Date: 24 July 2012
ESMA/2012/464

IFRS IC
Wayne Upton

Cannon Street 30
London EC4M 6XH
United Kingdom

Agenda item request reverse acquisition

Dear Mr Upton,

The effective and consistent application of European Securities and Markets legislation is important for ESMA. In the area of financial reporting this is mainly achieved through ESMA's European Enforcers Co-ordination Sessions (EECS), a forum in which all European national enforcers of International Financial Reporting Standards (IFRS) meet to exchange views and discuss experience with enforcement of IFRS.

As a result of the review of the financial statements carried out by national competent authorities and ESMA's co-ordination activities there is an issue related to IFRS 2 – *Share-Based Payment* and IFRS 3 – *Business Combinations,* which we would like to bring to the attention of the IFRS Interpretations Committee.

A detailed description of the case is set out in the appendix to this letter.

We would be happy to further discuss these issues with you.

Yours sincerely,

Steven Maijoor
ESMA Chair

Julie Galbo
Chair ESMA's Corporate Reporting Standing Committee

APPENDIX – DETAILED DESCRIPTION OF THE ISSUE

Description of the transaction

1. The issuer is a dormant public company with 5 million issued ordinary shares. The board of directors is formed by an independent trust company. Entity B is a private contract staffing company.

2. At the date of the transaction, the issuer has net assets of 1 million CU.

3. During the year, the issuer and entity B entered into an agreement in which the issuer acquired 100% of the share capital and voting rights of entity B. In return the issuer issues 11,9 million shares to shareholders of entity B. The purpose of this transaction was for entity B to obtain a stock exchange listing.

Ownership structure

4. The ownership interests in the issuer before and after the transaction are as follows:

	Before	After
Shareholders of B	0%	70%
Entity C	80%	24%
Free float	20%	6%

Governing body after the transaction

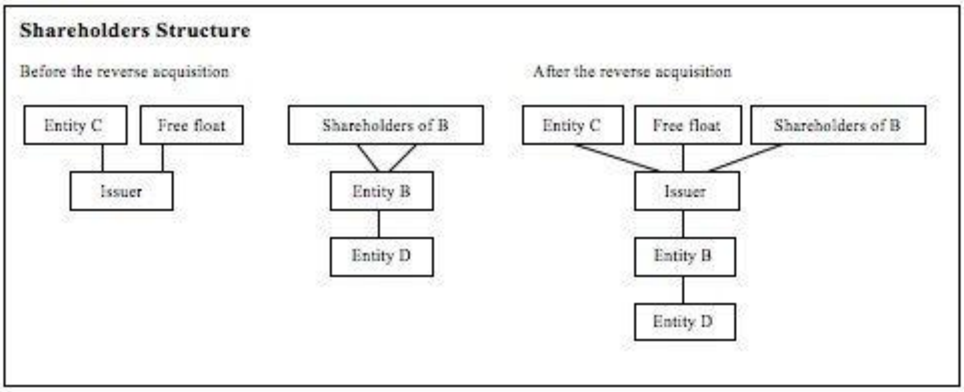
5. As the shareholders of entity B have 70% of the votes after the transaction they have the ability to appoint or remove a majority of the members of the governing body of the combined entity.

Senior management after the transaction

6. The issuer's board of directors did not change after the transaction and is still composed by the trust company. The operating management of the issuer is composed of the management of entity B before the transaction.

Relative sizes of companies

7. The relative size of entity B is significantly greater than of the issuer when comparing the assets, revenues and net profit.



Accounting treatment in the Issuers' financial statements

8. The issuer recorded the transaction in its IFRS financial statements as a share-based payment transaction, whereby entity B is deemed to have issued shares in exchange for the net assets of the issuer together with the listing status of the issuer.

9. In the notes to the IFRS consolidated financial statements the issuer describes that those statements are a continuation of the financial statements of entity B. Furthermore, the legal capital is adjusted and reflects the legal capital of the Issuer.

10. First the issuer considered the application of IFRS 2 and IFRS 3 to the transaction:

    (a) Considering the details of the transaction, according to IFRS 3, the transaction should be accounted as a reverse acquisition. However the acquiree (the issuer) does not comprise a business. Taking into account IFRS 3 paragraph B19, the transaction is not falling under the scope of IFRS 3;

    (b) According to IFRS 2 paragraph 5 an entity shall not apply IFRS 2 to transactions in which the entity acquires goods as part of the net assets acquired in a business combination as defined by IFRS 3. As the acquisition of entity B by the issuer is a business combination, IFRS 2 is not applicable to this transaction.

11. As a consequence of the above, and in line with the principle stated under IAS 8 paragraph 10, the issuer developed the following accounting policy to reflect the substance of the transaction in the financial statements:

(a) The previous shareholders of the issuer retain only 30% in the combined entity resulting from the transaction while the shareholders of entity B have 70% of the voting rights. Furthermore the former management of entity B manages the operating activities and entity B is significantly greater than the issuer. Treating the issuer as the acquirer in such circumstances would place the form of the transaction over its substance;

(b) As entity B is in substance the continuing entity, the issuer identified entity B as the acquirer for accounting purposes. Therefore the issuer applied the principles and guidance of IFRS 3 to identify the acquirer and applied reverse acquisition accounting for this transaction;

(c) As entity B does not acquire a business the issuer applied the requirements of IFRS 2 to determine the value of the deemed shares issued and how to account for the net assets and listing status received.

Question

12. Even if the accounting policy developed by the issuer in this situation is reasonable and acceptable under current IFRSs, after considering both IFRS 3 and IFRS 2 requirements, we believe that IFRS is not providing clear guidance as these transactions seem to be excluded from the IFRS scope, and there is a risk that divergent applications may arise in practice.