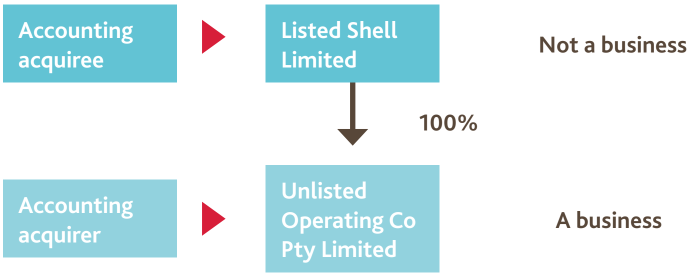
IFRS INTERPRETATIONS COMMITTEE REJECTION ON ACCOUNTING TREATMENT FOR REVERSE ACQUISITIONS THAT DO NOT CONSTITUTE A BUSINESS

The IFRS Interpretations Committee (Committee) received requests for guidance on how to account for ‘backdoor listings’, where the shareholders of an unlisted operating entity typically become the majority shareholders in a listed company (formerly a shell company) when the listed company acquires the entire share capital of the unlisted operating entity by issuing its own shares.

Example:



Usually, such transactions are accounted for as reverse acquisitions under AASB 3 *Business Combinations* (AASB 3), but in the case of backdoor listings, the accounting acquiree (Listed Shell Limited) is not a business, and this transaction therefore falls outside the scope of AASB 3.

The Committee observed that these types of transactions have some features of a reverse acquisition (such as the former shareholders of the legal subsidiary obtaining control over the legal parent). However, the Committee also observed that because the accounting acquiree is not a business, it is **inappropriate** to apply, by analogy, the guidance in paragraphs B19–B27 of AASB 3 for reverse acquisitions.

The Committee noted these transaction are therefore a share-based payment transaction which should be accounted for in accordance with AASB 2 *Share-based Payment* as follows:

- Any difference between the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's identifiable net assets represents a service received by the accounting acquirer
- The whole difference should be considered to be a payment for a service to list the operating company on the stock exchange. It does not matter what level of monetary or non-monetary assets is owned by the non-listed operating entity
- No part of the difference is to be treated as capital raising costs (and therefore debited to equity)
- The service received in the form of a stock exchange listing does not meet the definition of an intangible asset because it is not identifiable (i.e. not separable) in accordance with AASB 138 *Intangible Assets*, paragraph 12
- The service received also does not meet the definition of an asset that should be recognised in accordance with other Standards nor the *Conceptual Framework*
- The guidance in paragraph 8 of AASB 2 *Share-based Payment* also supports the view of the Committee because it states that ‘When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.’

In light of the existing IFRS requirements, the Committee decided that neither an interpretation nor an amendment to Standards was necessary and therefore decided not to add this issue to its agenda.