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Finance for Europe

International Accounting Standards Board
30 Cannon Street
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United Kingdom

Submitted electronically via go.ifrs.org/comment

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Dear Sirs,

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the IASB's Exposure Draft ED/2016/1 "Definition of a Business and Accounting for Previously Held Interests (Proposed amendments to IFRS 3 and IFRS 11)" (the ED).

We note that the ED provides clearer application guidance on determining when a group of assets and activities acquired would meet the definition of a business. We agree with the amendments suggested in the Exposure Draft, and believe that these should provide a more comprehensive tool in addressing some of the challenges identified in practice when applying the existing guidance in IFRS 3. In particular, we view the examples in paragraphs IE74-IE107 of the ED as providing enough clarity while still retaining an appropriate element of professional judgement.

We also note that the Board concluded, in paragraph BC9 of the ED, that *"to be considered a business, an acquisition must include, at a minimum, an input and a substantive process that together contribution to the ability to create outputs"*. We agree with the IASB's proposal above, and with the proposed revision to the definition of outputs to *"focus on goods and services provided to customers"* (BC 15 of the ED).

The determination of whether a group of assets and activities constitutes a business may have a significant effect on the way in which transactions between entities under common control are reported. As an example, some preparers currently use predecessor method accounting (historical cost) for business combinations between entities under common control, but not for transactions that do not involve a business. Accordingly, while supporting the proposals in the ED, we would also recommend that the IASB continues improving the clarity of guidance in this policy area by focusing on the speedy conclusion of the related research project on Business Combinations Under Common Control. The clarifications should also address those transactions taking place between entities under common control which do not involve a business.

As mentioned in paragraph BC7 of the ED, the FASB has also issued (in November 2015) its own proposals intended to improve the application of the definition of a business under US GAAP. We would therefore encourage the IASB to focus on ensuring that the outcome of both the US GAAP and IFRS projects avoids creating a GAAP difference in this area (in particular as IFRS 3 is the result of a joint project with the FASB).

We also note that paragraph B42 of IFRS 3 (reproduced in the ED as it is mentioned in two illustrative examples) requires that: *"In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the acquirer shall take into account the terms of the lease. The acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favourable or unfavourable when compared with market terms".* We should be grateful if the IASB would consider the impact of the changes to lease accounting in IFRS 16 on the wording in paragraph B42.

We would be pleased to discuss any of the comments above in greater detail if that would be helpful.

Yours sincerely,

RD Middleton

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