International Financial Reporting Standard IFRS 3

Business Combinations

January 2018

US GAAP COMPARISON

Comparison of IFRS 3 (as revised in 2008) and SFAS 141(R)

1 IFRS 3 *Business Combinations* (as revised in 2008) and FASB Statement No. 141 (revised 2007) *Business Combinations* (SFAS 141(R)) are the result of the IASB's and the FASB's projects to improve the accounting for and reporting of business combinations. The first phase of those projects led to IFRS 3 (issued in 2004) and FASB Statement No. 141 (issued in 2001). In 2002, the IASB and the FASB agreed to reconsider jointly their guidance for applying the purchase method (now called the acquisition method) of accounting for business combinations. The objective of the joint effort was to develop a common and comprehensive standard for the accounting for business combinations that could be used for both domestic and international financial reporting. Although the boards reached the same conclusions on most of the issues addressed in the project, they reached different conclusions on a few matters.

2 On those matters on which the boards reached different conclusions, each board includes its own requirements in its version of the standard. The following table identifies and compares those paragraphs in which the IASB and the FASB have different requirements. The table does not identify non-substantive differences. For example, the table does not identify differences in terminology that do not change the meaning of the guidance, such as the IASB using the term *profit or loss* and the FASB using the term *earnings*.

3 Most of the differences identified in the table arise because of the boards' decision to provide guidance for accounting for business combinations that is consistent with other IFRSs or FASB standards. Many of those differences are being considered in current projects or are candidates for future convergence projects, which is why the boards allowed those differences to continue at this time.

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Scope exception for not-for-profit organisations	IFRSs generally do not have scope limitations for not-for-profit activities in the private or public sector. Therefore, this scope exception is not necessary for the revised IFRS 3.	SFAS 141(R) does not apply to combinations of not-for-profit organisations or the acquisition of a for-profit business by a not-for-profit organisation. The FASB is developing guidance for the accounting for mergers and acquisitions by not-for-profit organisations in a separate project. [paragraph 2(d)]

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Identifying the acquirer	The guidance on control in IAS 27 *Consolidated and Separate Financial Statements* is used to identify the acquirer. The revised IFRS 3 does not have guidance for primary beneficiaries because it does not have consolidation guidance equivalent to FASB Interpretation No. 46 (revised December 2003) *Consolidation of Variable Interest Entities* (FASB Interpretation 46(R)). [Appendix A and paragraph 7]	The guidance on *controlling financial interest* in ARB No. 51 *Consolidated Financial Statements* (ARB 51), as amended, is used to identify the acquirer, unless the acquirer is the primary beneficiary of a variable interest entity. The primary beneficiary of a variable interest entity is always the acquirer and the determination of which party is the primary beneficiary is made in accordance with FASB Interpretation 46(R), not based on the guidance in ARB 51 or paragraphs A11–A15 of SFAS 141(R). [paragraphs 3(b) and 9]
Definition of control	*Control* is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. [Appendix A]	*Control* has the meaning of *controlling financial interest* in paragraph 2 of ARB 51, as amended, and interpreted by FASB Interpretation 46(R). [paragraph 3(g)]
Definition of fair value[(a)]	*Fair value* is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The IASB has a separate project in which it is considering the definition of fair value and related measurement guidance. [Appendix A]	*Fair value* is defined in paragraph 5 of FASB Statement No. 157 *Fair Value Measurements* as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. [paragraph 3(i)]

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Operating leases	The revised IFRS 3 requires the acquirer to take into account the terms of a lease in measuring the acquisition-date fair value of an asset that is subject to an operating lease in which the acquiree is the lessor. This is consistent with the guidance in IAS 40 *Investment Property*. Accordingly, the revised IFRS 3 does not require the acquirer of an operating lease in which the acquiree is the lessor to recognise a separate asset or liability if the terms of an operating lease are favourable or unfavourable compared with market terms as is required for leases in which the acquiree is the lessee. [paragraphs B29 and B42]	Regardless of whether the acquiree is the lessee or the lessor, SFAS 141(R) requires the acquirer to recognise an intangible asset if the terms of an operating lease are favourable relative to market terms or a liability if the terms are unfavourable relative to market terms. Accordingly, an acquirer measures the acquisition-date fair value of an asset that is subject to an operating lease in which the acquiree is the lessor separately from the lease contract. [paragraphs A17 and A58]
Non-controlling interest in an acquiree	**Initial recognition** The revised IFRS 3 permits an acquirer to measure the non-controlling interest in an acquiree either at fair value or as its proportionate share of the acquiree's identifiable net assets. [paragraph 19]	**Initial recognition** SFAS 141(R) requires the non-controlling interest in an acquiree to be measured at fair value. [paragraph 20]

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Non-controlling interest in an acquiree[(b)]	**Disclosures** Because an acquirer is permitted to choose between two measurement bases for the non-controlling interest in an acquiree, the revised IFRS 3 requires an acquirer to disclose the measurement basis used. If the non-controlling interest is measured at fair value, the acquirer must disclose the valuation techniques and key model inputs used. [paragraph B64(o)]	**Disclosures** SFAS 141(R) requires an acquirer to disclose the valuation technique(s) and significant inputs used to measure fair value. [paragraph 68(p)]

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Assets and liabilities arising from contingencies	**Initial recognition** The revised IFRS 3 requires the acquirer to recognise a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. [paragraphs 22 and 23]	**Initial recognition** SFAS 141(R) requires the acquirer to recognise as of the acquisition date the assets acquired and liabilities assumed that arise from *contractual contingencies*, measured at their acquisition-date fair values. For all other contingencies (referred to as *non-contractual contingencies*), the acquirer recognises an asset or liability as of the acquisition date if it is **more likely than not** that the contingency gives rise to an asset or a liability as defined in FASB Concepts Statement No. 6 *Elements of Financial Statements*. Non-contractual contingencies that do not meet the recognition threshold as of the acquisition date are accounted for in accordance with other GAAP, including FASB Statement No. 5 *Accounting for Contingencies* (SFAS 5) as appropriate. [paragraphs 23–25]

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Assets and liabilities arising from contingencies	**Subsequent measurement** The revised IFRS 3 carries forward the existing requirements that a contingent liability recognised in a business combination must be measured subsequently at the higher of the amount that would be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.[(c)] [paragraph 56]	**Subsequent measurement** SFAS 141(R) requires an acquirer to continue to report an asset or liability arising from a contractual or non-contractual contingency that is recognised as of the acquisition date that would be in the scope of SFAS 5 if not acquired or assumed in a business combination at its acquisition-date fair value until the acquirer obtains new information about the possible outcome of the contingency. The acquirer evaluates that new information and measures the asset or liability as follows: (a) a liability is measured at the *higher* of: (i) its acquisition-date fair value; or (ii) the amount that would be recognised if applying SFAS 5.

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
		(b) an asset is measured at the *lower* of: (i) its acquisition-date fair value; or (ii) the best estimate of its future settlement amount. [paragraphs 62 and 63]
Assets and liabilities arising from contingencies	**Disclosures** SFAS 141(R)'s disclosures related to assets and liabilities arising from contingencies are slightly different from those required by the revised IFRS 3 because the IASB's disclosures are based on the requirements in IAS 37. [the revised IFRS 3, paragraphs B64(j) and B67(c); SFAS 141(R), paragraphs 68(j) and 72(c)] **Application guidance** SFAS 141(R) provides application guidance for applying the more-likely-than-not criterion for recognising non-contractual contingencies. The revised IFRS 3 does not have equivalent guidance. [SFAS 141(R), paragraphs A62–A65]	

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<table>
<tr><th>Guidance</th><th>IFRS 3 (as revised in 2008)</th><th>SFAS 141(R)</th></tr>
<tr><td>Assets and liabilities for which the acquirer applies other IFRSs or US GAAP rather than the recognition and measurement principles</td><td colspan="2">The revised IFRS 3 and SFAS 141(R) provide exceptions to the recognition and measurement principles for particular assets and liabilities that the acquirer accounts for in accordance with other IFRSs or US GAAP. For example, income taxes and employee benefit arrangements are accounted for in accordance with existing IFRSs or US GAAP. Differences in the existing guidance might result in differences in the amounts recognised in a business combination. For example, differences between the recognition and measurement guidance in IAS 12 Income Taxes and FASB Statement No. 109 Accounting for Income Taxes (SFAS 109) might result in differences in the amounts recognised in a business combination related to income taxes. [the revised IFRS 3, paragraphs 24–26; SFAS 141(R), paragraphs 26–28]</td></tr>
<tr><td>Replacement share-based payment awards</td><td colspan="2">The revised IFRS 3 requires an acquirer to account for share-based payment awards that it exchanges for awards held by employees of the acquiree in accordance with IFRS 2 Share-based Payment and SFAS 141(R) requires the acquirer to account for those awards in accordance with FASB Statement No. 123 (revised 2004) Share-Based Payment (SFAS 123(R)). Differences between IFRS 2 and SFAS 123(R) might cause differences in the accounting for share-based payment awards entered into as part of the business combination. In addition, the implementation guidance differs because of the different requirements in IFRS 2 and SFAS 123(R). [the revised IFRS 3, paragraphs 30 and B56–B62; SFAS 141(R), paragraphs 32, 43–46 and A91–A106]</td></tr>
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<table>
<tr><th>Guidance</th><th>IFRS 3 (as revised in 2008)</th><th>SFAS 141(R)</th></tr>
<tr><td rowspan="2">Contingent consideration[(d)]</td><td colspan="2">Initial classification
The revised IFRS 3 and SFAS 141(R) require an acquirer to classify contingent consideration as an asset, a liability or equity on the basis of other IFRSs or US GAAP, respectively. Differences between the related IFRSs and US GAAP might cause differences in the initial classification and, therefore, might cause differences in the subsequent accounting. [the revised IFRS 3, paragraph 40; SFAS 141(R), paragraph 42]</td></tr>
<tr><td>Subsequent measurement
Contingent consideration classified as an asset or a liability that:
(a) is within the scope of IFRS 9 Financial Instruments, is measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with that IFRS.
(b) is not within the scope of IFRS 9, is measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss. [paragraph 58]</td><td>Subsequent measurement
Contingent consideration classified as an asset or liability is measured subsequently at fair value. The changes in fair value are recognised in earnings unless the contingent consideration is a hedging instrument for which FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities requires the subsequent changes to be recognised in other comprehensive income. [paragraph 65]</td></tr>
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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Subsequent measurement and accounting for assets, liabilities or equity instruments	In general, after a business combination an acquirer measures and accounts for assets acquired, liabilities assumed or incurred and equity instruments issued in accordance with other applicable IFRSs or US GAAP, depending on their nature. Differences in the other applicable guidance might cause differences in the subsequent measurement and accounting for those assets, liabilities and equity instruments. [the revised IFRS 3, paragraphs 54 and B63; SFAS 141(R), paragraphs 60 and 66]	

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Goodwill by reportable segment	The disclosure of goodwill by reportable segment is not required by the revised IFRS 3. Paragraph 134 of IAS 36 *Impairment of Assets* requires an entity to disclose the aggregate carrying amount of goodwill allocated to each cash-generating unit (group of units) for which the carrying amount of goodwill allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill. This information is not required to be disclosed for each material business combination that occurs during the period or in the aggregate for individually immaterial business combinations that are material collectively and occur during the period.	SFAS 141(R) requires the acquirer to disclose **for each business combination that occurs during the period or in the aggregate for individually immaterial business combinations that are material collectively and that occur during the period,** the amount of goodwill by reportable segment, if the combined entity is required to disclose segment information in accordance with FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131) unless such disclosure is impracticable. Like IAS 36, paragraph 45 of FASB Statement No. 142 *Goodwill and Other Intangible Assets* (SFAS 142) requires disclosure of this information in the aggregate by each reportable segment, not for each material business combination that occurs during the period or in the aggregate for individually immaterial business combinations that are material collectively and occur during the period. [paragraph 68(l)]

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Pro forma disclosures	The disclosures required by this paragraph apply to all acquirers. The revised IFRS 3 does not require the disclosure of *revenue and profit or loss* of the combined entity for the comparable prior period even if comparative financial statements are presented. [paragraph B64(q)]	The disclosures required by this paragraph apply only to acquirers that are *public business enterprises*, as described in paragraph 9 of SFAS 131. If comparative financial statements are presented, SFAS 141(R) requires disclosure of *revenue and earnings* of the combined entity for the comparable prior reporting period as though the acquisition date for all business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period (*supplemental pro forma* information). [paragraph 68(r)]
Goodwill reconciliation	The revised IFRS 3 requires an acquirer to provide a goodwill reconciliation and provides a detailed list of items that should be shown separately. [paragraph B67(d)]	SFAS 141(R) requires an acquirer to provide a goodwill reconciliation in accordance with the requirements of SFAS 142. SFAS 141(R) amends the requirement in SFAS 142 to align the level of detail in the reconciliation with that required by the IASB. As a result, there is no substantive difference between the FASB's and the IASB's requirements; however, the guidance is contained in different standards. [paragraph 72(d)]

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Disclosures of the financial effects of adjustments to the amounts recognised in a business combination	The revised IFRS 3 requires the acquirer to disclose the amount and an explanation of any gain or loss recognised in the current period that (a) relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period and (b) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements. [paragraph B67(e)]	SFAS 141(R) does not require this disclosure.
Effective date	The revised IFRS 3 is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Early application is permitted. [paragraph 64]	SFAS 141(R) is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 15 December 2008. Early application is prohibited. [paragraph 74]

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Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Income taxes	The revised IFRS 3 and SFAS 141(R) require the subsequent recognition of acquired deferred tax benefits in accordance with IAS 12 or SFAS 109, respectively. Differences between IAS 12 and SFAS 109 might cause differences in the subsequent recognition. Also, in accordance with US GAAP, the acquirer is required to recognise changes in the acquired income tax positions in accordance with FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes*, as amended by SFAS 141(R). [the revised IFRS 3, paragraph 67; SFAS 141(R), paragraph 77]	

(a) IFRS 13 *Fair Value Measurement* (issued in May 2011) defines fair value and contains the requirements for measuring fair value and for disclosing information about fair value measurements. As a result the definition of fair value in IFRSs is identical to the definition in US GAAP (Topic 820 *Fair Value Measurement* in the *FASB Accounting Standards Codification*® codified FASB Statement No. 157).

(b) IFRS 13 (issued in May 2011) defines fair value and contains the requirements for measuring fair value and for disclosing information about fair value measurements. Although the disclosures required by IFRS 13 are not required for IFRS 3, the wording for the disclosures in IFRS 3 has been aligned with the wording in US GAAP (Topic 805 Business Combinations in the *FASB Accounting Standards Codification*® codified FASB Statement No. 141(R)).

(c) IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, replaced IAS 18 *Revenue* and amended paragraph 56 of IFRS 3 for consistency with the requirements in IFRS 15.

(d) *Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013, amended IFRS 3, IFRS 9, IAS 37 and IAS 39 to clarify that contingent consideration in a business combination that is classified as an asset or a liability shall be subsequently measured at fair value with changes in fair value recognised in profit or loss.

The revised IFRS 3 and SFAS 141(R) have also been structured to be consistent with the style of other IFRSs and FASB standards. As a result, the paragraph numbers of the revised standards are not the same, even though the wording in the paragraphs is consistent (except for the differences identified above). This table shows how the paragraph numbers of the revised standards correspond.

IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
1	1
2	2
3	4, 5
4	6
5	7
6	8
7	9
8	10
9	11
10	12
11	13
12	14
13	15
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23	24, 25
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27	29

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IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
28	30
29	31
30	32
31	33
32	34
33	35
34	36
35	37
36	38
37	39
38	40
39	41
40	42
41	47
42	48
43	49
44	50
45	51
46	52
47	53
48	54
49	55
50	56
51	57
52	58
53	59
54	60
55	61
56	62, 63
57	64

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IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
58	65
59	67
60	68
61	71
62	72
63	73
64	74
65	75
66	76
67	77
68	None
Appendix A	3
B1–B4	D8–D14
B5	A2
B6	A3
B7	A4
B8	A5
B9	A6
B10	A7
B11	A8
B12	A9
B13	A10
B14	A11
B15	A12
B16	A13
B17	A14
B18	A15
B19	A108
B20	A109
B21	A110

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IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
B22	A111
B23	A112
B24	A113
B25	A114
B26	A115
B27	A116
B28	A16
B29	A17
B30	A18
B31	A19
B32	A20
B33	A21
B34	A22
B35	A23
B36	A24
B37	A25
B38	A26
B39	A27
B40	A28
B41	A57
B42	A58
B43	A59
B44	A60
B45	A61
B46	A66
B47	A67
B48	A68
B49	A69
B50	A77
B51	A78

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IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
B52	A79, A80
B53	A81
B54	A86
B55	A87
B56	43, 44
B57	45, A92
B58	A93
B59	46, A94
B60	A95
B61	A96
B62	A97–A99
B63	66
B64	68
B65	69
B66	70
B67	72
B68, B69	A130–A134
IE1	A117
IE2	A118
IE3	A119
IE4	A120
IE5	A120
IE6	A121
IE7	A122
IE8	A123
IE9	A124
IE10	A125
IE11	A126
IE12	A126
IE13	A127

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IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
IE14	A128
IE15	A129
IE16	A29
IE17	A30
IE18	A31
IE19	A32
IE20	A33
IE21	A34
IE22	A35
IE23	A36
IE24	A37
IE25	A38
IE26	A39
IE27	A40
IE28	A41
IE29	A41
IE30	A43
IE31	A42
IE32	A44
IE33	A45
IE34	A46
IE35	A47
IE36	A48
IE37	A49
IE38	A50
IE39	A51
IE40	A52
IE41	A53
IE42	A54
IE43	A55

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IFRS 3 (revised 2008) paragraph	SFAS 141(R) paragraph
IE44	A56
IE45	A70
IE46	A71
IE47	A71
IE48	A72
IE49	None
IE50	A73
IE51	A74
IE52	A75
IE53	A76
IE54	A82
IE55	A83
IE56	A84
IE57	A85
IE58	A88
IE59	A89
IE60	A90
IE61	A100
IE62	A100
IE63	A101
IE64	A102
IE65	A103
IE66	A103
IE67	A103
IE68	A104
IE69	A105
IE70	A106
IE71	A106
IE72	A107