asian-oceanian
standard-setters group

31 October 2016

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

AOSSG comments on IASB Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests*

Dear Hans,

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB's ED 2016/1 *Definition of a Business and Accounting for Previously Held Interests* (the "ED"). In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may wish to submit. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG Acquisitions and Reporting Entity Issues Working Group.

Most of AOSSG members generally agree with the proposed amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* in the ED. However, AOSSG members would like to highlight the following as the important areas for the IASB's redeliberations:

- Definitions of the terms;
- Assessment of the concentration of fair value; and
- Evaluating whether an acquired process is substantive.

In addition, AOSSG members recommend the wording of the IASB's proposals be aligned with the FASB's proposals to the extent that the IASB and the FASB reached converged conclusions.

The views of the AOSSG for each question are provided in the Appendix.

The AOSSG hopes that our comments will be helpful for the IASB's future deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,

Jee In Jang
AOSSG Chair

Yasunobu Kawanishi
AOSSG Acquisitions and Reporting Entity Issues Working Group Leader

APPENDIX – Detailed comments from the AOSSG on ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests*

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?

1. Most of AOSSG members generally agree with the proposed amendments to IFRS 3 to clarify the guidance on the definition of a business.
2. However, some members are of the view that the proposed amendments are rule-based and draw an arbitrary line between a business and an asset (or a group of assets) with a lack of conceptual basis, which may lead to different conclusions among stakeholders.
3. Some members are of the view that the illustrative examples do not provide sufficient context and details of the fact pattern and lack explicit reasoning and, therefore, it is difficult to reach the conclusion as illustrated.

(A) Definitions of the terms

4. Some members think that, although the revised definition of outputs in paragraph B7(c) of IFRS 3 in the ED is an improvement, the term 'other revenues' in the definition of outputs should be clarified (e.g., dividends from investments in an associate or profits generated from real estate).
5. Some members think that, although it is reasonable to remove the term 'market participants' from paragraph B8 of IFRS 3 in the ED and retain that term in paragraph B11 of IFRS 3 in the ED, as described in paragraphs BC12 and BC14 of the ED, that term is not yet clarified and, therefore, gives rise to one of the difficulties in applying IFRS 3. Accordingly, the term 'market participants' should be clarified in IFRS 3.
6. Some members are of the view that the IASB should add sufficient guidance on the terms requiring judgment, such as 'substantive', 'similar', and 'significant', to promote consistent application in practice.

(B) Assessment of the concentration of fair value

7. Some members think that the assessment of the concentration of fair value is too rigid and it does not allow for consideration of qualitative factors which might be crucial in assessing the substance of the acquired set of activities and assets. In these members' view, the consideration for qualitative factors should be included because the proposed assessment opens the door to structuring and the concentration of fair value could be manipulated. This

matter could also be resolved by removing the assessment of the concentration of fair value as the first step of the assessment and requiring a more holistic assessment that incorporates qualitative as well as quantitative testing. The assessment of the concentration of fair value may be one of the quantitative testing.

8. Some members think the consideration for right-of-use assets should be clarified, to the extent that they meet the principles underlying the proposed condition in paragraph B11B of IFRS 3 in the ED, 'tangible assets that are attached to, and cannot be physically removed and used separately from, other tangible assets without incurring significant cost, or significant diminution in utility or fair value to either asset', because right-of-use assets are neither intangible assets nor an item of property, plant and equipment.

9. Some members think that, although paragraph B11C of IFRS 3 in the ED lists the assets that should not be combined into a single identifiable asset or considered a group of similar identifiable assets, the IASB should clarify what type of assets can be considered a group of 'similar' identifiable assets in a more principle-based manner (e.g., based on nature, risks and characteristics, regardless of external forms), so that the assessment of the concentration of fair value can be consistently applied in practice.

   Some other members think that, paragraph B11C(a) of IFRS 3 in the ED may lead to different conclusions for production lines that are a combination of software (intangible assets) and hardware (tangible assets). In addition, in cases where an acquired set of activities and assets contains the land and the building may be troublesome because, in their jurisdictions, an entity normally obtains the right to use land for a fixed number of years by paying a land transferring fee or by being allocated by the state, and that right to use would be accounted for as intangible assets.

10. Some members are of the view that the IASB should consider including a provision that requires qualitative factors to be considered if the assessment of the concentration of fair value does not reflect the economics of the transactions, because the assessment may result in transactions which are in substance business acquisitions being unintentionally accounted for as asset acquisitions, especially in the case where substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets while the acquisition contains minimal organised workforce which is critical to the generation of outputs but has an insignificant fair value (e.g., in an acquisition of a high-technology and substantially automated operation, or an acquisition of a shopping centre).

11. Some members think the assessment of the concentration of fair value may lead to unintended conclusions on whether the acquired set of activities and assets is a business, because the fair value of the gross assets acquired includes the fair value of any acquired process and workforce and any other intangible assets that is not identifiable (as stated in paragraph B11A of IFRS 3 in the ED), which is difficult to be measured in practice. These members think the consideration paid could be used as a proxy of the fair value in practice and the amount of consideration paid could affect the result of the assessment of the concentration of fair value.

(C) Evaluating whether an acquired process is substantive

12. Some members are of the view that the IASB should add sufficient guidance on what an 'organised workforce' in the ED means and how the fair value of an organised workforce is determined, because the definition of an 'organised workforce' and the underlying principles are unclear.

13. Some members think that the IASB should further clarify the cases where a set of activities and assets has outputs 'at the acquisition date' as described in paragraphs B12A and B12B of IFRS 3 in the ED, because it might be inappropriate to determine that the acquired set does not have outputs at the acquisition date in the case where it previously had outputs before the acquisition date, but not at the acquisition date (either temporarily or otherwise).

    Some other members suggest that evaluating whether an acquired process is substantive should be differentiated based on whether or not the acquired set is capable of creating outputs at the acquisition date.

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 difficulties in the proposals, including any differences in practice that could emerge as a result of the different wording?

14. AOSSG members welcome that the IASB and the FASB reached substantially converged tentative conclusions on how to clarify and amend the definition of a business.
15. A number of AOSSG members strongly recommend that the wording of the IASB's standard and the FASB's standard be aligned to the extent that the IASB and the FASB reaches converged conclusions. This ensures consistent application across jurisdictions.
16. Some members think some illustrative examples in the IASB's proposals are different from those in the FASB's proposals (i.e., Example H – acquisition of investment properties and Example K – acquisition of mortgage loan portfolio) and are concerned that they may lead to diversity in practice.
17. Some members think 'organised workforce' is one of the key concepts in the ED and the IASB's proposal should include further description of 'organised workforce', similar to paragraph 805-10-55-5D of the FASB's proposal.

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 remeasure 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 remeasure 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?

18. AOSSG members generally agree with the proposed amendments to IFRS 3 and IFRS 11, which are consistent with the existing requirements.
19. Although some members think that the IASB should first finalise the accounting for previously held interests proposed in the ED, they believe that, considering the fact that the

IASB deferred the effective date of the previous amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, the IASB should comprehensively address the accounting for previously held interests for which the accounting for the remeasurement is unclear, rather than issuing piecemeal amendments.

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?

20. AOSSG members generally agree with the proposed transition requirements.