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## FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE

### **FRSIC Consensus 6**

### ***Accounting for Premium Paid for Transfer of Listing Status in a Reverse Takeover Scenario (Acquisition of the Listing Status of a Company that was not itself a Going Concern)***

#### **Introduction**

FRSIC Consensus 6 “Accounting for Premium Paid for Transfer of Listing Status in a Reverse Takeover Scenario (Acquisition of the Listing Status of a Company that was not itself a Going Concern)” was developed by the Financial Reporting Standards Implementation Committee (“FRSIC”) and issued by the Malaysian Institute of Accountants (“MIA” or “Institute”) on 27 March 2008.

The Consensus contained herein is issued as part of the Institute’s initiatives to promote best practices in compliance with the highest standards in financial accounting.

**FRSIC CONSENSUS 6****ACCOUNTING FOR PREMIUM PAID FOR TRANSFER OF LISTING STATUS IN A REVERSE TAKEOVER SCENARIO (ACQUISITION OF THE LISTING STATUS OF A COMPANY THAT WAS NOT ITSELF A GOING CONCERN)**

FRSIC Consensus is guidance issued by MIA and shall be regarded as best practice. It should be read in conjunction with the respective applicable accounting standards.

Members of MIA are expected to observe compliance to the consensus issued. In exceptional circumstances where departure is necessary, members shall be prepared to justify the departure.

FRSIC Consensus need not be applied to immaterial items. Nothing in the FRSIC Consensus is to be construed as amending or overriding the accounting standards or other statements adopted or issued by the MASB and other relevant laws.

**The Issue**

1. A concern was raised about a specific scenario involving the acquisition of a listing status of a company that was not itself a going concern. This usually takes place in a Reverse Take-Over (RTO) situation. The issue is whether the payment for the listing status is really an intangible asset.
2. In many cases, the financial statements of acquiring company after the completion of the RTO exercise shows "premium paid for transfer of listing status" as an intangible asset.
3. FRS 138 defines asset as a resource which is controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.
4. An intangible asset is an identifiable non-monetary asset without physical substance. An asset meets the identifiability criterion when it:
  - a) is separable; or
  - b) arises from contractual or other legal rights.

5. FRS 138 allows an entity to recognise an item as an intangible asset if and only if it meets the definition of intangible asset and if:
  - a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
  - b) the cost of the asset can be measured reliably.
  
6. The issue is whether the payment for the transfer of listing status satisfies the definition and recognition criteria for intangible asset.

### **Consensus and Basis of Consensus**

7. The Committee recognises reverse takeovers involving transfer of listing status is a common phenomenon in Malaysia corporate arena, particularly involving restructuring of financially distressed public listed company by inviting a third party (known as “white knight”) to acquire the financially distressed public listed company together with a transfer of its listing status.
  
8. The question arises if such a payment satisfies the criteria to be recognized as an intangible asset. An intangible asset must satisfy both the asset and intangible asset definitions for recognition.
  
9. The listing status is unlikely to be separable from the company as the Securities Commission does not allow listing status to be sold or transferred without its approval. In addition, the fair value of the amount paid for the listing status may not be measured reliably.
  
10. The listing status also may not meet the definition of an asset as there is little evidence to prove that it generates future economic benefits to the company. This is particularly so in this scenario where the target company itself is not a going concern and is financially distressed.

11. The Committee further discussed if the payment for the listing status could be considered as goodwill arising from business combination. FRS 3, Business Combinations paragraph 52 considered goodwill acquired in a business combination to represent payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. In a situation of acquiring a financial distressed company, the Committee is of the view that it is unlikely that any benefits in the form of synergies would be derived or there would be strong grounds to believe that synergies could be derived from the acquisition of a financially distressed company.
  
12. Based on the above, FRSIC concluded that the payment for the listing status does not meet the definition and recognition criteria of an intangible asset. Also the payment for the transfer of listing status in a reverse takeover involving financially distressed company cannot be considered as goodwill arising from business combination. Hence, the payment for the listing status should be expensed off to the income statement.

**Issuance Date of this Consensus**

13. This Consensus is issued on March 27, 2008.

**References**

- FRS 138, Intangible Assets  
FRS 3, Business Combinations