Basis for Conclusions on AASB 2008-11

This Basis for Conclusions accompanies, but is not part of, AASB 3. The Basis for Conclusions was originally published with AASB 2008-11 Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities.

Background

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB) decisions in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.

Significant Issues

BC2 The AASB issued a revised AASB 3 *Business Combinations* in March 2008. At that time, the Board decided that the requirements of AASB 3 (March 2008) should only be available for early adoption by for-profit entities, until further work was undertaken on the implications of applying the requirements of AASB 3 (March 2008) to not-for-profit entities. Accordingly, the Board included in the Preface to AASB 3 (March 2008) the following statement:

> Prior to the mandatory application date of this Standard, being 1 July 2009, the AASB will consider its suitability for combinations among not-for-profit entities. In doing so, the AASB will have regard to the criteria being developed for judging when IFRSs should be modified for application by not-for-profit entities. Those criteria will assist in clarifying whether this Standard should be amended to include an additional scope exclusion or other amendments and, if so, the extent of that exclusion or other amendments in an Australian not-for-profit context. In light of this, not-for-profit entities cannot adopt this Standard prior to the mandatory application date.

BC3 As part of its subsequent deliberations, the Board noted the view of some that the difficulties in applying the acquisition method when a business combination does not involve consideration (including the difficulties of identifying an acquirer), which is often the case in business combinations among not-for-profit entities, means that the principles in AASB 3 (March 2008) are inappropriate for such combinations. However, the Board decided that, in principle, there is no conceptual basis for accounting for business combinations among not-for-profit entities differently from other analogous types of business combinations.

BC4 In particular, the Board noted that the types of difficulties noted in paragraph BC3 are also issues that may be encountered in business combinations of for-profit entities (such as combinations by contract alone). Therefore, consistent with transaction-neutral principles, the Board did not consider that there was sufficient reason to justify a different accounting treatment for business combinations among not-for-profit entities.

BC5 The Board observed that the motivations for business combinations among not-for-profit entities, such as to provide their beneficiaries with a broader range of, or access to, services and cost savings through economies of scale, are similar to those for business combinations among other entities. The Board noted a possible alternative to the acquisition method in AASB 3 for business combinations among not-for-profit entities might be the 'fresh start' method, especially where it is difficult to identify the acquirer. The fresh start method assumes that none of the combining entities survives the business combination as an independent reporting entity. Rather, the business combination is viewed as a transfer of the net assets of the combining entities to a new entity that assumes control over them. The Board noted the potential significant costs and practical difficulties that a fresh start alternative would impose, and therefore concluded that the potential advantages of using the fresh start method for some business combinations among not-for-profit entities would be outweighed by the disadvantages.

BC6 However, the Board noted that the accounting for business combinations may differ depending on whether entities, such as local governments or universities, are commonly controlled. In that regard, the Board confirmed that further work should be undertaken on its longer-term 'control in the public sector' project, which should include consideration of whether local governments or universities within a jurisdiction are subject to common control.

BC7 In the interim, the Board decided to maintain the status quo in respect of accounting for restructures of local governments by substantially incorporating the requirements originally transferred from AAS 27 *Financial Reporting by Local Governments* to superseded AASB 3 (as amended in December 2007 by AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31*) into revised

AASB 3 (March 2008, as amended). The Board noted that the relief carried forward from AAS 27 might be impacted by the progress it makes on its 'control in the public sector' project.

BC8 The Board noted that this approach to restructures of local governments, consistent with its general approach to the short-term review of AASs 27, 29 and 31, is pragmatic and a consequence of the past requirements in AAS 27.

BC9 The Board also considered the amendments made by the New Zealand Financial Reporting Standards Board to revised NZ IFRS 3 *Business Combinations* (March 2008) in the context of business combinations among not-for-profit entities, including definitions of public benefit entities, business and equity interests. In making its decision, the Board considered the work undertaken to date on Invitation to Comment ITC 14 *Not-for-Profit Entity Definition and Guidance*, which sought input on using the definition and guidance from NZ IAS 1 *Presentation of Financial Statements* in Australia. The Board suspended further work on ITC 14 until the development of guidelines that can be used for modifying IFRSs for application by not-for-profit entities. In light of this, the Board decided that no further changes should be made to AASB 3 (March 2008, as amended) in respect of not-for-profit entities.