



Australian Government

**Australian Accounting
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Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Canon Street
London
United Kingdom
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18 December 2012

Dear Wayne,

Tentative Agenda Decision: IFRS 3 *Business Combinations* and IFRS 2 *Share-based Payment* – Accounting for reverse acquisitions that do not constitute a business

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IFRS Interpretation Committee's publication in the November 2012 *IFRIC Update* of the tentative decision not to take onto the Committee's agenda the issue of accounting for reverse acquisitions that do not constitute a business.

The AASB agrees with the Committee's conclusion that accounting for a reverse acquisition of a listed non-operating entity by a non-listed operating entity is outside the scope of IFRS 3, as the listed non-operating entity is not a business. The AASB also agrees that such a transaction would be considered a share-based payment transaction accounted for in accordance with IFRS 2.

However, the AASB notes that outreach through the International Forum of Accounting Standard Setters (IFASS) indicated that there is significant diversity in practice in relation to this issue. The Committee also implicitly acknowledges the existence of diversity in practice in the tentative Agenda Decision by noting that the Committee did not expect diversity in practice to *continue* [emphasis added].

In light of the apparent current existence of diversity in practice, the AASB is concerned that this issue would not be adequately dealt with through a rejection notice, and considers that the issue would be more appropriately addressed as an Annual Improvement. In particular, the AASB considers that because no transition guidance can be provided in a rejection notice, it is potentially unclear whether entities that had previously applied IFRS 3 in accounting for such transactions would be required to apply IFRS 2 retrospectively per IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The AASB also notes that this issue is similar in nature to the issue of the interrelationship of IFRS 3 and IAS 40 *Investment Property* when classifying property as investment property or owner-occupied property, which is a matter addressed in IASB Exposure Draft ED/2012/2 *Annual Improvements to IFRSs 2011–2013 Cycle*. The AASB notes that, in contrast to our comment about transition above, the IASB has proposed that the amendment would apply prospectively. Both issues appear to arise out of uncertainty about the

definition of a ‘business’ in IFRS 3, and the AASB’s submission on ED/2012/2 is likely to express a view that it is timely to address concerns about the lack of clarity in the definition of a business – perhaps as part of the forthcoming post-implementation review of IFRS 3.

Of the two issues, the AASB thinks that the issue addressed in the Committee’s tentative Agenda Decision has the potential to cause significantly more changes to practice than the issue addressed in Annual Improvements. Consequently, the AASB reiterates its view, expressed above, that the issue of accounting for reverse acquisitions that do not constitute a business would be more appropriately addressed as an Annual Improvement.

If you have any queries regarding any matters in this submission, please contact Nikole Gyles (ngyles@asb.gov.au) or Julie Smith (jsmith@asb.gov.au).

Yours sincerely,

A handwritten signature in black ink, reading "K.M. Stevenson". The signature is written in a cursive style with a large, stylized 'S' at the end.

Kevin M. Stevenson
Chairman and CEO