International Accounting Standards Board (IASB)
30 Cannon Street
London
United Kingdom

14 December 2009

Contact Muhammad Ali

Dear Sir / Madam,

Tentative Agenda Decision-Presentation of comparatives when applying the 'pooling of interest' method

I am pleased to respond to the above tentative agenda decision as published in the IFRIC update of November 2009.

The IFRIC was asked to provide guidance on 'the presentation of comparatives when applying the 'pooling of interest' method for business combinations between entities under common control when preparing financial statements in accordance with IFRS.

The IFRIC issued tentative agenda decision decline to add this issue to its agenda, given the Board's project on common control transactions. IFRIC did acknowledge that the issue is widespread and the Board project is still in its research phase and prepares / constituent wouldn't get the final standard dealing with the common control transaction any time soon.

I appreciate the concern of IFRIC to deal the broader aspect of common control transaction instead of taking bit and piece approach and best way it can be done is to issue a stand alone standard dealing with the aspect of common control transactions. At the same time I am concerned over the prevalent practices adopted to deal with common control transactions. The staff has highlighted that large international accounting firms have guidance allowing an entity to make policy choice dealing with business combination under common control by either adopting carry over basis (i.e. pre-combination book values) or fair values of respective assets and liabilities at the date of combination. The Board in BC-50 to 53 did consider the application of 'pooling of interest method' and has rejected on the ground that such method would conflict with the Framework of IFRS (i.e. management stewardship) and doesn't provide information superior to that of provided by purchase method (i.e. fair value accounting). Further the method fails to capture the nature, timing and extent of future cash flows expected to arise from the combined entity as result of combination. The staff has also mentioned that such practice has been evolved as IFRS does not explicitly deal with the common control transaction and the said accounting firm refer to IAS 8 which requires an entity to use its judgment in developing and applying accounting policy. Among other consideration in exercising the judgment IAS 8 paragraph 10 requires that such accounting policy should result in information that is relevant to the economic decision making needs of the users [emphasis added] (i.e. not only share holders but encompass broader audience of the user of financial statement) and result in reliable financial statement.

Further IAS 8 paragraph 11 also requires to first looking at requirement and guidance in standard dealing with similar and related issue [emphasis added].

In the light of foregoing it appears that neither Board is in favour of application of pooling of interest nor IAS 8 requires resorting to accounting election as existing IFRS 3 deals with similar and related issue. So I believe that only fair value option is available for an entity to account for common control transaction. I would appreciate if IFRIC would adopt approach similar to one adopted to deal with determination of ‘significant’ or ‘prolong’ issue for impairment of AFS equity securities in July 2009 (i.e. highlight the areas / practices where IFRIC feels are in conflict with the requirements of IFRS / conflict with the Framework of IFRS, until IASB complete its project on common control transactions).

If you have any questions concerning my comments, please don’t hesitate to contact me.

Yours sincerely,
Muhammad Ali