



Australian Government

**Australian Accounting
Standards Board**

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Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Wayne

Tentative agenda decisions:

- **IFRS 3 *Business Combinations* – business combinations involving newly formed entities: factors affecting identification of the acquirer (Issue 1); and**
- **IFRS 3 *Business Combinations* – business combinations involving newly formed entities: business combinations under common control (Issue 2)**

We wish to provide comment to the IFRS Interpretations Committee (the “Committee”) on the above tentative agenda decisions (published in the July 2011 IFRIC Update). We are not convinced that the logic for rejecting Issue 1, as published, is appropriate, for the reasons expressed below.

As a general comment, we think that the fact patterns addressed in the tentative agenda decisions are very broad. Accordingly, we are concerned that constituents will view the Committee’s conclusions as a defacto interpretation of the accounting for certain common classes of transactions used in spin-offs. We do not think that this is appropriate as we believe that that the conclusion for Issue 1 is contentious.

Although we acknowledge the Committee’s attempts to limit the conclusions to the specific fact patterns described in the submissions, we are concerned that the views expressed by the Committee, in relation to a *conditional* Initial Public Offering (“IPO”) and an IPO which *might* occur after the transfer of a business, are inconsistent. We think that both circumstances are likely to be considered business combinations under common control and that they would be accounted for as such in practice¹.

We say this because we do not think that the references to “ultimate control” and “not transitory” are relevant to the accounting for the absolute control Entity A has over Newco before and after the transfer of businesses, and before the IPO. We believe those phrases are more relevant to structures in which another controlling party exists and either has indirect control through a chain or has an agreement that will provide for access to actual control. It is also not clear to us how the Newco formed for the business combination could qualify as an acquirer under IFRS 3.

Accordingly, whilst we are supportive of the decision by the Committee not to add these issues to its agenda, we are not convinced by the logic provided for Issue 1.

¹ Accounted for by applying the acquisition method or the pooling method as an accounting policy choice.

If the view of the Committee is to stand for Issue 1, we believe that clarification on how ‘conditionality’ should be regarded in such transactions would be needed to help identify whether the transaction is a business combination under common control or not, and would be needed to distinguish this fact pattern from the tentative agenda decision addressing Issue 2.

We would also like to emphasise that transactions that are the subject of Issue 1 are not uncommon in Australia. However, the views of the Committee under Issue 1 would lead to significant changes in practice, possibly retrospectively, because of the use of the tentative agenda decision. We ask that the Committee re-consider the drafting of the tentative agenda decisions at its September 2011 meeting to address the above concerns.

If you require further information regarding any matters in this letter, please contact me or Nikole Gyles (ngyles@asb.gov.au).

Yours sincerely

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a long, sweeping underline.

Kevin M. Stevenson
Chairman and CEO