STAFF PAPER

October 2017

IASB® Meeting

Project	**Definition of a business**
Paper topic	Comparison between FASB Amendments and IASB tentative decisions

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Introduction

1. In its April and June 2017 meetings, the International Accounting Standards Board (Board) discussed the comments received on the Exposure Draft *Definition of a Business and Accounting for Previously Held Interests* (the IASB ED) (ED/2016/1). The IASB ED included proposals intended to clarify the definition of a business and the related application guidance.

2. Many respondents to the IASB ED encouraged the IASB and FASB to reach converged solutions on their respective amendments. Consequently, the papers for this meeting:

   (a) compare the Board's tentative decisions made at its April and June 2017 meetings (Board's tentative decisions) and the Accounting Standards Update *Clarifying the Definition of a Business* (the FASB Amendments) issued by the FASB in January 2017 (see this paper); and

   (b) provide an overview of the Board's tentative decisions (see AP13B).

Purpose of this paper

3. This paper:

   (a) compares the Board's tentative decisions with the FASB Amendments;

(b) explains the main differences;

(c) reports feedback from Accounting Standards Advisory Forum (ASAF) members on the Board's tentative decisions: and

(d) recommends clarifying that the cash acquired should be excluded from the gross assets acquired considered in the screening test.

4. Appendix A of this paper includes a table that shows a summary of all the Board's tentative decisions against the FASB decisions.

Comparison between FASB Amendments and Board's tentative decisions

5. The following paragraphs of this paper set out the main differences between the Board's tentative decisions and the FASB Amendments.

The screening test

Board's proposal

6. The IASB ED includes a proposal to consider a set of activities and assets acquired not to be a business if the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. This proposal is often called a 'screening test'.

7. The proposed screening test was determinative. This means that if an entity has performed the screening test and concluded that a concentration exists, the entity should treat the transaction as an asset purchase. There is no further assessment that might change that conclusion. If no concentration exists, the entity then should assess whether it has acquired a substantive process.

8. The proposed screening test was also mandatory. This means that an entity would always be required to assess whether a concentration of fair value exists (ie even when it is evident that the acquired set meets the definition of a business). Furthermore, if the entity concludes that such a concentration exists, the entity would be required to treat the transaction as an asset purchase, even if other factors indicate that the entity acquired a business.

Feedback received

9. Many respondents to the IASB ED, including some ASAF members, observed that in some circumstances the proposed screening test may result in inappropriate conclusions. They were concerned that certain transactions that are currently (and appropriately) accounted for as business combinations would be classified as asset purchases because of the proposed screening test. They also observed that the screening test might lead to a conclusion that is inconsistent with what would be concluded by assessing whether an acquired process is substantive.

Board's tentative decision

10. In the light of the comments received, in its April 2017 meeting, the Board tentatively decided to:

    (a) make the screening test optional on a transaction-by-transaction basis. Consequently, an entity could, on a transaction-by-transaction basis, elect to bypass the screening test and assess directly whether a substantive process has been acquired;

    (b) confirm that the screening test is determinative;

    (c) specify that the gross assets considered in the screening test exclude deferred tax assets and goodwill resulting from the effects of deferred tax liabilities.

11. The Board decided to make the test optional to enable an entity to assess (on a transaction-by-transaction basis) whether it has acquired a substantive process if this assessment would be more efficient or result in a conclusion that better reflects the economics of a particular transaction.

12. The Board acknowledged that the screening test might not reach the same outcome as the assessment of the guidance on substantive processes. It observed that there is the risk that using the screening test an entity will fail to reflect the 'core goodwill' acquired[1]. But, if substantially all the fair value of the gross assets acquired

[1] For further details see paragraphs 29-30 of AP13 for the April 2017 IASB meeting http://www.ifrs.org/-/media/feature/meetings/2017/april/iasb/definition-of-a-business/ap13-definition-of-a-business-analysis.pdf

(including core goodwill) is concentrated in a single asset (or a group of similar assets), the fair value of the core goodwill cannot be a substantial part of the total fair value of the gross assets acquired. Thus, even if the entity acquired a business, not recognising the core goodwill seemed acceptable to the Board on materiality grounds.

13. During its redeliberations, the Board also considered: (a) making the screening test an indicator that the set is not a business and (b) providing factors that would overcome the results of the screening test. The Board tentatively decided that those suggestions would be inconsistent with the intended purpose of the test, that is to reduce the cost and complexity of applying the guidance on the definition of a business in cases that are straightforward.

14. The screening test included in the FASB Amendments is mandatory and determinative. Consequently, the Board's tentative decision to make the screening test optional would create a difference between the future amendments to IFRS 3 and the FASB Amendments.

Gross assets acquired

15. In the FASB Amendments, the gross assets considered for the screening test exclude cash and cash equivalents, deferred tax assets and goodwill resulting from the effect of deferred tax liabilities. In April 2017, the Board tentatively decided to exclude deferred tax assets and the effect of deferred tax liabilities from the gross assets considered in the screening test. The Board did not discuss whether the cash acquired should be excluded from the gross assets acquired.

16. We think that the Board should exclude the cash and cash equivalents acquired from the gross assets acquired, because cash acquired does not have any relation to whether there is a business combination or an asset purchase. For example, consider the following fact pattern:

    (a) an entity acquires a loan (or a portfolio of similar loans) that has a significant fair value, a significant amount of cash and an ancillary process;

    (b) the entity elects to apply the screening test;

    (c) if the entity cannot exclude the cash acquired from the gross assets acquired, the entity is required to conclude that the fair value of the gross assets acquired is not concentrated in a single asset and thus the entity is required to apply the guidance on substantive processes to determine whether it has acquired a business or a group of assets;

(d) on the contrary, if the entity excludes the cash acquired from the gross assets acquired, the entity will conclude that the fair value is concentrated in a single asset and thus the set of assets acquired is not a business.

17. We think that the exclusion of the cash acquired from the gross assets considered for the screening test will improve the test, because, in transactions similar to the example in paragraph 17 above, the presence of the cash acquired may distort the outcome of the test (ie the test would fail to identify an asset purchase because of the cash acquired). There is no reason why acquiring cash would indicate that no substantive process was acquired. Consequently, we think that the Board should clarify that the amount of cash and cash equivalents acquired is excluded from the gross assets acquired for the purposes of the screening test.

Feedback from ASAF members

18. Some ASAF members supported the Board's tentative decisions on the screening test, ie a test that is:

(a) optional on a transaction-by-transaction basis; and

(b) determinative, if the test identifies an asset purchase.

19. Other ASAF members expressed concerns on the decision to make the test optional. They stated that:

(a) it is impossible to know whether an entity has performed an optional screening test. An entity will state that it has performed the screening test only if the entity likes the outcome;

(b) an optional test with a determinative outcome allows entities to select a preferred outcome and this may create structuring opportunities;

(c) similar transactions will be accounted for differently, depending on whether entities elected to apply the screening test; and

(d) the Board should conduct an effect analysis before finalising these amendments.

20. These ASAF members suggested the following solutions. The screening test should be:

(a) mandatory and determinative (as proposed in the ED);

(b) removed; or

(c) not determinative, but an indicator or a rebuttable presumption.

Staff view

21. On the basis of the feedback received, we believe that the best solution is to confirm that the screening test should be optional and determinative (if it identifies an asset purchase).

22. During the discussion at the ASAF meeting, the staff realised that the description of the optional and determinative nature of the screening test was causing some confusion. Accordingly, the staff wish to clarify that description as follows:

(a) An entity would be permitted, but not required, to carry out the screening test.

(b) If the screening test identifies an asset purchase, no further assessment is needed. The entity would not be prohibited from carrying out such an assessment. (However, if an entity does carry out a further assessment, the staff can see no reason why it would have wanted to apply the screening test in the first place.)

(c) If the screening test does not identify an asset purchase, the entity must carry out a further assessment. And if the entity elected not to apply the screening test, it must carry out that same assessment.

23. In the table below, we summarise the main pro and cons of the possible solutions.

Solution	Pro	Cons
Mandatory and determinative screening test	• Full convergence with FASB Amendment. • The screening test addresses some of the main concerns raised during the post-implementation review of IFRS 3: (i) the current guidance is too broad and involves significant judgements, (ii) IFRS 3 has little or no guidance on determining whether an acquired set of assets is not a business.	• An entity is forced to do the test even when it is evident that the entity has acquired a business. • This proposal is rule-based, does not allow the exercise of judgement and may lead to "inappropriate" outcomes (ie the test identifies an asset purchase, but the guidance on substantive processes would identify a business combination).
Remove the screening test	This proposal is the most principle-based approach and avoids outcomes that are inconsistent with the substance of the transaction.	• Removing the screening test will not address the concerns listed above (ie the current guidance is too broad, no guidance on determining whether a set is not a business). • The guidance on substantive processes may be difficult to apply in some circumstances.
Not determinative screening test, ie an indicator or a rebuttable presumption	This approach limits outcomes that are inconsistent with the substance of the transaction, because it requires an entity to confirm (or to rebut) the outcome of the test.	This approach does not reduce the cost and complexity of applying the guidance on the definition of a business, because it requires any entity to carry out the test and then, in all cases, also to assess the guidance on substantive process (or other factors) to confirm (or to rebut) the outcome of the test.
Optional and determinative screening test	• This approach enables entities to assess whether a substantive process has been acquired if this assessment is more efficient, or result in a conclusion that better reflects the economics of the transaction. • There is no difference with the FASB Amendments if an entity selects the screening test.	• This approach allows entities to select a preferred outcome. This could lead to structuring opportunities and reduce comparability. • It is impossible to know whether an entity has performed the test.

24. On balance we support an optional test with a determinative outcome, as described in paragraph 23. We acknowledge that this approach has the potential to allow entities

to select a preferred outcome and that this could lead to structuring opportunities and reduce comparability. However, we think that this risk is limited, because:

(a) in most cases the screening test and the guidance on substantive process would lead to the same outcome; and

(b) even if the screening test and the guidance on substantive processes would lead to different conclusions in particular cases, those differences would not lead to material differences in the quality of information provided to users of financial statements (see paragraph 13 above).

Definition of output

Board's proposal

25. In the ED, the Board proposed to narrow the definition of output in paragraph B7(c) of IFRS 3 as follows:

> **Output:** The result of inputs and processes applied to those inputs that provide ~~or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants~~ goods or services to customers, investment income (such as dividends or interest) or other revenues.

Feedback received

26. Some respondents to the IASB ED asked the Board to clarify the term "other revenues" as part of the definition of outputs. They noted that the term "other revenues" may create diversity in practice, because the term can be applied and interpreted in various ways.

27. Other respondents to the IASB ED suggested removing the term "to customers" from the definition of outputs to clarify that a set of assets acquired for the purpose of captive consumption may be a business (eg an entity acquires a supplier and subsequently consumes all the output from the supplier).

Board's tentative decision

28. In the light of the comments received, in its June 2017 meeting, the Board tentatively decided to:

(a) reaffirm the proposal to amend the definition of 'output' by removing the reference to the ability to reduce costs[2],

(b) 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*, and

(c) clarify that if an acquired set of assets generated revenues before the acquisition, but is integrated by the acquirer and no longer generates revenues after the acquisition, that set of assets is regarded as creating outputs. This statement was in the Basis for Conclusions of the IASB ED, Respondents to the IASB ED generally supported this statement. The Board tentatively decided to move this statement into the Application Guidance of IFRS 3 because it is a requirement.

29. We think that the Board's tentative decision in paragraph 29(c) above is not consistent with the FASB Amendments, because according to paragraph 805-10-55-5E of the FASB Amendment a set has outputs if there is a continuation of revenue before and after the transaction. This paragraph states that:

> When the set has outputs (that is, there is a continuation of revenue before and after the transaction), the set …

30. The FASB's definition of output[3] does not explain the meaning of 'other revenues'. However, we think that the Board's tentative decision in paragraph 29(b) above (ie the clarification that 'other revenues' means other income arising from contracts that

[2] This tentative decision is consistent with the FASB Amendments.

[3] The definition of output included in the FASB Amendments is the following:

> Output. The result of inputs and processes applied to those inputs that provide goods or services to customers, investment income (such as dividends or interest), or other revenues~~or have the ability to provide a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants~~.

are within the entity’s ordinary activities but are outside the scope of IFRS 15) is consistent with the FASB Amendments, because paragraph BC59 of the FASB Amendments states that:

> BC59. The Board decided to narrow the definition of outputs by aligning it with the ability to generate goods or services provided to customers. That is consistent with how outputs are discussed in Topic 606, which describes goods or services that are an output of the entity’s ordinary activities. However, the Board noted that not all entities have revenues within the scope of Topic 606 and, therefore, decided to incorporate other types of revenues in the definition. For example, the Board decided to include the reference to investment income in the definition of outputs in the amendments in this Update to ensure that the purchase of an investment company can still qualify as a business combination.

Feedback from ASAF members

31. ASAF members generally agreed with these tentative decisions made by the Board.

Definition of a business and definition of output

Board’s proposal

32. In the ED, the Board did not propose any amendments to the current definition of a business in Appendix A of IFRS 3. The current definition is the following:

> An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

Feedback received

33. Some respondents to the IASB ED suggested the Board should amend the definition of a business in Appendix A to IFRS 3 to make it consistent with the revised definition of output in paragraph B7(c) of the ED.

Board's tentative decision

34. In its June 2017 meeting, the Board tentatively decided to 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, because the Board agreed that the definition of a business might be perceived as inconsistent with the revised definition of output and thus cause confusion.

35. That tentative decision differs from the FASB Amendments, because the FASB did not change the definition of a business. However, the definition of a business in the FASB Amendments[4] includes an explicit reference to the guidance on the definition of a business, and that guidance includes the definition of outputs.

Feedback from ASAF members

36. ASAF members generally agreed with this Board's tentative decision.

Guidance on acquired outsourcing agreements

Board's proposal

37. In the ED, the Board proposed to clarify that an acquired contract is not a substantive process. However, an acquired contract may give access to an organised workforce, for example a contract for outsourced property management or outsourced asset management. The Board proposed that an entity should assess whether an organised workforce accessed through such a contractual arrangement performs a substantive process that the entity controls, and thus has acquired (for example, considering the duration and the renewal terms of the contract). According to the IASB ED, an outsourced workforce may perform a substantive process even if the acquired set of assets has no output.

[4] The definition of a business included in the FASB Amendments is the following (emphasis added):

A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. **To be considered a business, an integrated set must meet the requirements in paragraphs 805-10-55-4 through 55-6 and 805-10-55-8 through 55-9**.

Feedback received

38. Respondents to the IASB ED generally supported the proposal that an outsourced workforce may perform a substantive process even if the acquired set of assets has no output.

Board's tentative decision

39. In its June 2017 meeting, the Board tentatively decided to confirm the proposed guidance on acquired outsourcing agreements, including the proposal that an outsourced workforce may perform a substantive process even if the acquired set of assets has no output. Respondents to the IASB ED generally supported that guidance.

40. This Board's tentative decision is not consistent with the FASB Amendments. In its redeliberations, the FASB decided that, when outputs are not present, the acquired set of assets would need to include an organised workforce that is made up of employees.

Feedback from ASAF members

41. ASAF members generally agreed with this Board's tentative decision.

Goodwill

Board's proposal

42. The Board proposed to remove from paragraph B12 of IFRS 3 the presumption that the presence of goodwill indicates that the acquired set of activities and assets is a business. This is because the Board believes that an entity may be willing to pay an insignificant premium for an asset or an assembled group of assets in some cases. Consequently, in the ED the Board proposed to specify that the presence of an insignificant amount of goodwill does not mean that the acquired assets should automatically be considered a business.

Feedback received

43. Some respondents to the IASB ED observed that the presence of goodwill as a separate indicator may not be consistent with the new guidance on substantive process. They suggested various solutions, for example: clarify this potential inconsistency, delete the reference to the presence of goodwill as a separate indicator.

Board's tentative decision

44. In its June 2017 meeting, the Board tentatively decided:

(a) to reaffirm the removal from paragraph B12 of IFRS 3 of the statement that a set of assets and activities in which goodwill is present is presumed to be a business; and

(b) 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. This is because, in the light of the comments received, the Board believes that this additional indicator may create more confusion than benefits.

45. The latter tentative decision (paragraph 45(b) above) is not consistent with the FASB Amendments, because paragraph 805-10-55-9 of the FASB Amendments states that:

> …<u>When evaluating whether a set meets the criteria in paragraphs 805-10-55-5D through 55-5E, the presence of more than an insignificant amount of **goodwill** may be an indicator that the acquired process is substantive and, therefore, the acquired set is</u> a business. However, a business need not have goodwill.

46. However, we think that this difference should not cause significant divergence in practice, because paragraph BC57 of the FASB Amendments states that:

> The Board did not intend for the consideration of goodwill to create an additional step in the analysis or result in more transactions having goodwill than have had goodwill in the past. The intent of paragraph 805-10-55-9 is only to provide another indicator to assist an entity in evaluating whether a substantive process is included in the set.

Feedback from ASAF members

47. ASAF members generally agreed with this tentative decision made by the Board.

Difficulties in replacing an acquired workforce may indicate that the workforce performs a substantive process

Board's proposal

48. Paragraph B12A of the IASB ED states that a set that does not have outputs is a business only if:

    (a) it includes a workforce;

    (b) the acquired workforce is able to perform an acquired substantive process; and

    (c) that acquired substantive process is critical to the ability to develop or convert another acquired input into outputs

Feedback received

49. A respondent to the IASB ED suggested replacing the tests described in paragraph 49(b) and (c) above, with the test of whether replacing the acquired workforce would cause significant cost, effort and delay in the production or the development of outputs.

Board's tentative decision

50. In the light of the comments received, in its June 2017 meeting, the Board tentatively decided to:

    (a) confirm the guidance proposed in the ED to assess whether a substantive process has been acquired, and

    (b) specify in the guidance on substantive processes that difficulties in replacing an acquired workforce may indicate that the workforce performs a substantive process.

51. The clarification in the latter tentative decision (paragraph 51(b) above) is not included in the FASB Amendments.

Feedback from ASAF members

52. ASAF members generally agreed with these tentative decisions made by the Board.

Oil and Gas Illustrative Example

Board's proposal

53. The ED includes the following Illustrative Example:

Example J—acquisition of oil and gas operations

IE102 An entity (Purchaser) purchases Property X, which is a producing oil field that is generating revenue. The purchased set of activities and assets includes the mineral interests, customer contracts, drilling equipment, a gathering system, and supply contracts. The set also includes operational processes related to extracting and transporting the oil and gas, which are performed through the existing infrastructure. No employees, other assets, or other activities are transferred.

IE103 Purchaser first considers the guidance in paragraphs B11A–B11C and concludes that the fair value of the gross assets purchased is not concentrated in a single identifiable asset or group of similar identifiable assets, because there is significant fair value in different classes of non-financial assets (equipment, the gathering system and mineral interests).

IE104 Because the set of activities and assets has outputs, Purchaser applies the criteria in paragraph B12B to determine whether it acquired both an input and a substantive process. The criterion in paragraph B12B(b) is not met, because Purchaser did not acquire an organised workforce. The criterion in paragraph B12B(a) is met, because replacing the operational processes associated with extracting and transporting the oil and gas would result in significant cost and delay. These processes are being applied to purchased inputs (such as the mineral interest) and contribute to the production of outputs. Because the operational processes are in place and will continue to be performed through the existing infrastructure, replacing those processes would require the operation to shut down and replace the equipment and infrastructure, which would be costly and delay the production of outputs. Consequently, the set of activities and assets acquired is a business.

Feedback received

54. The main comments received on this Illustrative Example are the following:

(a) We agree with the conclusion in Example J that an operating oil and gas field acquired without a workforce should be considered to be a business. We are not convinced, however, that the cost and delay of replacing the processes involved in those or any other activities should be the determining factor in that conclusion. We believe that the existence of processes which can continue to be performed by a new workforce should be sufficient when the set of assets and activities acquired produces outputs, regardless of the cost or complexity of replacing those processes[5].

(b) The analysis in example J concludes that the transaction is a business. This may appear to be inconsistent with the strict definition of a process as mentioned in paragraph 87 of the ED, as the definition does not specify that a specific asset can in some instances become or be integrated in a substantive process. Assets are only described as inputs[6].

(c) The text in Example J relates to a specific fact pattern that is not clearly described, and not clearly recognized in our experience with this industry[7].

Board's tentative decision

55. In the light of the comments received, in its June 2017 meeting, the Board tentatively decided to:

(a) confirm the proposal to add illustrative examples to help with determining what is considered a business; and

(b) clarify the fact patterns of the illustrative examples by separating the assumptions in each example from the conclusions

56. The FASB ED included an oil and gas example similar to Example J (see paragraph 54 above). In its redeliberations, the FASB deleted its example, because to address the comments received, the example would have become too technical and it would not be beneficial to those not in the oil & gas industry.

Staff view

57. We think that Example J is consistent with paragraph B12B(a) of the ED, because:

[5] See BP comment letter (CL 80).

[6] See European Financial Reporting Advisory Group (EFRAG) comment letter (CL 76).

[7] See Norwegian Accounting Standards Board (NASB) comment letter (CL 62).

(a) according to paragraph B12B(a) a process that cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs is a substantive process; and

(b) Example J concludes that the set of activities and assets acquired is a business, because replacing the operational processes acquired would be costly and delay the production of outputs.

58. Consequently, we think that the IASB should keep this example clarifying in the fact pattern that the processes acquired are difficult to replace.

59. As suggested by some respondents to the IASB ED, in drafting the Illustrative Examples we will try to use the same wording used by the FASB as much as possible. However, we will have to make some changes to the examples, because of the different decisions made by the two Boards, particularly on the screening test.

Staff recommendations

60. Having considered the comments received from ASAF members, we recommend that the Board should:

(a) confirm the tentative decisions made at its April and June 2017 meetings;

(b) confirm the proposed Example J, adding clarification to the fact pattern that the processes acquired are difficult to replace; and

(c) specify that the gross assets considered in the screening test exclude: (i) goodwill resulting from the effects of deferred tax liabilities; (ii) deferred tax assets; (iii) and cash and cash equivalents acquired.

Question for Board members
Do Board members agree with the staff recommendations listed in paragraph 59 of this paper?

Appendix A - Board's tentative decisions against FASB decisions

A1. In the table below we provide a summary of all the Board's tentative decisions against the FASB decisions in their respective projects on the definition of a business.

Summary of IASB tentative decisions	Summary of FASB decisions
Definition of output	
Amend the definition of 'output' by removing the reference to the ability to reduce costs.	Same decision
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.*	The FASB explained the meaning of 'other revenues' in the Basis for Conclusions (see paragraph 21 above)
Definition of a business	
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.	The FASB did not align the definition of a business with the definition of output. However, the definition of a business in the FASB Amendments includes an explicit reference to the guidance on the definition of a business.
Minimum requirements to be a business	
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 are required to contribute significantly to the ability to create outputs.	Same decision.
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	Same decision.

<table>
<tr><th>Summary of IASB tentative decisions</th><th>Summary of FASB decisions</th></tr>
<tr><td colspan="2">The screening test</td></tr>
<tr><td>An entity may on a transaction-by-transaction basis elect to apply the screening test to determine when a set would not be considered a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets the acquired set is not a business. Thus, the screening test is optional and determinative, this means that:
An entity would be permitted, but not required, to carry out the screening test.
If the screening test identifies an asset purchase, no further assessment is needed. The entity would not be prohibited from carrying out such an assessment.
If the screening test does not identify an asset purchase, the entity must carry out a further assessment. And if the entity elected not to apply the screening test, it must carry out that same assessment.</td><td>An entity shall consider a set of activities and assets not to be a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. Thus, the screening test is mandatory and determinative.

If the fair value is not concentrated, further assessment is necessary to determine whether the set is a business.</td></tr>
<tr><td>Specify that the gross assets considered in the screening test exclude: (i) goodwill resulting from the effects of deferred tax liabilities; (ii) deferred tax assets; (iii) and [if the Board agrees with our recommendation above] cash and cash equivalents.</td><td>Specify that the gross assets considered in the screening test exclude: (i) goodwill resulting from the effects of deferred tax liabilities; (ii) deferred tax assets; (iii) and cash and cash equivalents.</td></tr>
<tr><td>Clarify that, for the screening test, a tangible asset that is attached to and cannot be physically removed and used separately from other tangible assets (or a right-of-use asset, as described in IFRS 16 Leases), without incurring significant cost, significant diminution in utility, or fair value to either asset, shall be considered a single identifiable asset.</td><td>Clarify that, for the screening test, a tangible asset that is attached to and cannot be physically removed and used separately from other tangible assets (or intangible asset representing the right to use a tangible asset), without incurring significant cost, significant diminution in utility, or fair value to either asset, shall be considered a single identifiable asset.

In-place lease intangibles and the related leased assets are considered a single asset [this is not a difference, because according to paragraph B42 of IFRS 3 an in-place lease and the related leased asset are a single asset].</td></tr>
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<tr><td>Clarify that the following would not be considered similar assets:
A tangible asset and an intangible asset
Identifiable intangible assets in different intangible asset classes
A financial asset and a nonfinancial asset
Different classes of financial assets
Different classes of tangible assets
Identifiable assets within the same asset class that have significantly different risks.
Clarify that the new guidance on what assets may be considered a single asset or a group of similar assets is not intended to modify the existing guidance on similar assets in paragraph 36 of IAS 38 Intangible Assets and the term 'class' in IAS 16 Property, Plant and Equipment, IAS 38 and IFRS 7 Financial Instruments: Disclosures.</td><td>Clarify that the following would not be considered similar assets:
A tangible asset and an intangible asset
Identifiable intangible assets in different major intangible asset classes
A financial asset and a nonfinancial asset
Different major classes of financial assets
Different major classes of tangible assets
Identifiable assets within the same major asset class that have significantly different risks.
[The FASB uses the term ‘major classes’, the IASB uses the term ‘classes’ because the term ‘major classes’ is not used in IFRS Standards.]</td></tr>
<tr><td colspan="2">Guidance on substantive processes</td></tr>
<tr><td>When a set does not have outputs, the set is a business only if it includes an organized workforce (made up of employees <u>or accessed through an outsourcing agreement</u>) that has the necessary skills, knowledge, or experience to perform an acquired process that when applied to another acquired input or inputs is critical to the ability to develop or convert that acquired input into output.</td><td>When a set does not have outputs, the set is a business only if it includes an organized workforce (that is made up of employees <u>and is not accessed through an outsourcing agreement</u>) that has the necessary skills, knowledge, or experience to perform an acquired process that when applied to another acquired input or inputs is critical to the ability to develop or convert that acquired input into output.</td></tr>
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<tr><td>When a set has outputs, the set is a business if any of the following are present:
An organized workforce that has the necessary skills to perform an acquired process that when applied to an acquired input is critical to the ability to continue producing outputs.
An acquired process that is unique, scarce, or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs
Clarify that if an acquired set of assets generated revenues before the acquisition, but is integrated by the acquirer and no longer generates revenues after the acquisition, that set of assets is regarded as creating outputs

Specify in the guidance on substantive processes that difficulties in replacing an acquired workforce may indicate that the workforce performs a substantive process.</td><td>When a set has outputs (that is, there is a continuation of revenue before and after the transaction), the set is a business if any of the following are present:
An organized workforce that has the necessary skills to perform an acquired process that when applied to an acquired input is critical to the ability to continue producing outputs.
An acquired process that is unique, scarce, or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs</td></tr>
<tr><td colspan="2">Goodwill</td></tr>
<tr><td>Remove the existing statement that a set of assets and activities in which goodwill is present is presumed to be a business.

Do not 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.</td><td>Remove the existing statement that a set of assets and activities in which goodwill is present is presumed to be a business.

Confirm 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.</td></tr>
<tr><td colspan="2">Transition</td></tr>
<tr><td>An entity would not be required to apply the proposed amendments to transactions that occur before the effective date of the amendments</td><td>An entity would not be required to apply the proposed amendments to transactions that occur before the effective date of the amendments</td></tr>
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