

    (i) the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless disclosure would be impracticable. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

68. The information required to be disclosed by paragraph 67 shall be disclosed in aggregate for business combinations effected during the reporting period that are individually immaterial.

69. If the initial accounting for a business combination that was effected during the period was determined only provisionally as described in paragraph 62, that fact shall also be disclosed together with an explanation of why this is the case.

70. To give effect to the principle in paragraph 66(a), the acquirer shall disclose the following information, unless such disclosure would be impracticable:

(a) the revenue of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of that period.

(b) the profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period.

If disclosure of this information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

71. To give effect to the principle in paragraph 66(b), the acquirer shall disclose the information required by paragraph 67 for each business combination effected after the balance sheet date but before the financial statements are authorised for issue, unless such disclosure would be impracticable. If disclosure of any of that information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

72. **An acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current or in previous periods.**

73. To give effect to the principle in paragraph 72, the acquirer shall disclose the following information:

(a) the amount and an explanation of any gain or loss recognised in the current period that:

(i) relates to the identifiable assets acquired or liabilities or contingent liabilities assumed in a business combination that was effected in the current or a previous period;

and

(ii) is of such size, nature or incidence that disclosure is relevant to an understanding of the combined entity's financial performance.

(b) if the initial accounting for a business combination that was effected in the immediately preceding period was determined only provisionally at the end of that period, the amounts and explanations of the adjustments to the provisional values recognised during the current period.

(c) the information about error corrections required to be disclosed by IAS 8 for any of the acquiree's identifiable assets, liabilities or contingent liabilities, or changes in the values assigned to those items, that the acquirer recognises during the current period in accordance with paragraphs 63 and 64.

74. **An entity shall disclose information that enables users of its financial statements to evaluate changes in the carrying amount of goodwill during the period.**

75. To give effect to the principle in paragraph 74, the entity shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the period, showing separately:

(a) the gross amount and accumulated impairment losses at the beginning of the period;

(b) additional goodwill recognised during the period except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with IFRS 5;

(c) adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraph 65;

(d) goodwill included in a disposal group classified as held for sale in accordance with IFRS 5 and goodwill derecognised during the period without having previously been included in a disposal group classified as held for sale;

(e) impairment losses recognised during the period in accordance with IAS 36;

(f) net exchange differences arising during the period in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*;

(g) any other changes in the carrying amount during the period;

and

(h) the gross amount and accumulated impairment losses at the end of the period.

76. The entity discloses information about the recoverable amount and impairment of goodwill in accordance with IAS 36 in addition to the information required to be disclosed by paragraph 75(e).

77. If in any situation the information required to be disclosed by this IFRS does not satisfy the objectives set out in paragraphs 66, 72 and 74, the entity shall disclose such additional information as is necessary to meet those objectives.

TRANSITIONAL PROVISIONS AND EFFECTIVE DATE

78. Except as provided in paragraph 85, this IFRS shall apply to the accounting for business combinations for which the *agreement date* is on or after 31 March 2004. This IFRS shall also apply to the accounting for:

(a) goodwill arising from a business combination for which the agreement date is on or after 31 March 2004;

or

(b) any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination for which the agreement date is on or after 31 March 2004.

Previously recognised goodwill

79. An entity shall apply this IFRS prospectively, from the beginning of the first annual period beginning on or after 31 March 2004, to goodwill acquired in a business combination for which the agreement date was before 31 March 2004, and to goodwill arising from an interest in a jointly controlled entity obtained before 31 March 2004 and accounted for by applying proportionate consolidation. Therefore, an entity shall:

(a) from the beginning of the first annual period beginning on or after 31 March 2004, discontinue amortising such goodwill;

(b) at the beginning of the first annual period beginning on or after 31 March 2004, eliminate the carrying amount of the related accumulated amortisation with a corresponding decrease in goodwill;

and

(c) from the beginning of the first annual period beginning on or after 31 March 2004, test the goodwill for impairment in accordance with IAS 36 (as revised in 2004).

80. If an entity previously recognised goodwill as a deduction from equity, it shall not recognise that goodwill in profit or loss when it disposes of all or part of the business to which that goodwill relates or when a cashgenerating unit to which the goodwill relates becomes impaired.

Previously recognised negative goodwill

81. The carrying amount of negative goodwill at the beginning of the first annual period beginning on or after 31 March 2004 that arose from either

(a) a business combination for which the agreement date was before 31 March 2004

or

(b) an interest in a jointly controlled entity obtained before 31 March 2004 and accounted for by applying proportionate consolidation

shall be derecognised at the beginning of that period, with a corresponding adjustment to the opening balance of retained earnings.

Previously recognised intangible assets

82. The carrying amount of an item classified as an intangible asset that either

(a) was acquired in a business combination for which the agreement date was before 31 March 2004

or

(b) arises from an interest in a jointly controlled entity obtained before 31 March 2004 and accounted for by applying proportionate consolidation

shall be reclassified as goodwill at the beginning of the first annual period beginning on or after 31 March 2004, if that intangible asset does not at that date meet the identifiability criterion in IAS 38 (as revised in 2004).

Equity accounted investments

83. For investments accounted for by applying the equity method and acquired on or after 31 March 2004, an entity shall apply this IFRS in the accounting for:

(a) any acquired goodwill included in the carrying amount of that investment. Therefore, amortisation of that notional goodwill shall not be included in the determination of the entity's share of the investee's profits or losses.

(b) any excess included in the carrying amount of the investment of the entity's interest in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities over the cost of the investment. Therefore, an entity shall include that excess as income in the determination of the entity's share of the investee's profits or losses in the period in which the investment is acquired.

84. For investments accounted for by applying the equity method and acquired before 31 March 2004:

    (a) an entity shall apply this IFRS on a prospective basis, from the beginning of the first annual period beginning on or after 31 March 2004, to any acquired goodwill included in the carrying amount of that investment. Therefore, an entity shall, from that date, discontinue including the amortisation of that goodwill in the determination of the entity's share of the investee's profits or losses.

    (b) an entity shall derecognise any negative goodwill included in the carrying amount of that investment at the beginning of the first annual period beginning on or after 31 March 2004, with a corresponding adjustment to the opening balance of retained earnings.

Limited retrospective application

85. An entity is permitted to apply the requirements of this IFRS to goodwill existing at or acquired after, and to business combinations occurring from, any date before the effective dates outlined in paragraphs 78-84, provided:

    (a) the valuations and other information needed to apply the IFRS to past business combinations were obtained at the time those combinations were initially accounted for;

    and

    (b) the entity also applies IAS 36 (as revised in 2004) and IAS 38 (as revised in 2004) prospectively from that same date, and the valuations and other information needed to apply those Standards from that date were previously obtained by the entity so that there is no need to determine estimates that would need to have been made at a prior date.

WITHDRAWAL OF OTHER PRONOUNCEMENTS

86. This IFRS supersedes IAS 22 *Business Combinations* (as issued in 1998).

87. This IFRS supersedes the following Interpretations:

    (a) SIC-9 *Business Combinations — Classification either as Acquisitions or Unitings of Interests*;

    (b) SIC-22 *Business Combinations — Subsequent Adjustment of Fair Values and Goodwill Initially Reported*;

    and

    (c) SIC-28 *Business Combinations —'Date of Exchange' and Fair Value of Equity Instruments*.

APPENDIX A

Defined terms

This appendix is an integral part of the IFRS.

acquisition date — The date on which the acquirer effectively obtains **control** of the acquiree.

agreement date — The date that a substantive agreement between the combining parties is reached and, in the case of publicly listed entities, announced to the public. In the case of a hostile takeover, the earliest date that a substantive agreement between the combining parties is reached is the date that a sufficient number of the acquiree's owners have accepted the acquirer's offer for the acquirer to obtain control of the acquiree.

business — 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 policyholders or participants.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If **goodwill** is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.

business combination — The bringing together of separate entities or **businesses** into one **reporting entity**.

business combination involving entities or businesses under common control — A **business combination** in which all of the combining entities or **businesses** ultimately are **controlled** by the same party or parties both before and after the combination, and that **control** is not transitory.

contingent liability — Contingent liability has the meaning given to it in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, ie:

(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 entity;

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.

control — The power to govern the financial and operating policies of an entity or **business** so as to obtain benefits from its activities.

date of exchange	When a **business combination** is achieved in a single exchange transaction, the date of exchange is the **acquisition date**. When a **business combination** involves more than one exchange transaction, for example when it is achieved in stages by successive share purchases, the date of exchange is the date that each individual investment is recognised in the financial statements of the acquirer.
fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
goodwill	Future economic benefits arising from assets that are not capable of being individually identified and separately recognised.
intangible asset	Intangible asset has the meaning given to it in IAS 38 *Intangible Assets*, ie an identifiable nonmonetary asset without physical substance.
joint venture	Joint venture has the meaning given to it in IAS 31 *Interests in Joint Ventures*, ie a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.
minority interest	That portion of the profit or loss and net assets of a **subsidiary** attributable to equity interests that are not owned, directly or indirectly through **subsidiaries**, by the parent.
mutual entity	An entity other than an investor-owned entity, such as a mutual insurance company or a mutual cooperative entity, that provides lower costs or other economic benefits directly and proportionately to its policyholders or participants.
parent	An entity that has one or more **subsidiaries**.
probable	More likely than not.
reporting entity	An entity for which there are users who rely on the entity's general purpose financial statements for information that will be useful to them for making decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a **parent** and all of its **subsidiaries**.
subsidiary	An entity, including an unincorporated entity such as a partnership, that is **controlled** by another entity (known as the **parent**).

APPENDIX B

Application supplement

This appendix is an integral part of the IFRS.

Reverse acquisitions

B1 As noted in paragraph 21, in some business combinations, commonly referred to as reverse acquisitions, the acquirer is the entity whose equity interests have been acquired and the issuing entity is the acquiree. This might be the case when, for example, a private entity arranges to have itself 'acquired' by a smaller public entity as a means of obtaining a stock exchange listing. Although legally the issuing public entity is regarded as the parent and the private entity is regarded as the subsidiary, the legal subsidiary is the acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

B2 An entity shall apply the guidance in paragraphs B3-B15 when accounting for a reverse acquisition.

B3 Reverse acquisition accounting determines the allocation of the cost of the business combination as at the acquisition date and does not apply to transactions after the combination.

Cost of the business combination

B4 When equity instruments are issued as part of the cost of the business combination, paragraph 24 requires the cost of the combination to include the fair value of those equity instruments at the date of exchange. Paragraph 27 notes that, in the absence of a reliable published price, the fair value of the equity instruments can be estimated by reference to the fair value of the acquirer or the fair value of the acquiree, whichever is more clearly evident.

B5 In a reverse acquisition, the cost of the business combination is deemed to have been incurred by the legal subsidiary (ie the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (ie the acquiree for accounting purposes). If the published price of the equity instruments of the legal subsidiary is used to determine the cost of the combination, a calculation shall be made to determine the number of equity instruments the legal subsidiary would have had to issue to provide the same percentage ownership interest of the combined entity to the owners of the legal parent as they have in the combined entity as a result of the reverse acquisition. The fair value of the number of equity instruments so calculated shall be used as the cost of the combination.

B6 If the fair value of the equity instruments of the legal subsidiary is not otherwise clearly evident, the total fair value of all the issued equity instruments of the legal parent before the business combination shall be used as the basis for determining the cost of the combination.

Preparation and presentation of consolidated financial statements

B7 Consolidated financial statements prepared following a reverse acquisition shall be issued under the name of the legal parent, but described in the notes as a continuation of the financial statements of the legal subsidiary (ie the acquirer for accounting purposes). Because such consolidated financial statements represent a continuation of the financial statements of the legal subsidiary:

(a) the assets and liabilities of the legal subsidiary shall be recognised and measured in those consolidated financial statements at their pre-combination carrying amounts.

(b) the retained earnings and other equity balances recognised in those consolidated financial statements shall be the retained earnings and other equity balances of the legal subsidiary immediately before the business combination.

(c) the amount recognised as issued equity instruments in those consolidated financial statements shall be determined by adding to the issued equity of the legal subsidiary immediately before the business combination the cost of the combination determined as described in paragraphs B4-B6. However, the equity structure appearing in those consolidated financial statements (ie the number and type of equity instruments issued) shall reflect the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the combination.

(d) comparative information presented in those consolidated financial statements shall be that of the legal subsidiary.

B8 Reverse acquisition accounting applies only in the consolidated financial statements. Therefore, in the legal parent's separate financial statements, if any, the investment in the legal subsidiary is accounted for in accordance with the requirements in IAS 27 *Consolidated and Separate Financial Statements* on accounting for investments in an investor's separate financial statements.

B9 Consolidated financial statements prepared following a reverse acquisition shall reflect the fair values of the assets, liabilities and contingent liabilities of the legal parent (ie the acquiree for accounting purposes). Therefore, the cost of the business combination shall be allocated by measuring the identifiable assets, liabilities and contingent liabilities of the legal parent that satisfy the recognition criteria in paragraph 37 at their fair values at the acquisition date. Any excess of the cost of the combination over the acquirer's interest in the net fair value of those items shall be accounted for in accordance with paragraphs 51-55. Any excess of the acquirer's interest in the net fair value of those items over the cost of the combination shall be accounted for in accordance with paragraph 56.

Minority interest

B10 In some reverse acquisitions, some of the owners of the legal subsidiary do not exchange their equity instruments for equity instruments of the legal parent. Although the entity in which those owners hold equity instruments (the legal subsidiary) acquired another entity (the legal parent), those owners shall be treated as a minority interest in the consolidated financial statements prepared after the reverse acquisition. This is because the owners of the legal subsidiary that do not exchange their equity instruments for equity instruments of the legal parent have an interest only in the results and net assets of the legal subsidiary, and not in the results and net assets of the combined entity. Conversely, all of the owners of the legal parent, notwithstanding that the legal parent is regarded as the acquiree, have an interest in the results and net assets of the combined entity.

B11 Because the assets and liabilities of the legal subsidiary are recognised and measured in the consolidated financial statements at their pre-combination carrying amounts, the minority interest shall reflect the minority shareholders' proportionate interest in the pre-combination carrying amounts of the legal subsidiary's net assets.

Earnings per share

B12 As noted in paragraph B7(c), the equity structure appearing in the consolidated financial statements prepared following a reverse acquisition reflects the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the business combination.

B13 For the purpose of calculating the weighted average number of ordinary shares outstanding (the denominator) during the period in which the reverse acquisition occurs:

(a) the number of ordinary shares outstanding from the beginning of that period to the acquisition date shall be deemed to be the number of ordinary shares issued by the legal parent to the owners of the legal subsidiary;

and

(b) the number of ordinary shares outstanding from the acquisition date to the end of that period shall be the actual number of ordinary shares of the legal parent outstanding during that period.

B14 The basic earnings per share disclosed for each comparative period before the acquisition date that is presented in the consolidated financial statements following a reverse acquisition shall be calculated by dividing the profit or loss of the legal subsidiary attributable to ordinary shareholders in each of those periods by the number of ordinary shares issued by the legal parent to the owners of the legal subsidiary in the reverse acquisition.

B15 The calculations outlined in paragraphs B13 and B14 assume that there were no changes in the number of the legal subsidiary's issued ordinary shares during the comparative periods and during the period from the beginning of the period in which the reverse acquisition occurred to the acquisition date. The calculation of earnings per share shall be appropriately adjusted to take into account the effect of a change in the number of the legal subsidiary's issued ordinary shares during those periods.

Allocating the cost of a business combination

B16 This IFRS requires an acquirer to recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the relevant recognition criteria at their fair values at the acquisition date. For the purpose of allocating the cost of a business combination, the acquirer shall treat the following measures as fair values:

(a) for financial instruments traded in an active market the acquirer shall use current market values.

(b) for financial instruments not traded in an active market the acquirer shall use estimated values that take into consideration features such as price-earnings ratios, dividend yields and expected growth rates of comparable instruments of entities with similar characteristics.

(c) for receivables, beneficial contracts and other identifiable assets the acquirer shall use the present values of the amounts to be received, determined at appropriate current interest rates, less allowances for uncollectibility and collection costs, if necessary. However, discounting is not required for short-term receivables, beneficial contracts and other identifiable assets when the difference between the nominal and discounted amounts is not material.

(d) for inventories of:

(i) finished goods and merchandise the acquirer shall use selling prices less the sum of (1) the costs of disposal and (2) a reasonable profit allowance for the selling effort of the acquirer based on profit for similar finished goods and merchandise;

(ii) work in progress the acquirer shall use selling prices of finished goods less the sum of (1) costs to complete, (2) costs of disposal and (3) a reasonable profit allowance for the completing and selling effort based on profit for similar finished goods;

and

(iii) raw materials the acquirer shall use current replacement costs.

(e) for land and buildings the acquirer shall use market values.

(f) for plant and equipment the acquirer shall use market values, normally determined by appraisal. If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment and the item is rarely sold, except as part of a continuing business, an acquirer may need to estimate fair value using an income or a depreciated replacement cost approach.

(g) for intangible assets the acquirer shall determine fair value:

(i) by reference to an active market as defined in IAS 38 *Intangible Assets*;

or

(ii) if no active market exists, on a basis that reflects the amounts the acquirer would have paid for the assets in arm's length transactions between knowledgeable willing parties, based on the best information available (see IAS 38 for further guidance on determining the fair values of intangible assets acquired in business combinations).

(h) for net employee benefit assets or liabilities for defined benefit plans the acquirer shall use the present value of the defined benefit obligation less the fair value of any plan assets. However, an asset is recognised only to the extent that it is probable it will be available to the acquirer in the form of refunds from the plan or a reduction in future contributions.

(i) for tax assets and liabilities the acquirer shall use the amount of the tax benefit arising from tax losses or the taxes payable in respect of profit or loss in accordance with IAS 12 *Income Taxes*, assessed from the perspective of the combined entity. The tax asset or liability is determined after allowing for the tax effect of restating identifiable assets, liabilities and contingent liabilities to their fair values and is not discounted.

(j) for accounts and notes payable, long-term debt, liabilities, accruals and other claims payable the acquirer shall use the present values of amounts to be disbursed in settling the liabilities determined at appropriate current interest rates. However, discounting is not required for short-term liabilities when the difference between the nominal and discounted amounts is not material.

(k) for onerous contracts and other identifiable liabilities of the acquiree the acquirer shall use the present values of amounts to be disbursed in settling the obligations determined at appropriate current interest rates.

(l) for contingent liabilities of the acquiree the acquirer shall use the amounts that a third party would charge to assume those contingent liabilities. Such an amount shall reflect all expectations about possible cash flows and not the single most likely or the expected maximum or minimum cash flow.

B17 Some of the above guidance requires fair values to be estimated using present value techniques. If the guidance for a particular item does not refer to the use of present value techniques, such techniques may be used in estimating the fair value of that item.

APPENDIX C

Amendments to other IFRSs

The amendments in this appendix shall be applied to the accounting for business combinations for which the agreement date is on or after 31 March 2004, and to the accounting for any goodwill and intangible assets acquired in those business combinations. In all other respects, these amendments shall be applied for annual periods beginning on or after 31 March 2004.

However, if an entity elects in accordance with paragraph 85 to apply IFRS 3 from any date before the effective dates outlined in paragraphs 78-84, it shall also apply these amendments prospectively from that same date.

C1 In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at 31 March 2004, references to the current version of IAS 22 *Business Combinations* are amended to IFRS 3 *Business Combinations*.

C2 In IFRS 1 *First-time Adoption of International Financial Reporting Standards*, paragraph B1 is amended to read as follows.

B1 A first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). However, if a first-time adopter restates any business combination to comply with IFRS 3, it shall restate all later business combinations and shall also apply IAS 36 *Impairment of Assets* (as revised in 2004) and IAS 38 *Intangible Assets* (as revised in 2004) from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2002, it shall restate all business combinations that occurred between 30 June 2002 and the date of transition to IFRSs, and it shall also apply IAS 36 (as revised in 2004) and IAS 38 (as revised in 2004) from 30 June 2002.

C3 [Amendment not applicable to bare Standards]

C4 IAS 12 *Income Taxes* is amended as described below.

Introduction

In paragraph 1, the first subparagraph (c) is amended to read as follows:

(c) the cost of a business combination is allocated to the identifiable assets acquired and liabilities assumed by reference to their fair values, but no equivalent adjustment is made for tax purposes.

Paragraphs 6 and 9 are amended to read as follows:

6. The original IAS 12 did not refer explicitly to fair value adjustments made on a business combination. Such adjustments give rise to temporary differences and IAS 12 (revised) requires an entity to recognise the resulting deferred tax liability or (subject to the probability criterion for recognition) deferred tax asset with a corresponding effect on the determination of the amount of goodwill or any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination. However, IAS 12 (revised) prohibits the recognition of deferred tax liabilities arising from the initial recognition of goodwill.

9. The original IAS 12 did not state explicitly whether deferred tax assets and liabilities may be discounted. IAS 12 (revised) prohibits discounting of deferred tax assets and liabilities. Paragraph B16(i) of IFRS 3 *Business Combinations* prohibits discounting of deferred tax assets acquired and deferred tax liabilities assumed in a business combination.

Standard

In the Objective, the third paragraph is amended to read as follows:

This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised directly in equity, any related tax effects are also recognised directly in equity. Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

Paragraphs 15, 18, 19 and 21 are amended to read as follows:

15. ***A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:***

    (a) the initial recognition of goodwill;

    or

    …

18. Temporary differences also arise when:

    (a) the cost of a business combination is allocated by recognising the identifiable assets acquired and liabilities assumed at their fair values, but no equivalent adjustment is made for tax purposes (see paragraph 19);

    (b) assets are revalued and no equivalent adjustment is made for tax purposes (see paragraph 20);

    (c) goodwill arises in a business combination (see paragraphs 21 and 32);

    …

19. The cost of a business combination is allocated by recognising the identifiable assets acquired and liabilities assumed at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill (see paragraph 66).

21. Goodwill arising in a business combination is measured as the excess of the cost of the combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Many taxation authorities do not allow reductions in the carrying amount of goodwill as a deductible expense in determining taxable profit. Moreover, in such jurisdictions, the cost of goodwill is often not deductible when a subsidiary disposes of its underlying business. In such jurisdictions, goodwill has a tax base of nil. Any difference between the carrying amount of goodwill and its tax base of nil is a taxable temporary difference. However, this Standard does not permit the recognition of the resulting deferred tax liability because goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill.

Paragraphs 21A and 21B are added:

21A. Subsequent reductions in a deferred tax liability that is unrecognised because it arises from the initial recognition of goodwill are also regarded as arising from the initial recognition of goodwill and are therefore not recognised under paragraph 15(a). For example, if goodwill acquired in a business combination has a cost of 100 but a tax base of nil, paragraph 15(a) prohibits the entity from recognising the resulting deferred tax liability. If the entity subsequently recognises an impairment loss of 20 for that goodwill, the amount of the taxable temporary difference relating to the goodwill is reduced from 100 to 80, with a resulting decrease in the value of the unrecognised deferred tax liability. That decrease in the value of the unrecognised deferred tax liability is also regarded as relating to the initial recognition of the goodwill and is therefore prohibited from being recognised under paragraph 15(a).

21B. Deferred tax liabilities for taxable temporary differences relating to goodwill are, however, recognised to the extent they do not arise from the initial recognition of goodwill. For example, if goodwill acquired in a business combination has a cost of 100 that is deductible for tax purposes at a rate of 20 per cent per year starting in the year of acquisition, the tax base of the goodwill is 100 on initial recognition and 80 at the end of the year of acquisition. If the carrying amount of goodwill at the end of the year of acquisition remains unchanged at 100, a taxable temporary difference of 20 arises at the end of that year. Because that taxable temporary difference does not relate to the initial recognition of the goodwill, the resulting deferred tax liability is recognised.

Paragraphs 22(a), 24 and 26(c) are amended to read as follows:

22. …

(a) in a business combination, an entity recognises any deferred tax liability or asset and this affects the amount of goodwill or the amount of any excess over the cost of the combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities (see paragraph 19);

…

24. ***A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:***

(a) is not a business combination;

and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

…

26. …

(c) the cost of a business combination is allocated by recognising the identifiable assets acquired and liabilities assumed at their fair values at the acquisition date. When a liability assumed is recognised at the acquisition date but the related costs are not deducted in determining taxable profits until a later period, a deductible temporary difference arises which results in a deferred tax asset. A deferred tax asset also arises when the fair value of an identifiable asset acquired is less than its tax base. In both cases, the resulting deferred tax asset affects goodwill (see paragraph 66);

and

…

Paragraph 32 and the preceding heading are deleted.

Paragraphs 58(b) and 66-68 and the example following paragraph 68 are amended to read as follows and paragraph 68C is added:

58. **…**

(b) a business combination (see paragraphs 66 to 68).

66. As explained in paragraphs 19 and 26(c), temporary differences may arise in a business combination. In accordance with IFRS 3 *Business Combinations*, an entity recognises any resulting deferred tax assets (to the extent that they meet the recognition criteria in paragraph 24) or deferred tax liabilities as identifiable assets and liabilities at the acquisition date. Consequently, those deferred tax assets and liabilities affect goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination. However, in accordance with paragraph 15(a), an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill.

67. As a result of a business combination, an acquirer may consider it probable that it will recover its own deferred tax asset that was not recognised before the business combination. For example, the acquirer may be able to utilise the benefit of its unused tax losses against the future taxable profit of the acquiree. In such cases, the acquirer recognises a deferred tax asset, but does not include it as part of the accounting for the business combination, and therefore does not take it into account in determining the goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

68. If the potential benefit of the acquiree's income tax loss carryforwards or other deferred tax assets did not satisfy the criteria in IFRS 3 for separate recognition when a business combination is initially accounted for but is subsequently realised, the acquirer shall recognise the resulting deferred tax income in profit or loss. In addition, the acquirer shall:

(a) reduce the carrying amount of goodwill to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date;

and

(b) recognise the reduction in the carrying amount of goodwill as an expense.

However, this procedure shall not result in the creation of an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination, nor shall it increase the amount previously recognised for any such excess.

Example

An entity acquired a subsidiary that had deductible temporary differences of 300. The tax rate at the time of the acquisition was 30 per cent. The resulting deferred tax asset of 90 was not recognised as an identifiable asset in determining the goodwill of 500 that resulted from the business combination. Two years after the combination, the entity assessed that future taxable profit should be sufficient to recover the benefit of all the deductible temporary differences.

The entity recognises a deferred tax asset of 90 and, in profit or loss, deferred tax income of 90. The entity also reduces the carrying amount of goodwill by 90 and recognises an expense for this amount in profit or loss. Consequently, the cost of the goodwill is reduced to 410, being the amount that would have been recognised had the deferred tax asset of 90 been recognised as an identifiable asset at the acquisition date.

If the tax rate had increased to 40 per cent, the entity would have recognised a deferred tax asset of 120 (300 at 40 per cent) and, in profit or loss, deferred tax income of 120. If the tax rate had decreased to 20 per cent, the entity would have recognised a deferred tax asset of 60 (300 at 20 per cent) and deferred tax income of 60. In both cases, the entity would also reduce the carrying amount of goodwill by 90 and recognise an expense for that amount in profit or loss.

68C. As noted in paragraph 68A, the amount of the tax deduction (or estimated future tax deduction, measured in accordance with paragraph 68B) may differ from the related cumulative remuneration expense. Paragraph 58 of the Standard requires that current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or event which is recognised, in the same or a different period, directly in equity, or (b) a business combination. If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognised directly in equity.

C5 IAS 14 *Segment Reporting* is amended as described below.

On the title page, the second paragraph after the title of IAS 14 is amended to read as follows:

Paragraphs 129 and 130 of IAS 36 *Impairment of Assets* set out disclosure requirements for reporting impairment losses by segment.

Standard

Paragraphs 19 and 21 are amended to read as follows:

19. Examples of segment assets include current assets that are used in the operating activities of the segment, property, plant, and equipment, assets that are the subject of finance leases (IAS 17 *Leases*), and intangible assets. If a particular item of depreciation or amortisation is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general entity or head office purposes. Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists. Segment assets include goodwill that is directly attributable to a segment or can be allocated to a segment on a reasonable basis, and segment expense includes any impairment losses recognised for goodwill.

21. Measurements of segment assets and liabilities include adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in a business combination, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recognised in either the parent's separate or the subsidiary's individual financial statements. Similarly, if property, plant or equipment has been revalued after acquisition in accordance with the revaluation model in IAS 16, then measurements of segment assets reflect those revaluations.

C6 In IAS 16 *Property, Plant and Equipment* (as revised in 2003), paragraph 64 is deleted.

C7 IAS 19 *Employee Benefits* is amended as described below.

Standard

Paragraph 108 is amended to read as follows:

108. In a business combination, an entity recognises assets and liabilities arising from post-employment benefits at the present value of the obligation less the fair value of any plan assets (see IFRS 3 *Business Combinations*). The present value of the obligation includes all of the following, even if the acquiree had not recognised them at the acquisition date:

(a) actuarial gains and losses that arose before the acquisition date (whether or not they fell inside the 10 % 'corridor');

(b) past service cost that arose from benefit changes, or the introduction of a plan, before the acquisition date;

and

…

C8 In IAS 27 *Consolidated and Separate Financial Statements*, paragraph 30 is amended to read as follows:

30. The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date, as defined in IFRS 3. The income and expenses …

C9 IAS 28 *Investments in Associates* is amended as described below:

The definition of joint control in paragraph 2 is amended to read as follows:

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

In paragraph 15, the reference to IAS 22 *Business Combinations* is deleted. Following this change and changes made by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, paragraph 15 reads as follows:

15. When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

Paragraphs 23 and 33 are amended to read as follows:

23. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with IFRS 3 *Business Combinations*. Therefore:

(a) goodwill relating to an associate is included in the carrying amount of the investment. However, amortisation of that goodwill is not permitted and is therefore not included in the determination of the investor's share of the associate's profits or losses.

(b) any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or property, plant and equipment.

33. Because goodwill included in the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested under IAS 36 for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in IAS 39 indicates that the investment may be impaired. In determining the value in use of the investment, an entity estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment;

or

(b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

C10 IAS 31 *Interests in Joint Ventures* is amended as described below:

The definition of joint control in paragraph 3 is amended to read as follows:

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Paragraph 11 is amended to read as follows:

11. The contractual arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to control the activity unilaterally.

In paragraph 43, the reference to IAS 22 *Business Combinations*is deleted. Following this change and changes made by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, paragraph 43 reads as follows:

43. When an interest in a jointly controlled entity previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using proportionate consolidation or the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

C11 In IAS 32 *Financial Instruments: Disclosure and Presentation* (as revised in 2003), paragraph 4(c) is renumbered as 4(d). Paragraph 4(d) is renumbered as 4(c) and amended to read as follows:

(c) ***contracts for contingent consideration in a business combination (see IFRS 3* Business Combinations*). This exemption applies only to the acquirer.***

Following this change and changes made by IFRS 4 *Insurance Contracts*, paragraph 4(c)-(e) reads as follows:

(c) ***contracts for contingent consideration in a business combination (see IFRS 3* Business Combinations*). This exemption applies only to the acquirer.***

(d) ***insurance contracts as defined in IFRS 4* Insurance Contracts*. However, this Standard applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately.***

(e) ***financial instruments that are within the scope of IFRS 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15-32 and AG25-AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see IAS 39).***

Paragraph 4(f), inserted by IFRS 2 *Share-based Payment*, remains unchanged.

C12 In IAS 33 *Earnings per Share*, paragraphs 22 and 64 are amended to read as follows:

22. Ordinary shares issued as part of the cost of a business combination are included in the weighted average number of shares from the acquisition date. This is because the acquirer incorporates into its income statement the acquiree's profits and losses from that date.

64. ***If… shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.***

C13 In IAS 34 *Interim Financial Statements*, paragraphs 16(i) and 18 are amended to read as follows:

16. **…**

(i) ***the effect of changes in the composition of the entity during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations. In the case of business combinations, the entity shall disclose the information required to be disclosed under paragraphs 66-73 of IFRS 3* Business Combinations*;***

and

…

18. Other Standards specify disclosures that should be made in financial statements. In that context, financial statements means complete sets of financial statements of the type normally included in an annual financial report and sometimes included in other reports. Except as required by paragraph 16(i), the disclosures required by those other Standards are not required if an entity's interim financial report includes only condensed financial statements and selected explanatory notes rather than a complete set of financial statements.

C14 In IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 5 is amended to read as follows:

5. Where another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, IFRS 3 *Business Combinations* addresses the treatment by an acquirer of contingent liabilities assumed in a business combination. Similarly, certain types of provisions are also addressed in Standards on:

…

C15 In IAS 39 *Financial Instruments: Recognition and Measurement* (as revised in 2003), paragraph 2(f) and (h) is deleted by IFRS 4 *Insurance Contracts*. Paragraph 2(g) is renumbered as paragraph 2(f) and amended as set out below. Paragraph 2(g) is added as set out below. Following these changes and changes made by IFRS 4, paragraph 2(d)-(g) reads as follows:

(d) financial instruments issued by the entity that meet the definition of an equity instrument in IAS 32 (including options and warrants). However, the holder of such equity instruments shall apply this Standard to those instruments, unless they meet the exception in (a) above.

(e) rights and obligations under an insurance contract as defined in IFRS 4 **Insurance Contracts** ***or under a contract that is within the scope of IFRS 4 because it contains a discretionary participation feature. However, this Standard applies to a derivative that is embedded in such a contract if the derivative is not itself a contract within the scope of IFRS 4 (see paragraphs 10-13 and Appendix A paragraphs AG23-AG33). Furthermore, if an insurance contract is a financial guarantee contract entered into, or retained, on transferring to another party financial assets or financial liabilities within the scope of this Standard, the issuer shall apply this Standard to the contract (see paragraph 3 and Appendix A paragraph AG4A).***

(f) contracts for contingent consideration in a business combination (see IFRS 3 **Business Combinations). This exemption applies only to the acquirer.**

(g) contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date.

Paragraph 2(i) and (j) is renumbered as 2(h) and (i). Paragraph 2(i) was inserted by IFRS 2 *Share-based Payment*.

C16 [Amendment not applicable to bare Standards]

C17 [Amendment not applicable to bare Standards]

C18 SIC-32 *Intangible Assets — Web Site Costs* is amended as described below.

Paragraphs 8-10 are amended to read as follows:

8. A web site arising from development shall be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in IAS 38.21 for recognition and initial measurement, an entity can satisfy the requirements in IAS 38.57. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits in accordance with IAS 38.57(d) when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits, and consequently all expenditure on developing such a web site shall be recognised as an expense when incurred.

9. Any internal expenditure on the development and operation of an entity's own web site shall be accounted for in accordance with IAS 38. The nature of each activity for which expenditure is incurred (eg training employees and maintaining the web site) and the web site's stage of development or post-development shall be evaluated to determine the appropriate accounting treatment (additional guidance is provided in the Appendix to this Interpretation). For example:

   (a) the Planning stage is similar in nature to the research phase in IAS 38.54-.56. Expenditure incurred in this stage shall be recognised as an expense when it is incurred.

   (b) the Application and Infrastructure Development stage, the Graphical Design stage and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own products and services, are similar in nature to the development phase in IAS 38.57-.64. Expenditure incurred in these stages shall be included in the cost of a web site recognised as an intangible asset in accordance with paragraph 8 of this Interpretation when the expenditure can be directly attributed and is necessary to creating, producing or preparing the web site for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own products and services) specifically for a web site, or expenditure to enable use of the content (eg a fee for acquiring a licence to reproduce) on the web site, shall be included in the cost of development when this condition is met. However, in accordance with IAS 38.71, expenditure on an intangible item that was initially recognised as an expense in previous financial statements shall not be recognised as part of the cost of an intangible asset at a later date (eg if the costs of a copyright have been fully amortised, and the content is subsequently provided on a web site).

   (c) expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own products and services (eg digital photographs of products), shall be recognised as an expense when incurred in accordance with IAS 38.69(c). For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure shall be recognised as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site.

   (d) the Operating stage begins once development of a web site is complete. Expenditure incurred in this stage shall be recognised as an expense when it is incurred unless it meets the recognition criteria in IAS 38.18.

10. A web site that is recognised as an intangible asset under paragraph 8 of this Interpretation shall be measured after initial recognition by applying the requirements of IAS 38.72-.87. The best estimate of a web site's useful life shall be short.

The Effective Date paragraph is amended to read as follows:

Effective Date: This Interpretation becomes effective on 25 March 2002. The effects of adopting this Interpretation shall be accounted for using the transitional requirements in the version of IAS 38 that was issued in 1998. Therefore, when a web site does not meet the criteria for recognition as an intangible asset, but was previously recognised as an asset, the item shall be derecognised at the date when this Interpretation becomes effective. When a web site exists and the expenditure to develop it meets the criteria for recognition as an intangible asset, but was not previously recognised as an asset, the intangible asset shall not be recognised at the date when this Interpretation becomes effective. When a web site exists and the expenditure to develop it meets the criteria for recognition as an intangible asset, was previously recognised as an asset and initially measured at cost, the amount initially recognised is deemed to have been properly determined.