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)

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.

Changes to legislation: *There are currently no known outstanding effects for the Commission Regulation (EC) No 2236/2004. (See end of Document for details)*

(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;

(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

Changes to legislation: *There are currently no known outstanding effects for the Commission Regulation (EC) No 2236/2004. (See end of Document for details)*

ANNEX

Reproduction allowed within the European Economic. Area. All existing rights reserved outside the EEA, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from the IASB at www.iasb.org.uk

***Changes to legislation:** There are currently no known outstanding effects for the Commission Regulation (EC) No 2236/2004. (See end of Document for details)*

INTERNATIONAL FINANCIAL REPORTING STANDARD 3

Business combinations

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