



ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

MERGERS (GRAP 107)

Acknowledgement

In developing the Standard of Generally Recognised Accounting Practice (GRAP) on *Mergers* reference was made to the IFRS Accounting Standard on *Business Combinations* (IFRS 3) issued by the International Accounting Standards Board (IASB). The IASB has issued a comprehensive body of IFRS® Accounting Standards and IFRIC® Interpretations. Extracts of IFRS 3 are reproduced in this Standard of GRAP with the permission of the IASB.

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MERGERS

This Standard was originally issued by the Accounting Standards Board (the Board) in November 2010. Since then, it has been amended by:

- Clarifying the principles relating to the initial recognition and measurement by the combined entity.
- Consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.
- The transitional provisions for the initial adoption of GRAP 105 *Transfers of Functions Between Entities Under Common Control*, GRAP 106 *Transfers of Functions Between Entities Not Under Common Control* and GRAP 107 *Mergers* amended as a result of the amendments to the Directives made in March 2016.
- Consequential amendments when the following Standard of GRAP became effective:
 - GRAP 35 *Consolidated Financial Statements*



Introduction

This pronouncement is set out in paragraphs .01 to .53A. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*¹.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

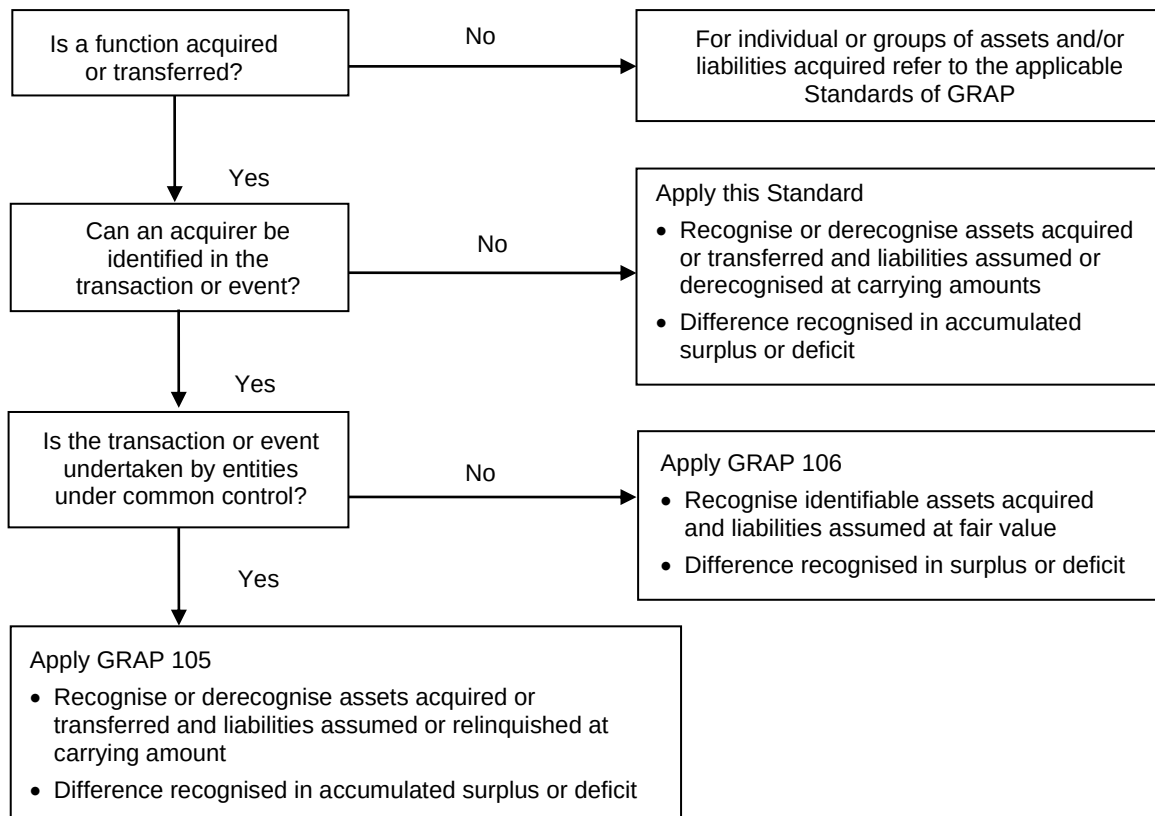
¹ In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

- .01 The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.

Scope

- .02 ***A combined entity and combining entities that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to a transaction or event that meets the definition of a merger where no acquirer can be identified.***
- .03 This Standard does not apply to:
- (a) a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* (GRAP 105)); and
 - (b) a transfer of functions between entities not under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106)).
- .04 A transaction or event where no acquirer can be identified falls within the scope of this Standard. A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. Determining whether an acquirer can be identified includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. A merger can either involve the combination of two or more entities in which one of the combining entities continues to become the new reporting entity, or a new reporting entity is established from the combining entities. The concept of control and a function is not relevant in a transaction or event that meets the definition of a merger. A transaction or event in which an acquirer can be identified and that involves control should be accounted for in terms of GRAP 105 or GRAP 106.
- .05 Entities should consider the following diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger:



Definitions

.06 *The following terms are used in this Standard with the meanings specified:*

A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Combined entity is a new reporting entity formed from the combination of two or more entities.

Combining entities (for purposes of this Standard) are the entities that are combined for the mutual sharing of risks and benefits in a merger.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

A merger is the establishment of a new combined entity in which none of the former entities obtain control over any other and no acquirer can be identified.

Merger date is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined entity.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Binding arrangements

.06A Binding arrangements can be evidenced in several ways:

- (a) a contract concluded between the parties;
- (b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or
- (c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Mergers

.07 A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in an entity having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

.08 The following criteria indicate that a transaction or event should be accounted for as a merger:

- (a) No acquirer: No entity in the transaction or event can be identified as the acquirer.
- (b) No control: No party acquires control as no party is seen to be dominant. All parties to the transaction or event combine their relative risks and benefits in the combined entity and maintain or preserve their decision making powers.
- (c) Representation by management: All parties to the transaction or event, as represented by management, participate in establishing the management structure of the combined entity, and in selecting the management personnel. Such decisions are made on the basis of consensus between the parties to the transaction or event.

- (d) Size of entities involved: The relative sizes of the combining entities are not so disparate that one entity dominates the combined entity by virtue of its relative size. As such, the relative size of an entity is not as pervasive as the other two indicators in this paragraph in determining whether an arrangement constitutes a merger.

Identifying the combined entity and combining entities

- .09 For each merger a combined entity and combining entities shall be identified.**
- .10 The terms and conditions of a merger are set out in a binding arrangement. The binding arrangement usually sets out which entities are to be combined as a result of the merger, and identifies the new reporting entity after the merger.
- .11 A merger involves a transaction or event where no acquirer can be identified. If the binding arrangement governing the terms and conditions of the transaction or event identifies which entity to the transaction or event is the acquirer, and which entity is the transferor or combining entity, the transaction or event should be accounted for in terms of GRAP 105 or GRAP 106.
- .12 Determining the acquirer shall include a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities.

Determining the merger date

- .13 The combined entity and the combining entities shall identify the merger date, which is the date on which the new reporting entity obtains control of the assets and liabilities and the combining entities loses control of their assets and liabilities.**
- .14 The binding arrangement governing the terms and conditions of a merger may specify that the transaction or event is effective from a specific date. The merger date is the date on which the combining entities transfer the assets and liabilities to the combined entity as identified in the binding arrangement. However, the combined entity may obtain control of the assets and liabilities on a date that is either earlier or later than the date on which the assets and liabilities are transferred by the combining entities, or specified in the binding arrangement. For example, a Regulation passed by the Demarcation Board on 1 April 20X1 requires three municipalities to transfer all their functions into a new metropolitan municipality. A directive is issued stating that the effective date of the transfer is 1 June 20X1. The new metropolitan municipality, however, only obtains control of the assets and liabilities on 1 July 20X1 through a memorandum of understanding. As the new metropolitan municipality can only use or otherwise benefit from the

combination in pursuit of its objectives, or exclude or otherwise regulate the access of others to those benefits from 1 July 20X1, the transaction or event should be accounted for as from 1 July 20X1. All relevant facts and circumstances should be considered in identifying the merger date.

- .15 The fact that a binding arrangement exists creates an obligation for either one or all of the parties to act in order to fulfil the terms and conditions of the arrangement. This means that under the binding arrangement, the combined entity has an enforceable claim over the assets and liabilities of the combining entities that are to be combined in terms of the merger. This indicates that the merger is probable and will occur in line with the terms and conditions of the binding arrangement.

Assets acquired or transferred and/or liabilities assumed or derecognised

- .16 *The recognition of assets and liabilities by the combined entity, and the transfer and derecognition of assets and liabilities by the combining entities are subject to the conditions specified in the paragraphs below.*

Criteria for the combined entity and the combining entities

- .17 The assets and liabilities that qualify for recognition by the combined entity or transfer and derecognition by the combining entities in a merger are normally governed by the terms and conditions of the binding arrangement. Such assets and liabilities must be part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions.

Criteria for the combined entity

- .18 The assets and liabilities that qualify for recognition as set out in the binding arrangement must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements*² and the recognition criteria in the applicable Standards of GRAP at the merger date.
- .19 Costs that the combined entity expects but which the entity is not obliged to incur in the future to effect its plan to exit an activity of the combining entities or to terminate the employment of, or relocate the combining entities' employees, shall not be accounted for as part of the liabilities at the merger date. The combined entity shall not recognise those costs as part of a merger. Instead, the combined entity recognises these costs in its financial statements after the merger has occurred, in accordance with the applicable Standards of GRAP.

² In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Accounting by the combined entity

Initial recognition and measurement

- .20** *As of the merger date, the combined entity shall recognise all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed shall be measured at their carrying amounts.*
- .21** The carrying amount of an asset acquired or a liability assumed is the amount at which the asset or liability is recognised by the combining entities in their statements of financial position at the merger date.
- .22** If, on the merger date, a combining entity did not apply Standards of GRAP, the combined entity should adjust the basis of accounting used for the assets acquired and liabilities assumed to align it to Standards of GRAP prior to the merger.
- .23** *The difference between the carrying amounts of the assets acquired and the liabilities assumed and any adjustments required to the basis of accounting as described in paragraph .22, shall be recognised in accumulated surplus or deficit.*

Measurement period

- .24** *If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the combined entity shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the combined entity shall retrospectively adjust the provisional amounts recognised at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the combined entity receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the merger date.*
- .25** The measurement period is the period after the merger date during which the combined entity may adjust the provisional amounts recognised for a merger. The measurement period provides the combined entity with reasonable time to obtain the information necessary to identify and measure the following as of the merger date in accordance with the requirements of this Standard:
- (a) the assets acquired and liabilities assumed;
 - (b) the consideration transferred, if any, for the combining entities; and
 - (c) the resulting excess of the purchase consideration paid (if any) over the assets acquired and liabilities assumed.

- .26 The combined entity shall consider all relevant factors in determining whether information obtained after the merger date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the combined entity can identify a reason for a change to provisional amounts. Information that is obtained shortly after the merger date is more likely to reflect circumstances that existed at the merger date than is information obtained several months later.
- .27 The combined entity recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid (if any) over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the combined entity might have assumed a liability to pay damages related to an accident in one of the combining entity's facilities, part or all of which are covered by the combining entity's liability insurance policy. If the combined entity obtains new information during the measurement period about the merger date carrying amounts of that liability, the adjustment to the excess resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to the previously recognised excess in accumulated surplus or deficit resulting from a change to the provisional amount recognised for the claim receivable from the insurer.
- .28 During the measurement period, the combined entity shall recognise adjustments to the provisional amounts as if the accounting for the merger had been completed at the merger date. Thus, the combined entity shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.
- .29 After the measurement period ends, the combined entity shall revise the accounting for a merger only to correct an error in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Expenditure incurred in relation to the merger

- .30 Expenditures incurred in relation to the merger are costs that the combined entity incurs to effect the merger. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, costs to furnish information to owners of the combining entities, and salaries and other expenses related to services of employees involved in achieving the merger. It also includes costs or losses incurred in combining the assets and liabilities of the combining entities. The combined entity shall account for such expenditure as expenses in the period in which the costs are incurred.

Subsequent measurement

- .31** *The combined entity shall subsequently measure any assets acquired and any liabilities assumed in a merger in accordance with the applicable Standards of GRAP.*
- .32** *At the merger date, the combined entity shall classify or designate the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The combined entity shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date.*
- .33** In some situations, the Standards of GRAP provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the combined entity shall make on the basis of the relevant conditions as they exist at the merger date, is the categorisation of particular financial assets and liabilities at fair value or amortised cost in accordance with the Standard of GRAP on *Financial Instruments*.
- .34** An exception to the requirement in paragraph .32 to the classification or designation of the assets acquired and liabilities assumed on the merger date, is that the combined entity shall classify the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the merger date):
- (a) classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on *Leases*; and
 - (b) classification of a contract as an insurance contract in accordance with the IFRS Accounting Standard(s) on insurance.
- .35** *The financial statements of the combined entity shall be prepared using uniform accounting policies for similar transactions and other events or similar circumstances.*
- .36** Since the merger results in a single reporting entity, a single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognises the assets acquired and the liabilities assumed of the combining entities on the merger date at their existing carrying amounts and subsequently adjust it only as a result of conforming with the combined entity's accounting policies.

Accounting by the combining entities

Assets transferred and liabilities de-recognised

- .37** *As of the merger date, the combining entities shall transfer and de-recognise*

from its financial statements, all the assets and liabilities de-recognised at their carrying amounts.

- .38 Until the merger date, the combining entities shall continue to measure these assets and liabilities in accordance with applicable Standards of GRAP.
- .39 ***The difference between the carrying amounts of the assets transferred and the liabilities de-recognised shall be recognised in accumulated surplus or deficit.***

Disclosure

- .40 ***The combined entity and the combining entities shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a merger that occurs either:***
- (a) during the current reporting period; or***
 - (b) after the end of the reporting period but before the financial statements are authorised for issue.***
- .41 ***The combined entity and the combining entities shall disclose the following for a merger that occurred during the reporting period:***
- (a) the accounting policy adopted for a merger that occurred during the reporting period;***
 - (b) the name of the entities involved in the merger, a brief description of the merger and the reason for undertaking the transaction or event; and***
 - (c) the merger date.***

Combined entity

- .42 ***The combined entity need not present comparative information in the first reporting period.***
- .43 ***The combined entity shall disclose the following for a merger that occurred during the reporting period:***
- (a) for each effected line item in financial statements, the value of the assets acquired and liabilities assumed in a merger;***
 - (b) the difference between the carrying amounts of the assets acquired and the liabilities assumed and any adjustments required to the basis of accounting as described in paragraph .22, as a separate line item in net assets;***
 - (c) additional contingent liabilities and contingent assets assumed or acquired in the merger; and***
 - (d) the period for which the results of the merger are included in the financial statements of the combined entities.***

Financial statements for subsequent periods need not repeat these disclosures.

- .44** *If the specific disclosures required by this and other Standards of GRAP do not meet the objectives set out in paragraph .43, the combined entity shall disclose whatever additional information is necessary to meet those objectives.*
- .45** *The combined entity shall disclose the following information for each material merger or in the aggregate for individually immaterial mergers that are material collectively if the initial accounting is incomplete (see paragraph .24) for particular assets, liabilities, or any consideration and the amounts recognised in the financial statements for the merger:*
- (a) the reasons why the initial accounting for the merger is incomplete;*
 - (b) the assets, liabilities, or any consideration for which the initial accounting is incomplete; and*
 - (c) the nature and the amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph .28.*

Combining entities

- .46** *Comparative information shall not be restated or adjusted by the combining entities.*
- .47** *The combining entities shall disclose the following for a merger:*
- (a) for each asset transferred and liability derecognised, the carrying amount of the assets transferred and the liabilities de-recognised; and*
 - (b) the difference between the carrying amounts of the assets transferred and the liabilities derecognised, as a separate line item in accumulated surplus and deficit.*

Transitional provisions

Initial adoption of the Standards of GRAP

- .48** *The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.*

Amendments to Standards of GRAP

- .49** *Paragraphs .22, .23 and .43 were amended to accommodate implementation requirements that were approved by the Board during February 2013. An entity shall apply these amendments prospectively to a transaction or event*



that involves a merger when the merger date is on or after the initial adoption of this Standard.

- .50** *Paragraphs .52 and .53 were amended to allow entities to continue applying the relief provided for the measurement of assets and liabilities acquired in a merger before the effective date of this Standard. These amendments are effective from 1 April 2015.*

Effective date

Initial adoption of the Standards of GRAP

- .51** *An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.*
- .52** *An entity is not required to apply the measurement period in paragraphs .24 to .29 if it has entered into a merger before the effective date of this Standard.*
- .53** *The guidance on the measurement period as included in paragraphs .24 to .29 will only become effective once the Directives on Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Public Technical and Vocational Education and Training Colleges, and Constitutional Institutions (Directive 2), Transitional Provisions for High Capacity Municipalities (Directive 3) and Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities (Directive 4) that prescribe the transitional provisions for entities on the initial adoption of the Standards of GRAP are withdrawn. Directives 2 to 4 permitted a three year measurement period on the initial adoption of the Standards. An entity that has entered into a merger prior to the effective date of this Standard, may continue to apply the three year measurement period.*

Entities already applying Standards of GRAP

- .53A** *Paragraphs .06 and .10 were amended and paragraph .06A was added by the Standard of GRAP on Consolidated Financial Statements issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.*

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for mergers. This basis for conclusions accompanies, but is not part of, this Standard.

- BC1. This basis for conclusions summarises the Board's considerations in developing this Standard. In forming its views, the Board considered the views expressed and the comment received from stakeholders that responded to the Invitation to Comment (ITC) on a Discussion Paper on *Transfer of Functions* (Discussion Paper 4) issued in November 2007. The Board further considered the responses to an ITC on an Exposure Draft of this Standard (issued May 2010).
- BC2. In developing this Standard, the Board considered the principles in the Standards of GRAP on *Revenue from Exchange Transactions*, *Revenue from Non-exchange Transactions (Taxes and Transfers)*, *Non-current Assets Held for Sale and Discontinued Operations* and the IFRS Accounting Standard on *Business Combinations* (IFRS 3) (2008) issued by the International Accounting Standards Board.
- BC3. A project on the accounting for entity combinations arising from exchange transactions is included on the International Public Sector Accounting Standards Board's (IPSASB) work programme. The Board will continue to monitor this project and, at an appropriate time, consider the implications of the IPSASB project on this Standard, if any.

Scope (paragraphs .02 to .05)

- BC4. A merger involves the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. The combining entities rather came together for the mutual sharing of risks and benefits of the combined entity. A transaction or event in which no acquirer can be identified can either involve the combination of two or more entities in which one of the combining entities continues to become the combined entity, or a new reporting entity is established from the combining entities. Discussion Paper 4 considered various alternatives to account for a transaction or event that meets the definition of merger. In considering IFRS 3, the Board agreed that the acquisition method will not be appropriate to account for a transaction or event that meets the definition of merger. The acquisition method requires the identification of an acquirer that obtains control of an acquiree in a transaction or event that meets the definition of a business combination, as defined in IFRS 3. In a merger however, no acquirer is identified, and a merger does thus not result in one entity obtaining control over another. While entities in an entity combination obtain control over another entity, mergers do not involve control as no acquirer can be identified. This Standard should be applied in accounting for a merger. Even though reference was made to

IFRS 3 in developing this Standard, this Standard departs from the acquisition method principles as established in IFRS 3.

- BC5. For a transaction or event to fall within the scope of this Standard, no acquirer should be identified and the new reporting entity should be established, formed from combining entities that came together for the mutual sharing of risks and benefits. The relative risks and benefits of the combining entities prior to the merger are maintained and their decision making powers are preserved in the new reporting entity. All parties to the transaction or event, as represented by management, participate in establishing the management structure of the combined entity, and assist in selecting the management personnel. These decisions are made on the basis of consensus between the parties to the transaction or event.
- BC6. The concept of control is not relevant in a transaction or event that meets the definition of a merger as no acquirer can be identified. A transaction or event in which an acquirer is identified and that is undertaken between entities under common control or a transaction undertaken between entities not under common control, should be accounted for in terms of GRAP 105 or GRAP 106.

Recognition and measurement

- BC7. As limited guidance exists in the public sector on the accounting for mergers, the Board considered the appropriateness of the fresh start method and the pooling of interests method to account for a transaction or event that meets the definition of a merger.
- BC8. Discussion Paper 4 concluded that, while the fresh start method might be appropriate because it assumes that a new entity is started and all the assets and liabilities of that new entity are valued at fair value, little literature is available on the mechanics and rationale of this method. The Board also noted that determining the fair value of the assets and liabilities to be transferred and derecognised by the combining entities, will have additional cost implications. The Board further noted that few countries apply the fresh start method in practice. Discussion Paper 4 thus concluded that the fresh start method is not an appropriate method to account for mergers.
- BC9. Under the pooling of interests method, on the other hand, entities are deemed to continue within a new form, while the economic substance of the combining entities remains unchanged. As the combining entities are deemed to only continue under a new legislative framework, their assets and liabilities are transferred and derecognised at carrying amounts. Discussion Paper 4 concluded that the application of the pooling of interests method is the preferred method for purposes of developing accounting guidance for mergers.
- BC10. Respondents to Discussion Paper 4 supported this proposal but questioned the practicality of the approach as it involves the restatement of comparative information by applying uniform accounting policies to the prior year figures of the

combining entities. The Board reconsidered the accounting principles to be applied under this approach. The Board confirmed that the pooling of interests method should be applied to account for a transaction or event that meets the definition of a merger, but agreed that the principles should be applied prospectively from the merger date. As a result, no comparative information will be required by the combined entity in its first year of operations. Respondents to the Exposure Draft supported these proposals.

- BC11. During the comment period, some respondents raised concerns about the fact that the combining entities' carrying amounts could be incomplete on the merger date due to the values being inaccurate or because a combining entity is applying a different basis of accounting. A requirement has been included in this Standard to clarify that if a combining entity is not applying an accrual basis of accounting, that combining entity should change its basis of accounting to an accrual basis of accounting prior to the merger.

Measurement period

- BC12. This Standard provides the combined entity with a reasonable period after the merger, a measurement period, during which to obtain the information necessary to identify and measure the assets acquired and liabilities assumed in a merger. If sufficient information is not available at the merger date to measure the assets and liabilities, the combined entity determines and recognises provisional amounts until the necessary information becomes available.
- BC13. A constraint is placed on the period for which it is deemed reasonable to seek information necessary to complete the accounting for a merger. The measurement period ends as soon as the combined entity receives the necessary information about facts and circumstances that existed as of the merger date or learns that the information is not obtainable. The Board agreed to a measurement period of two years.
- BC14. The Board also concluded that the combined entity should provide the users of financial statements with relevant information about the status of items that have been measured using provisional amounts. A disclosure requirement has been included to provide such information.