

Definition of a business and accounting for previously held interests

Exposure draft issued by the International Accounting Standards Board in June 2016

Comments from ACCA
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ACCA welcomes the opportunity to provide views in response to the exposure draft from the International Accounting Standards Board (IASB). This has been done with the assistance of the members of ACCA's Global Forum for Corporate Reporting. They have considered the questions raised and their views are reflected in the following comments.

SPECIFIC COMMENTS ON THE FEEDBACK REQUESTED

Question 1

The Board is proposing to amend IFRS 3 to clarify the guidance on the definition of a business (see paragraphs B7–B12C and BC5–BC31). Do you agree with these proposed amendments to IFRS 3?

In particular, do you agree with the Board's conclusion that if substantially all the fair value of the gross assets acquired (ie the identifiable assets and non-identifiable assets) is concentrated in a single identifiable asset or group of similar identifiable assets, then the set of activities and assets is not a business (see paragraphs B11A–B11C)?

Why or why not? If not, what alternative would you propose, if any, and why?

We support overall the amendment that IASB is proposing, though there are some clarifying amendments which should be incorporated.

The screening test of the predominant fair value in a group of similar assets would rule out the activity being classified as a business. There may be cases where this would not be appropriate in our view. For example there could be case similar to Example K where the workforce was acquired, but this time with little effect on the fair value for whatever reason. We consider that the screening test should produce a rebuttable presumption that there was no business, but not an absolute rule and permit other qualitative factors to be considered.

The guidance in B11A and Example E for instance should emphasise that the gross assets for the screening test are not restricted to those recognised on a business combination. In addition it may need to make clear that the gross assets may include

items such as the skilled workforce even though there is doubt from IAS38.15 that a skilled workforce could be an asset at all because of the lack of control. This matter should be clarified in our view.

The explanation of the screening test would benefit from consideration of a transaction which did not give the acquirer a 100% interest.

We are not sure that the part of paragraph B12 including the presence of goodwill as an indicator of a business is very helpful. Firstly it does not seem to fit with the definitive tests in paragraphs B12A and B12B – does it override them? Secondly goodwill could just represent deferred tax liabilities attaching to a group of similar assets.

We think it would be helpful if there could be a flowchart which covered the decision-making process more completely, especially the contents of Paragraphs B12 to B12B.

Some of the examples need to be reconsidered.

Example D says there is no business as there is no input beyond the workforce. There is plant and an organised workforce with presumably the knowledge to make the product that they were doing before. Would inventory make this into a business for example? Paragraph B8 says not all necessary inputs may be present but a minimum of one input and a process is needed. The workforce is an input but it seems insufficient in Example D. This example needs a better explanation of why there is no business.

Examples I and K link an element of the fair value to the workforce acquired. As noted above, there may be a workforce with little fair value (or even a negative value because of pension or other employment rights). An example where that was the case might be helpful. Furthermore an organised workforce is not an asset to be recognised separately under IFRS3 and so will not be given a fair value in the acquisition process. However for these two examples it seems important to do so. In Example I in particular there could be reasons, other than the workforce, why the fair value of the price paid might exceed the fair values of the investment properties – for example synergies with the purchasers' existing properties.

Question 2

The Board and the FASB reached substantially converged tentative conclusions on how to clarify and amend the definition of a business. However, the wording of the Board's proposals is not fully aligned with the FASB's proposals.

Do you have any comments regarding the differences in the proposals, including any differences in practice that could emerge as a result of the different wording?

It would have been helpful in trying to answer this question if the differences between the IFRS and US GAAP versions had been set out. However as a general principle with converged standards the language should remain as identical as possible.

Question 3

To address diversity of practice regarding acquisitions of interests in businesses that are joint operations, the Board is proposing to add paragraph 42A to IFRS 3 and amend paragraph B33C of IFRS 11 to clarify that:

(a) on obtaining control, an entity should re-measure previously held interests in the assets and liabilities of the joint operation in the manner described in paragraph 42 of IFRS 3; and

(b) on obtaining joint control, an entity should not re-measure previously held interests in the assets and liabilities of the joint operation.

Do you agree with these proposed amendments to IFRS 3 and IFRS 11? If not, what alternative would you propose, if any, and why?

We support the proposed changes. However the wording of the paragraph B33C should be made more understandable. Perhaps if the fact that this paragraph applies to both a joint operator and a party that participates but does not have joint control could be covered by an initial separate sentence that might help to make the other sentences simpler and clearer.

Question 4

The Board is proposing the amendments to IFRS 3 and IFRS 11 to clarify the guidance on the definition of a business and the accounting for previously held interests be applied prospectively with early application permitted.

Do you agree with these proposed transition requirements? Why or why not?

We agree that the changes should be prospective. To require retrospective application might require a reopening and reassessment of past combinations needing in some cases retrospective application of fair values, goodwill and impairments which in our view would be very difficult and burdensome to do.

