

IFRS 3 *Business Combinations* (September 2011)

Business combinations involving newly formed entities: factors affecting the identification of the acquirer

The Interpretations Committee received a request for guidance on the circumstances or factors that are relevant when identifying an acquirer in a business combination under IFRS 3. More specifically, the submitter described a fact pattern in which a group plans to spin off two of its subsidiaries using a new entity ('Newco'). Newco will acquire these subsidiaries for cash from the parent company (Entity A) only on condition of the occurrence of Newco's initial public offering (IPO). The cash paid by Newco to Entity A to acquire the subsidiaries is raised through the IPO. After the IPO occurs, Entity A loses control of Newco. If the IPO does not take place, Newco will not acquire the subsidiaries.

The Committee observed that the accounting for a fact pattern involving the creation of a newly formed entity is too broad to be addressed through an interpretation or through an annual improvement. The Committee determined that the specific fact pattern submitted would be better considered within the context of a broader project on accounting for common control transactions, which the Board is planning to address at a later stage. Consequently, the Interpretations Committee decided not to add the issue to its agenda and recommended the Board to consider the fact pattern described in the submission as part of its project on common control transactions.