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Contact(s) **Denise Gomez Soto** [dgomez@ifrs.org](mailto:dgomez@ifrs.org) +44 (0)20 7246 6469

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Project **Agenda decision**

Topic **IFRS 3 *Business combinations*—Acquirer in a reverse acquisition (review of tentative agenda decision)**

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## Introduction

1. The IFRS Interpretations Committee (the Committee) received a request for guidance on whether a business that is not a legal entity could be considered the acquirer in a reverse acquisition under IFRS 3 *Business Combinations*.
2. The Committee discussed the issue at its meeting in July 2011 and released a tentative agenda decision not to take the issue on to its agenda.
3. The full staff analysis that was presented at the Interpretations Committee in July 2011 was set out in agenda paper 6B, which can be found on the public website.<sup>1</sup>
4. We received two comment letters that are analysed in the following paragraphs.

## Comment letters analysis

5. The two respondents agreed with the Committee's tentative decision not to add this issue to its agenda for the reasons set out in the tentative agenda decision.

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<sup>1</sup><http://www.ifrs.org/Current+Projects/IFRIC+Projects/Tentative+agenda+decisions+currently+available+for+comment.htm>

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This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee.

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 IFRS Interpretations Committee 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 IFRS Interpretations Committee or the IASB can make such a determination.

Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*.

Interpretations are published only after the IFRS Interpretations Committee 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*.

IASB Staff paper

6. However one of them proposed some modifications to the tentative agenda decision as follows:
- (a) remove the statement in the first paragraph that describes the submitter's view as this sentence is confusing and is not needed;
  - (b) directly quote paragraph B19 in IFRS 3; and
  - (c) remove the Committee's conclusion about current practice and legal status of a reporting entity as this could be viewed as an interpretation of the fact pattern analysed.

*Our view*

7. Agenda paper 3A from September 2011 (refer to paragraphs 29–30 of that paper) describes two different approaches that the Committee could follow when writing agenda decisions in order to respond to the concerns raised by respondents on the level of detail contained in the tentative agenda decision. We think that for this particular fact pattern submitted the answer is clear and can be drawn from the application of relevant IFRSs without the need of significant judgment. Consequently, in our opinion, the agenda decision should quote the main excerpts in the IFRS literature that were considered in the analysis of this issue, explain how the Committee thinks the relevant paragraphs apply to the fact pattern submitted and give the reasons why the agenda criteria were not met.
8. Consequently, in line with what we described as **Approach B**, in paragraph 30 of agenda paper 3A (September 2011), we think that the Committee's agenda decision should quote:
- (a) the relevant excerpts in the IFRS literature applicable to the analysis of this specific fact pattern;
  - (b) explain how the Committee thinks the relevant paragraphs apply to the fact pattern submitted; and
  - (c) give the reasons why the agenda criteria were not met.

IASB Staff paper

**Staff recommendation**

9. We propose the following modifications to the tentative agenda decision:
  - (a) refer to the main excerpts in the IFRS literature that are considered in the analysis of the issue (in this case by directly quoting Appendix A and paragraphs 7 and B19 of IFRS 3); and
  - (b) refer specifically to the application of the relevant IFRSs to the analysis of this fact pattern.
10. We recommend that the Interpretations Committee should finalise the agenda decision with the proposed changes shown in Appendix A.

**Question 1 – Final agenda decision**

1. Does the Interpretations Committee agree with our recommendation to make some modifications to the tentative agenda decision, as referred in paragraph 9 above to finalise it?

2. Does the Committee have any further comments on the wording for the final agenda decision in Appendix A?

## IASB Staff paper

## Appendix A—Proposed wording for tentative agenda decision

A1 We propose the following amendments to the wording of the tentative agenda decision (new text is underlined and deleted text is struck through):

### **IFRS 3 *Business Combinations*—acquirer in a reverse acquisition**

The Interpretations Committee received a request for guidance asking whether a business that is not a legal entity could be considered to be the acquirer in a reverse acquisition under IFRS 3. ~~The submitter refers to a view that the guidance in paragraph B19 of IFRS 3 states that an acquirer is an ‘entity’ and implies that the acquirer needs to be a ‘legal entity’.~~

The Committee noted that in accordance with paragraph 7 of IFRS 3, the acquirer is “the entity that obtains control of the acquire” and, in accordance with Appendix A of IFRS 3, the acquiree is “the business or businesses that the acquirer obtains control of in a business combination”. Paragraph B19 in IFRS 3 ~~requires states that “...The entity whose equity interests are acquired (the legal acquiree) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition.”~~

The Committee observed that a ‘reporting entity’ (as defined in the International Accounting Standards Board’s exposure draft *Conceptual Framework for Financial Reporting: The Reporting Entity*), need not be a legal entity. Although this part of the Conceptual Framework is not yet finalised, the Committee noted that the view that a reporting entity need not be a legal entity is consistent with the current Framework. ~~While this guidance is not final, the Committee thinks that it reflects current practice.~~ Therefore, the Committee thinks that an acquirer that is a reporting entity but not a legal entity can be considered to be the acquirer in a reverse acquisition.

The Committee noted that this issue is not widespread. Consequently, the Committee ~~decided~~ not to add this issue to its agenda.

Mr Wayne Upton  
Chairman  
International Financial Reporting Interpretations Committee  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

Email: ifric@ifrs.org

15 August 2011

Dear Mr Upton,

**Tentative agenda decision: IFRS 3: Business Combinations – Acquirer in a reverse acquisition**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the July 2011 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda requests for Interpretations of IFRS 3, *Business Combinations*, with respect to providing guidance on whether a business that is not a legal entity could be considered to be the acquirer in a reverse acquisition under IFRS 3.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decisions.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,



**Veronica Poole**  
Global Managing Director  
IFRS Technical

August 16, 2011

(by e-mail to [ifric@ifrs.org](mailto:ifric@ifrs.org))

IFRS Interpretations Committee  
30 Cannon Street,  
London EC4M 6XH  
United Kingdom

Dear Sirs,

**Re: Tentative agenda decision on IFRS 3 *Business Combinations* – acquirer in a reverse acquisition**

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on whether a business that is not a legal entity could be considered to be the acquirer in a reverse acquisition under IFRS 3. This tentative agenda decision was published in the July 2011 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reason provided in the tentative agenda decision. However we think the tentative agenda decision needs to be modified as follows:

- We recommend removing the statement in the first paragraph that describes the submitter's view because we think this sentence is confusing and is not necessary.

- We recommend directly quoting paragraph B19 in IFRS 3 in the second paragraph because the wording in the tentative agenda decision is almost identical to wording in paragraph B19.
- We recommend removing the last two sentences in the third paragraph because the Committee's views about current practice and legal status of a reporting entity are not relevant as an interpretation is not being developed. We think the fourth paragraph adequately explains the Committee's rationale for deciding not to add the issue to its agenda.

The Appendix reflects our recommendations and drafting suggestions.

We would be pleased to provide more detail if you require. If so, please contact me or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail [kathryn.ingram@cica.ca](mailto:kathryn.ingram@cica.ca)).

Yours truly,



Peter Martin, CA  
Director,  
Accounting Standards

## Appendix

We suggest clarifying the tentative agenda decision as follows:

### **IFRS 3 *Business Combinations* – acquirer in a reverse acquisition**

The Interpretations Committee received a request for guidance asking whether a business that is not a legal entity could be considered to be the acquirer in a reverse acquisition under IFRS 3. ~~The submitter refers to a view that the guidance in paragraph B19 of IFRS 3 states that an acquirer is an ‘entity’ and implies that the acquirer needs to be a ‘legal entity’.~~

The Committee noted that in accordance with paragraph 7 of IFRS 3, the acquirer is ‘the entity that obtains control of the acquiree’ and, in accordance with Appendix A of IFRS 3, the acquiree is ‘the business or businesses that the acquirer obtains control of in a business combination’. Paragraph B19 in IFRS 3 ~~requires~~ states that ‘...the entity whose equity interests are acquired (the legal acquiree) ~~to~~ must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition...’.

The Committee observed that a ‘reporting entity’ (as defined in the International Accounting Standards Board’s exposure draft Conceptual Framework for Financial Reporting: The Reporting Entity that has not yet been finalized), need not be a legal entity. ~~While this guidance is not final, the Committee thinks that it reflects current practice. Therefore, the Committee thinks that an acquirer that is a reporting entity but not a legal entity can be considered to be the acquirer in a reverse acquisition.~~

The Committee noted that this issue is not widespread. Consequently, the Committee [decided] not to add this issue to its agenda.