IFRS 2 and IFRS 3: Reverse Takeover that Is Not a Business Combination

Excerpt, IFRS Discussion Group Report on Meeting – November 30, 2010

Reverse takeovers (RTOs) are common transactions in Canada. They are often used by private companies as a mechanism to obtain a share listing either by entering into such a transaction with a publicly listed shell company or a Capital Pool Company (CPC).

IFRS 3 Business Combinations addresses RTOs that meet the definition of a business combination. However, the shell company, or CPC, may not constitute a business as defined by IFRS 3 and, as a result, the transaction is outside the scope of IFRS 3. IFRS 2 Share-based Payment addresses transactions that involve payment by the issuance of the entity's shares. Issue 2 of EIC-10, Reverse Takeover Accounting, addresses the accounting for RTOs that are not business combinations but IFRSs do not explicitly address this issue. The issue is whether a request should be made to the IFRS Interpretations Committee for clarification of which standard should be applied when assessing the accounting treatment for these transactions.

Although there were different views as to which IFRS to apply for reverse takeovers, members did not find the differences between the resulting accounting treatments significant. Members recommended that this issue not be brought to the attention of the IFRS Interpretations Committee because there does not appear to be significant diversity in practice under IFRSs.

Source: www.frascanada.ca/ifrs-discussion-group