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52. Sitzung IFRS-FA am 01.09.2016
52_02a_IFRS-FA_DefinitionBusiness_SN_IASB

Dear Hans,

IASB ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests (Proposed amendments to IFRS 3 and IFRS 11)* (herein referred to as the 'ED'). We appreciate the opportunity to comment on the Exposure Draft.

In general, we support the IASB's aim to provide clearer application guidance regarding the definition of a business. Nevertheless, we think that the proposed amendments do not sufficiently help in determining whether a business or a group of assets has been acquired. In particular, we see difficulties regarding the amendments in paragraph B8 and with regard to the screening test. In addition, we fear that applying the amendments to the examples included in the ED would not result in the appropriate outcome or indicate that the application of the definition of a business is still not sufficiently clear.

In contrast, we fully support the proposed amendments regarding the accounting of previously held interests and think that the proposals will result in uniform accounting.

Please find our detailed comments on the questions raised in the ED in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Franziska Schmerse or me.

Yours sincerely,

Andreas Barckow
President

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Appendix – Answers to the questions of the ED

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 Overall, the ASCG welcomes the IASB's aim to provide clearer application guidance regarding the definition of a business. As already stated in our comment letter on the PiR of IFRS 3, we believe that the definition of a business should be narrowed and that there is a general need for clarifying as to what constitutes a business and what does not. However, when applying IFRS 3 we do not think that all of the proposed amendments are equally helpful in distinguishing between a business and a group of assets for several reasons.
- 2 First of all, we generally agree with having, at a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs in order to constitute a business. We also agree with the proposed amendments regarding the definition of outputs, especially with the exclusion of returns in the form of lower costs and other economic benefits. We believe that, overall, these amendments go in the right direction and help clarifying and narrowing the definition of a business.
- 3 However, we do not fully understand all of the details of the proposed amendments. Especially, we see difficulties in applying the screening test correctly, particularly with regard to the proposed amendment to paragraph B8. In our view, the screening test as currently proposed raises several questions, which are described in more detail below.
- 4 While we acknowledge and welcome the general aim of the screening test, i.e. to have a simpler determination of sets and activities acquired that do not constitute a business, we think the first step (assessment of concentration of value) is already unclear with regard to what exactly is a 'single identifiable asset' or a 'group of similar assets'. From our point of view, this would require clarification of the unit of account, which is not defined in IFRSs. In addition, we believe that the example for assets that cannot be combined into a single identifiable asset or a group of similar identifiable assets in paragraph B11C(e) is not helpful. Whilst we agree with the outcome that the acquisition of cash, accounts receivable and marketable securities does not constitute a business and should not be accounted for as such, we feel uneasy about the fact that such result is only

yielded with failing the second step of the screening test. It seems to us that candidates to be accounted for as obvious asset acquisitions should be discarded early on in any test so that entities get to the intuitive result quicker.

- 5 Further, we struggle with two proposals regarding the second step of the screening test. Firstly, it is not clear to us which inputs and processes exactly would have to be acquired in order to constitute a business. In particular, the interaction of the statement that there is no longer a need for market participants to replace missing elements and the last sentence in B8, which states that “a business need not include all of the inputs or processes that the seller used in operating that business”, is confusing, especially with regard to illustrative example D. It is not fully clear to us how many inputs and/or processes would have to be included in the acquisition to constitute a business since the replacement of missing elements is no longer needed. It remains unclear whether the acquisition of parts of a business are to be considered a business acquisition or an asset acquisition, since some inputs or processes can be missing and do not have to be replaced. We suggest clarifying further which specific changes result from the amendments in paragraph B8.
- 6 Secondly, we do not agree with having two distinct tests of acquired processes depending on whether the acquired set of activities and assets has outputs. Since outputs themselves are not a necessary condition, and since rather an input and a substantive process must only have the ability to contribute to the creation of outputs, we believe that the differentiation of having outputs or not as at the acquisition date becomes superfluous.
- 7 Lastly, and as already indicated above, we do not believe that the examples included in the ED are overly helpful. Some run the risk that the proposed amendments would not result in the appropriate outcome, and others would suggest that the application of the definition of a business is not sufficiently clear.

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?

- 8 We support the proposal of converged amendments and do not think that the differences in the wording of the IASB's and FASB's proposals would lead to different outcomes. Whilst we believe that either version should ultimately lead to the same result, we believe that it would be beneficial

to have the same order of the screening test in both IFRSs and U.S. GAAP, as the different orders have the potential of creating confusion as to whether the intention was to achieve different outcomes. If that is not the case, as we do not believe that was the intention of the Boards, we recommend converging to a single order in both GAAPs.

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?

- 9 We fully agree with the proposed amendments to IFRS 3 and IFRS 11 regarding acquisitions of interests in businesses that are joint operations and think that the proposals will result in uniform accounting.

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?

- 10 We think that the amendments to IFRS 3 and IFRS 11 should be applied retrospectively on an optional basis (change in accounting policy). That is, entities would be allowed to retrospectively correct or adjust the accounting in those cases that were previously classified as businesses but would no longer be considered a business when applying the amended proposals, if they had the necessary data available without applying hindsight. Such an option would enable these entities to achieve uniform accounting for previously held interests and future acquisitions.