

## STAFF PAPER

October 2017

## IASB® Meeting

<b>Project</b>	<b>Definition of a business</b>		
<b>Paper topic</b>	Due process followed		
<b>CONTACT(S)</b>	Leonardo Piombino	lpiombino@fondazioneoic.it	+39 06 6976 6834

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Objective**

1. The objective of this paper is to:
  - (a) set out the due process steps that the Board has taken in completing the narrow-scope project *Definition of a Business (Amendments to IFRS 3 Business Combination)*;
  - (b) ask the Board to confirm that it is satisfied that it has complied with the due process requirements; and
  - (c) ask the Board to give permission to begin the balloting process.

**Structure of the paper**

2. The paper is structured as follows:
  - (a) background;
  - (b) re-exposure;
  - (c) intention to dissent;
  - (d) effective date;
  - (e) proposed timetable for balloting and publication; and

- (f) confirmation of due process steps.

## Background

3. Following the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*, the Board concluded in 2015 that many stakeholders have concerns about how to interpret and apply the definition of a business and the related application guidance.
4. To address the concerns raised during the PIR of IFRS 3, the Board added to its agenda a project to clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a purchase of assets or as a business combination.
5. In June 2016, the Board published the Exposure Draft *Definition of a Business and Accounting for Previously Held Interests*<sup>1</sup> (the ED). The ED included proposals intended to clarify the definition of a business and the related application guidance. In summary, the Board proposed:
  - (a) to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs;
  - (b) to remove the statement that a set of activities and assets is a business if market participants can replace the missing elements and continue to produce outputs;
  - (c) to revise the definition of outputs to focus on goods and services provided to customers and to remove the reference to the ability to reduce costs;
  - (d) to consider a set of activities and assets not to be a business if, at the transaction date, substantially all of the fair value of the gross assets

---

<sup>1</sup> The Board is finalising the proposals on the accounting for previously interests in a joint operation separately as part of the *Annual Improvements to IFRS Standards 2015-2017 Cycle*.

acquired is concentrated in a single identifiable asset or group of similar identifiable assets (the screening test);

- (e) to add guidance to help determine whether a substantive process has been acquired;
- (f) to add examples to help with the interpretation of what is considered a business; and
- (g) that an entity would not be required to apply the proposed amendments to transactions that occur before the effective date of the amendments.

6. In its February 2017 meeting, the Board discussed a summary of the 80 comment letters received on the ED. In its April and June 2017 meetings the Board discussed an analysis of the comments received and the staff recommendations.

7. In April 2017, the Board tentatively decided to:

- (a) make the screening test optional on a transaction-by-transaction basis,
- (b) confirm that the screening test is determinative,
- (c) clarify that deferred taxes should be excluded from the gross assets acquired when performing the screening test,
- (d) clarify what would be considered ‘a single asset’ and ‘similar assets’ for the screening test<sup>2</sup>.

8. In June 2017, the Board tentatively decided to:

- (a) clarify that ‘other revenues’ means other income arising from contracts that are within the entity’s ordinary activities but are outside the scope of IFRS 15 *Revenue from Contracts with Customers*;
- (b) clarify that if an acquired set of assets generated revenues before the acquisition, but is integrated by the acquirer and no longer generates

---

<sup>2</sup> For further details see the April 2017 IASB Update <http://www.ifrs.org/-/media/feature/meetings/2017/april/iasb/iasb-meeting-summary-april-2017.pdf>

revenues after the acquisition, that set of assets is regarded as creating outputs;

- (c) specify in the guidance on substantive processes that difficulties in replacing an acquired workforce may indicate that the workforce performs a substantive process;
- (d) align the definition of a business in Appendix A of IFRS 3 with the revised definition of output in paragraph B7(c) of IFRS 3;
- (e) not to include the statement, proposed in the ED, that the presence of more than an insignificant amount of goodwill may be an indicator that an acquired process is substantive<sup>3</sup>; and
- (f) confirm that an entity would not be required to apply the proposed amendments to transactions that occur before the effective date of the amendments.

9. At this meeting, in addition to this paper, the Board will discuss:

- (a) a comparison between the Board’s tentative decisions made at its April and June 2017 meetings and the Accounting Standards Update *Clarifying the Definition of a Business* (the FASB Amendments) issued by the FASB in January 2017 (see AP13A); and
- (b) an overview of the Board’s tentative decisions on the *Definition of a Business* project (see AP13B).

## Re-exposure

10. We recommend that the Board does not re-expose the amendments to IFRS 3. In making this recommendation, we have considered the requirements in paragraphs 6.25-6.29 of the [IFRS Foundation Due Process Handbook](#).

---

<sup>3</sup> For further details see the June 2017 IASB Update <http://www.ifrs.org/news-and-events/updates/iasb-updates/june-2017/#8>

11. Overall, most respondents supported the proposals and no substantial issues were identified. The Board's tentative decisions made in April and June 2017 do not include substantial changes. Most of them are clarifications requested by the respondents to the ED. In our view, the decision to make the screening test optional is not a substantial change, because the Board has not introduced a new requirement; it has only permitted entities to bypass the proposed screening test. In addition, we believe that an entity's decision to exercise, or not to exercise that option, cannot lead to loss of information that would be useful to users of financial statements.
12. Consequently, we think that there are no fundamental changes being made on which respondents have not had the opportunity to comment.

### Effective date

13. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems, and those applying IFRS have sufficient time to prepare for the new requirements.
14. We expect to issue the final amendments to IFRS 3 in the first half of 2018. The amendments are narrow in scope and are expected to help entities in determining whether the acquisition of a set of assets is a business combination or an asset purchase.
15. We recommend that the amendments should apply for business combinations for which the acquisition date is on or after the beginning the first annual reporting period beginning on or after 1 January 2020. Entities will not be required to apply those amendments to earlier business combinations. Therefore, we think that one year should be sufficient to prepare to implement the amendments to IFRS 3. We also recommend that earlier application is permitted.
16. According to paragraph C1 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* a first-time adopter is not required to apply IFRS 3 retrospectively. Consequently, it is not required to apply these amendments to IFRS 3 retrospectively and thus no further relief is needed for first-time adopters.

## Intention to dissent

17. In accordance with paragraph 6.23 of the *Due Process Handbook*, we are asking whether any Board member intends to dissent from the issuance of the amendments to IFRS 3.

## Proposed timetable for balloting and publication

18. We plan to start the balloting process in November 2017, and expect to issue the amendments to IAS 40 in the first half of 2018.

## Confirmation of due process steps

19. In Appendix A to this paper, we have summarised the due process steps we have taken in developing the amendments to IFRS 3. We note that the required due process steps applicable for the issuance of a narrow-scope amendment have been completed.

## Questions for the Board

### Questions for the Board

1. **Re-exposure**—does the Board agree with the staff recommendation not to re-expose the amendments to IFRS 3?
2. **Effective date**—does the Board agree that the amendments to IFRS 3 should apply for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning or after 1 January 2020, with earlier application permitted?
3. **Dissent**—does any Board member intend to dissent from the issuance of the amendments to IFRS 3?
4. **Permission to ballot**—is the Board satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments to IFRS 3?

## Appendix A—Due process steps

A1. The following table sets out the due process steps taken by the Board.

Step	Required/optional	Actions
<b>Consideration of information gathered during consultation</b>		
The Board posts all of the comment letters that are received in relation to the ED on the project pages.	Required	All comment letters received by the Board (80 comment letters) have been posted on the project webpages. The link is:  <a href="http://www.ifrs.org/projects/work-plan/definition-of-a-business/comment-letters-projects/ed-definition-of-a-business-and-accounting-for-previously-held-interests/#comment-letters">http://www.ifrs.org/projects/work-plan/definition-of-a-business/comment-letters-projects/ed-definition-of-a-business-and-accounting-for-previously-held-interests/#comment-letters</a>
Round-table meetings between external participants and members of the Board.	Optional	We discussed the Definition of a Business project with CMAC, GPF and ASAF members
Board and Interpretation Committee meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	The Board discussed the comment letter analysis prepared by the staff at its April and June 2017 meetings. All Agenda Papers are publicly available.  This is the link to the April 2017 Agenda paper: <a href="http://www.ifrs.org/-/media/feature/meetings/2017/april/iasb/definition-of-a-business/ap13-definition-of-a-business-analysis.pdf">http://www.ifrs.org/-/media/feature/meetings/2017/april/iasb/definition-of-a-business/ap13-definition-of-a-business-analysis.pdf</a>  This is the link to the June 2017 Agenda paper: <a href="http://www.ifrs.org/-/media/feature/meetings/2017/june/iasb/definition-of-a-business/ap13-def-analysis-of-comments-received-on-ed.pdf">http://www.ifrs.org/-/media/feature/meetings/2017/june/iasb/definition-of-a-business/ap13-def-analysis-of-comments-received-on-ed.pdf</a>
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	Because of the narrow scope and the expected limited consequences of the amendments (ie they clarify the existing application guidance on the definition of a business), we have not prepared an effect analysis.  The Board has considered the consequences of the narrow-scope amendments. The likely effect of the amendments is that they: <ul style="list-style-type: none"> <li>• will reduce diversity in the interpretation and application of the definition of a business; and</li> <li>• will not result in a loss of material information for users of financial statements.</li> </ul>
Email alerts are issued to registered recipients.	Optional	Not applicable.
Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	We discussed the Definition of a Business project with CMAC, GPF and ASAF members

Step	Required/optional	Actions
Regional discussion forums are organised with national standard-setters and the Board.	Optional	We discussed the Definition of a Business project with ASAF members. We did not consider it necessary to hold regional discussion forums.
<b>Finalisation</b>		
Due process steps are reviewed by the Board.	Required	This step will be met by this Agenda Paper.
Need for re-exposure of a Standard is considered.	Required	Analysis of whether there is a need to re-expose is included in the main body of this paper.
The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	Analysis of the effective date is included in the main body of this paper.
<b>Drafting</b>		
Drafting quality assurance steps are adequate.	Required	The Translations team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The Taxonomy team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	The Editorial team will review drafts during the balloting process.  We will perform an editorial review of the pre-ballot draft with external parties.  The pre-ballot draft will be made available to members of the International Forum of Accounting Standard-Setters (IFASS).
<b>Publication</b>		
Press release to announce the final Standard.	Required	A press release will be published with the final amendments.
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received.	Required	Not considered necessary because these amendments are narrow in scope, and clarify existing requirements.
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Not considered necessary.
Standard is published.	Required	Final amendments will be made available on eIFRS on the publication date.