

### **IFRS 3 *Business Combinations*** (March 2006)

#### ***'Transitory' Common Control***

The IFRIC considered whether a reorganisation involving the formation of a new entity to facilitate the sale of part of an organisation is a business combination within the scope of IFRS 3.

IFRS 3 does not apply to business combinations in which all the combining entities or businesses are under common control both before and after the combination, unless that control is transitory. It was suggested to the IFRIC that, because control of the new entity is transitory, a combination involving that newly formed entity would be within the scope of IFRS 3.

IFRS 3 paragraph 22 (now paragraph B18) states that when an entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination must be identified as the acquirer on the basis of the evidence available (now must be identified as the acquirer by applying the guidance in paragraphs B13–B17). The IFRIC noted that, to be consistent, the question of whether the entities or businesses are under common control applies to the combining entities that existed before the combination, excluding the newly formed entity. Accordingly, the IFRIC decided not to add this topic to its agenda.

The IFRIC also considered a request for guidance on how to apply IFRS 3 to reorganisations in which control remains within the original group. The IFRIC decided not to add this topic to the agenda, since it was unlikely that it would reach agreement in a reasonable period, in the light of existing diversity in practice and the explicit exclusion of common control transactions from the scope of IFRS 3.