

## STAFF PAPER

May 2016

## IASB Meeting

<b>Project</b>	<b>Agenda Consultation</b>		
<b>Paper topic</b>	Feedback received on the Definition of a Business Project		
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This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Purpose**

1. This paper discusses the feedback received on the *Definition of a Business* project in response to the International Accounting Standards Board's (the Board's) Request for Views 2015 Agenda Consultation ('the RFV') and an online survey.
2. The Board will not be asked to make any decisions at this meeting.

**Background**

3. The IASB published the RFV in August 2015. At that time, the *Definition of a Business* project was included in the Board's research programme and was classified as an assessment-stage project.
4. The RFV included the following description of the project:

The accounting treatment for a business combination differs from the accounting treatment for an asset acquisition. The PIR of IFRS 3 identified some challenges in determining whether a transaction is a business combination or an asset acquisition. The IASB staff have begun planning an approach to this research project. The research will consider whether the challenges can be dealt with by clarifying the existing definition of a business or by eliminating the differences between the two accounting treatments.

5. The *Definition of a Business* project is now in the Board’s Standard-setting programme and we plan to issue an Exposure Draft shortly to clarify the existing guidance on the definition of a business.

## Responses to the RFV

6. The Board received 119 comment letters in response to its RFV. Of these respondents, 46 commented on the *Definition of a Business* project. These 46 comment letters are summarised below by type of respondent and geographical region.

### *Type of comment letter respondent*

Type of respondent	Number of respondents	%
Preparer/Representative body	14	30%
Standard-setting body	11	24%
Accountancy body	9	20%
Accounting firm	6	13%
User/Representative body	3	7%
Regulator/Securities	2	4%
Academia	1	2%
<b>Total</b>	<b>46</b>	<b>100%</b>

7. A diverse range of types of interested parties commented on the *Definition of a Business* project. .

### *Geographical distribution of comment letter respondents*

Geographical region	Number of respondents	%
Europe	22	47%
Asia	7	15%
Global	7	15%
Africa	4	9%
America	3	7%
Oceania	3	7%
<b>Total</b>	<b>46</b>	<b>100%</b>

8. All geographical regions are represented in the responses. Europe is the geographical region providing most respondents.

*Who thinks this project is important and why?*

9. Sixty-three respondents ranked the *Definition of a Business* project as a topic of either high, medium or low importance. Only a few of them think that the project is of low importance:

Importance	Number of Respondents	%
High	31	49%
Medium	26	41%
Low	6	10%
<b>Total</b>	<b>63</b>	<b>100%</b>

10. Those respondents are summarised below by type of respondent. The project is of high or medium importance for all types of respondents.

Type of respondent	Number	% High	% Medium	% Low
Preparer/Representative body	16	50%	38%	12%
Standard-setting body	19	21%	58%	21%
Accountancy body	11	64%	36%	-
Accounting firm	9	78%	22%	-
User/Representative body	2	50%	50%	-
Regulator/Securities	5	80%	20%	-
Academia	1	-	100%	-
<b>Total</b>	<b>63</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

11. Those respondents who ranked the project as of high or medium importance think that:

- (a) the definition of a business is frequently used in IFRS Standards and practical issues are experienced in practice;
- (b) whether or not an acquisition is structured as acquiring a business or a group of assets has significant accounting implications. As a result, there is considerable ‘accounting arbitrage’ and much time is often spent on structuring transactions to achieve a desired accounting result. Such discussions are not adding any value to the underlying business and the differences are not readily understandable by senior management or members of the entity’s board who are not technical accounting experts;
- (c) there is only limited guidance about the definition of a business in IFRS 3, which may lead to diversity in practice;
- (d) the difference in accounting treatment between a business combination and an asset acquisition creates problems of interpretation and comparability for

users of financial information. This is particularly the case in industries in which the definition of a business under the current Standard is difficult to apply for certain transactions (ie, real estate, shipping, banking sector, pharmaceutical, extractive, technology); and

- (e) the Post-implementation Review ('PIR') of IFRS 3 *Business Combinations* showed that the definition of a business is an area of significant concern for users and preparers of financial statements.

*Who thinks this project is urgent and why?*

12. Sixty-one respondents ranked the *Definition of a Business* project as a topic of either high, medium or low urgency. Only a few of them think that the project is of low urgency:

Urgency	Number of Respondents	%
High	29	48%
Medium	24	39%
Low	8	13%
<b>Total</b>	<b>61</b>	<b>100%</b>

13. Those respondents are summarised below by type of respondent. The project is of high or medium urgency for all types of respondents.

Type of respondent	Number	% High	% Medium	% Low
Preparer/Representative body	16	56%	31%	13%
Standard-setting body	19	16%	53%	31%
Accountancy body	9	78%	22%	-
Accounting firm	9	56%	44%	-
User/Representative body	2	50%	50%	-
Regulator/Securities	5	80%	20%	-
Academia	1	-	100%	-
<b>Total</b>	<b>61</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

14. Those respondents who ranked the project as of high or medium urgency think that:

- (a) the lack of clarity in the definition of a business has been a longstanding issue since the issuance of the revised IFRS 3 in 2008. This has resulted in differing interpretations and different accounting treatments for similar transactions;
- (b) the Board can address identified problems with targeted improvements that should not require too many resources;

- (c) the Board should collaborate with the FASB to avoid divergence with US GAAP, because the FASB has already issued an Exposure Draft to address this issue;
- (d) the Board should first clarify the definition of a business and related application guidance, and then, in the long run, consider whether or not to eliminate differences between the accounting for a business combination and an asset acquisition;
- (e) there is a high demand for additional clarification and illustrative examples in this complex area; and
- (f) because the project stems from the results of the PIR of IFRS 3, in which it was explored in detail, the Board should proceed directly with a project at Standard level.

### Responses to the online survey

15. As part of its agenda consultation process, the Board conducted an online survey as described in Agenda Papers 24C and 24D for the April 2016 IASB meeting.

16. Sixty-three investors ranked the *Definition of a Business* project as a topic of either high, medium or low priority:

Priority	Number of Investors	%
High	8	13%
Medium	29	46%
Low	26	41%
<b>Total</b>	<b>63</b>	<b>100%</b>

17. Forty-six non-investors ranked the *Definition of a Business* project as a topic of either high, medium or low priority:

Priority	Number of Non-investors	%
High	10	9%
Medium	26	56%
Low	16	35%
<b>Total</b>	<b>46</b>	<b>100%</b>

## **Summary and next steps**

18. We think that the feedback received confirms the importance and the urgency of this project and is in line with the feedback received during the PIR of IFRS 3.
19. At the time of writing this paper, the Exposure Draft is being balloted for publication.