



Contact(s) **Michael Kraehnke** mkraehnke@iasb.org +44 (20) 7246 6912

Project **IAS 27 Consolidated and Separate Financial Statements**

Topic **Presentation of comparatives when applying the 'pooling of interests' method**

Introduction

1. In November 2009, the IFRIC published a tentative agenda decision not to add to its agenda a request for guidance on the presentation of prior periods when applying the 'pooling of interests' for common control business combinations by entities preparing financial statements in accordance with IFRS.
2. As published in the November 2009 IFRIC Update:

The IFRIC noted that IFRS 3 *Business Combinations* (revised 2008) excludes from its scope 'a combination of entities or businesses under common control'. The IFRIC noted that resolving the issue would require interpreting the interaction of multiple IFRSs. The IFRIC also noted that in December 2007 the Board added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common control-in the acquirer's consolidated and separate financial statements. Therefore, the IFRIC [decided] not to add this issue to its agenda.
3. Four comment letters were received. The responses included in the four comment letters were varied including:
 - (a) **Comment Letter A (CL A)** – '...agreed with the IFRIC's decision not to take these items onto its agenda for the reasons set out in the tentative agenda decision.'
 - (b) **Comment Letter B (CL B)** – 'strongly encourage[s] the IFRIC to take the issue onto its agenda and provide the reporting entities with an

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in IFRIC *Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in IASB *Update*.

adequate interpretation on the issue laid out above [including both the issue in this paper and the two issues in the November 2009 IFRIC tentative agenda decision on the *IAS 27 Consolidated and Separate Financial Statements – Combined financial statements and redefining the reporting entity* included in agenda paper 4D],

- (c) **Comment Letter C** (CL C) – concern ‘that the text of the agenda decision should be revised given the discussion held by the IFRIC as we believe this would provide some clarity to constituents’, and
- (d) **Comment Letter D** (CL D) – request the IFRIC to ‘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’ similar to the IFRIC Agenda Decision on the ‘Meaning of significant or prolonged’.

4. Additional analysis of CL B, CL C and CL D are included below.

CL B – Add all common control transaction issues onto the IFRIC agenda

- 5. CL B acknowledges that one of the main reasons proposed by the IFRIC for not adding these items to its agenda was ‘that the Board in December 2007 added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common control in the acquirer’s consolidated and separate financial statement.’
- 6. CL B references to the IFRIC Due Process Handbook, specifically paragraph 24(f) that refers to the expected time to complete guidance sooner than the Board. Paragraph 24(f) includes a presumption that must be met that ‘there is a pressing need to provide guidance sooner than would be expected from the IASB’s activities’. Further, the IASB’s activities include ‘a current or planned IASB project’.
- 7. The staff acknowledges that from the perspective of the submitter of an IFRIC request, the ‘pressing need to provide guidance’ will always be met. However, from the perspective of the broader constituency of users of IFRS, the issue of common control transactions has been around for many years and practice has

formed to address many of these issues. As CL B acknowledges, the Board does have the intent to address the definition of common control and a project has already been added to the Board's research agenda.

8. Additionally, the November 2009 IFRIC deliberation on this issue included references to multiple standards (IFRS 3, IAS 8, IAS 27, Framework, etc.) pointing to the fact that there was potential conflict within IFRSs. This view is also included in the original submission and the multiple views that could be supported. The staff believes that given the nature of common control transactions and the broad impact across all transactions, not just the specific issue included in this agenda paper (and two additional issues in another agenda paper), some may hold the view that the issue and complexity of common control transactions is too broad for the IFRIC to address. This rationale was not included within the IFRIC in the November 2009 tentative agenda decision; however, the staff believes this rationale is appropriate in addition to the rationale included in the tentative agenda decision.
9. Therefore, the staff does not recommend the IFRIC add to its agenda a broad scope to address all common control transactions.

CL C – Revise agenda decision text to provide clarity through inclusion of multiple interpretations of existing standards

10. CL C acknowledged the IFRIC's tentative agenda decision, but expressed disappointment. CL C is:

...concerned that the text of the agenda decision should be revised given the discussion held by the IFRIC as we believe this would provide some clarity to constituents.

The submission to IFRIC presented two views. The Staff proposed that only one view was acceptable under IFRS (ie that information for period periods cannot be restated), on the basis of paragraph 26 of IAS 27. Based on our observations of the meeting, the IFRIC did not agree that the Staff view was the only acceptable view under IFRS.

Therefore, we request that the IFRIC expand the reasons given in the agenda decision, noting that the IFRIC believes that there may be more than one way of interpreting the interaction of the concept of pooling and IAS 27.

11. The [November 2009 IFRIC Agenda Paper 8A](#)¹ (including Appendix A that included the entire original submission without modification, except for removal of the submitter contact information) included more than one view on the issue discussed; however, the Tentative Agenda Decision does not make any reference to the number of views that may or may not be acceptable. It simply states that the IFRIC tentatively decided not to add this issue to its agenda because ‘resolving the issue would require interpreting the interaction of multiple IFRSs. The IFRIC also noted that in December 2007 the Board added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common control-in the acquirer's consolidated and separate financial statements.’
12. Although the November 2009 IFRIC Agenda Paper 8A included a staff recommendation, as is common with other IFRIC and IASB Board papers, such views and recommendations are provided for stimulating debate within the IFRIC. The staff views and recommendations do not represent authoritative views of the IFRIC or the IASB. In the staff’s opinion, at the November 2009 IFRIC meeting, the IFRIC did not have formal agreement on whether there were one or two (or more) acceptable ways of ‘interpreting the interaction of the concept of pooling and IAS 27’, nor was there agreement on what all of those views might be. Therefore the staff do not believe it would be appropriate to go further in the IFRIC’s agenda decision than to describe the reasons for not taking the issue onto the IFRIC’s agenda.

CL D – Highlight the areas in conflict with current IFRS

13. CL D acknowledges the IFRIC’s November 2009 Tentative Agenda Decision including acknowledgement that ‘the issue is widespread and the Board project is still in its research phase and prepare[r]s/ constituent[s] wouldn’t get the final standard dealing with the common control transaction[s] any time soon.’ CL D also appreciates the concern of the IFRIC and agrees that the ‘best way it can be

¹ The relevant Observer Note can be obtained at <http://www.iasb.org/NR/rdonlyres/18B9593F-BFAF-4EDA-8E6B-61F9B3FAD382/0/0911ap8AobsIAS27PoolingofInterests.pdf>

done is to issue a stand alone standard dealing with the aspect of common control transactions.’

14. However, after acknowledging the issue is broad and supporting a comprehensive review of the issue of common control transactions be undertaken in the culmination of a final standard, CL D states:

I would appreciate if IFRIC would adopt approach similar to one adopted to deal with determination of ‘significant’ or prolonged’ 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).
15. In the staff’s opinion, the IFRIC process and final non-authoritative guidance that was included in the July 2009 IFRIC Update relating to the issue of ‘Meaning of Significant or Prolonged’ should be considered an exception to the normal IFRIC procedure and format of final Agenda Decisions not to add an issue to the IFRIC agenda.
16. In the staff’s opinion and to ensure due process is followed consistent with the principles included in the IFRIC Due Process Handbook, all guidance issued by the IFRIC that is intended to be authoritative (in fact or appearance) should be issued only through the formal due process and issue of an Interpretation or the IFRIC’s recommendation to the Board of an issue to be included in the Annual Improvements project.
17. Finally, CL D incorporates references to the Board’s prior conclusions on carry over basis vs fair values of respective assets and liabilities at the date of combination. Specifically, CL D references paragraphs BC50-BC53 in the Basis for Conclusions on IFRS 3 *Business Combinations* (as revised in 2008) in support of the respondent’s belief that only fair value is available for an entity to account for common control transactions.
18. In the staff’s opinion, the references to paragraphs BC50-BC53 of IFRS 3 (revised 2008) which are included under the major heading ‘Reasons for rejecting the pooling method’ and minor heading ‘Perceived economic consequences not a valid reason for retention’ are in the context of arms length transactions only and are not applicable to transactions between entities under

common control. Paragraph BC59 of IFRS 3 (revised 2008), under the major heading of ‘Joint Ventures and combinations of entities under common control’ states ‘Formations of joint ventures and combinations of entities under common control are excluded from the scope of the revised standards.’

Staff recommendation

19. Based on the four comment letters received, the **staff recommends that the tentative agenda decision be finalised with no change from the Tentative Agenda Decision published in the November 2009 IFRIC Update.**
20. To the extent the IFRIC propose to make a significant change to the wording previously exposed in the Tentative Agenda Decision, the staff recommend the that a Tentative Agenda Decision be re-published. This would allow for an appropriate due process period to permit constituents to submit comment letters on the revised final non-authoritative wording.

Questions – Finalisation of IFRIC Agenda Decision

Question 1 – The staff recommends that the IFRIC finalise its Tentative Agenda Decision not to add this issue to its agenda. Does the IFRIC agree with the staff’s recommendation?

Question 2 – Appendix A includes the staff’s proposed wording for the final Agenda Decision. Does the IFRIC agree with the proposed final Agenda Decision wording?

Appendix A – IFRIC Final Agenda Decision DRAFTING

A1. The staff proposes the following wording for the **final** agenda decision.

(Deleted text is struck through.)

IAS 27 Consolidated and Separate Financial Statements – Presentation of comparatives when applying the 'pooling of interests' method

The IFRIC received a request for guidance on the presentation of comparatives when applying the 'pooling of interests' method for business combinations between entities under common control when preparing financial statements in accordance with IFRS.

The IFRIC noted that IFRS 3 *Business Combinations* (revised 2008) excludes from its scope 'a combination of entities or businesses under common control'. The IFRIC noted that resolving the issue would require interpreting the interaction of multiple IFRSs. The IFRIC also noted that in December 2007 the Board added a project to its research agenda to examine the definition of common control and the methods of accounting for business combinations under common control-in the acquirer's consolidated and separate financial statements. Therefore, the IFRIC {decided} not to add this issue to its agenda.