

## STAFF PAPER

13–14 May 2014

## IFRS Interpretations Committee Meeting

<b>Project</b>	<b>IFRS 3 <i>Business Combinations</i></b>		
Paper topic	Identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 in a stapling arrangement— Additional comment letter received		
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**We received the attached comment letter on 6 May 2014 after we had posted Agenda Paper 8. Consequently, this comment letter is not considered in the discussions in Agenda paper 8.**

International Financial Reporting Standards  
Interpretations Committee  
30 Cannon Street  
London  
EC4M 6XH

06 May 2014

Dear IFRS Interpretations Committee members,

**Tentative agenda decision – *IFRS 3 Business Combinations* – identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 *Consolidated Financial Statements* in a stapling arrangement**

The global organisation of Ernst & Young is pleased to submit its comments on the above tentative agenda decision, as published in the January 2014 *IFRIC Update*.

The IFRS Interpretations Committee (the Committee) received a request “to clarify the interaction of the requirements in IFRS 3 *Business Combinations* (as revised in 2008) for identifying an acquirer with the requirements in IFRS 10 *Consolidated Financial Statements* for deciding whether control exists. More specifically, the submitter is seeking clarification of whether an acquirer identified for the purpose of IFRS 3 (as revised in 2008) is a parent for the purpose of IFRS 10 in circumstances in which a business combination is achieved by contract alone, such as a stapling arrangement, with no combining entity obtaining control of the other combining entities.”

We agree with the Committee’s view that ‘an investment is not needed in order for an entity to control another entity’ and support the tentative agenda decision that the guidance in IFRS 3 would be relevant to identify which of the combining entities is the acquirer in the stapling transaction.

However, we are concerned that the principles of IFRS 3 are being applied to stapled structures, where none of the combining entities controls any of the other combining entities. The definition of a business combination under IFRS 3 includes the requirement that the transaction or other event leads to an acquirer obtaining control of one or more businesses. We accept that the definition continues and also scopes in transactions such as ‘true mergers’ or ‘mergers of equals’, regardless of whether control is acquired, thereby considering the ‘acquirer’ to be not a business that is combined, but rather the collective shareholders of one of the combining entities/businesses. However, in doing so, the definition of a business combination goes beyond control and thereby beyond parent-subsidary relationships. Consequently, we see the link between the identified ‘acquirer’ in stapled structures under IFRS 3 and ‘parent’ under IFRS 10 as tenuous.

Not only do we find it difficult to apply the principles of IFRS 10 when no parent/subsidiary relationship exists, we also believe it leads to arbitrary choices and a presentation of equity that is not decision-useful. For example, since the equity instruments of the two entities are stapled, it is confusing if one of them is presented as shareholder equity and the other as non-controlling interest (NCI). Also, the presentation of equity of a stapled structure would be different depending on how it was formed. To illustrate, if the stapled structure is formed as part of a business combination, which seems to be the case in most stapled structures in Australia, IFRS 3 applies and one of the entities is considered the acquirer and therefore the parent, whereas the equity of the other entity would be presented as NCI (with NCI being measured at fair value or at fair value of the net assets). Alternatively, if the stapled structure is formed through a reorganisation, as we understand is more prevalent in Canada where for tax reasons existing entities may be split into a corporate and a trust with the securities of the two entities being stapled, IFRS 3

would not apply. In that case, if a parent-subsidary relationship exists, IFRS 10 applies. If no parent-subsidary relationship exists, IFRS 10 does not apply. In both cases the tentative agenda decision does not provide any guidance.

Since from the investors' perspective, the entities in a stapled structure become one, by merging the equity of the stapled entities (comparable to a legal merger), the Committee could consider that the stapling of entities creates one 'virtual' entity for reporting purposes, where no parent/subsidiary relationship exists, therefore removing the tension we see between IFRS 3 and IFRS 10. The financial statements of the stapled structure would reflect the combined entities in the structure without needing to rely on the parent/subsidiary relationship. This principle could then also apply to entities subject to reorganisations and so on, and not just to stapled entities.

In light of the above we would encourage the Committee (i) to reconsider its tentative agenda decision that an acquirer under IFRS 3 is automatically a parent under IFRS 10 and (ii) to clarify how IFRS 10 is to be applied to structures where there is no parent/subsidiary relationship.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

*Ernst + Young Global Limited*

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