

## STAFF PAPER

December 2015

## IASB Meeting

Project	Definition of a business
Paper topic	Summary of due process followed
CONTACT(S)	Leonardo Piombino      lpiombino@fondazioneoic.it      +39 06 6976 6834

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 of this paper**

1. At its October 2015 meeting, the IASB decided to propose changes to IFRS 3 *Business Combinations* to clarify the definition of a business and related application guidance.
2. The objective of this paper is to:
  - (a) provide the IASB with a brief summary of the proposed amendments to IFRS 3;
  - (b) set out the due process steps that the IASB has taken so far before the balloting of the Exposure Draft of the proposed amendments;
  - (c) to ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date; and
  - (d) to ask the IASB to give permission for the staff to begin the balloting process.

**Summary of the proposals<sup>1</sup>**

3. The IASB tentatively decided:

---

<sup>1</sup> For further details see AP 13 for the October IASB meeting:

<http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/October/AP13-Definition-of-a-business.pdf>

- a) to specify that to be considered a business, an acquired set of activities and assets (a set) must include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs;
- b) to provide guidance to help determine whether a substantive process exists. The proposed guidance includes two different sets of criteria to consider, which depend on whether the acquired set of assets has outputs;
- c) to specify that when the acquired set does not have outputs, in order to have a substantive process, the acquired set should include an organised workforce that has the necessary skills to perform an acquired process that, when applied to another acquired input, is critical to the ability to develop or convert that acquired input into outputs.
- d) to specify that when the acquired set has outputs, any of the following would indicate that the set includes a substantive process:
  - (i) the set includes an organised workforce that has the necessary skills to perform an acquired process that, when applied to an acquired input, is critical to the ability to continue producing outputs; or
  - (ii) the acquired process, when applied to an acquired input, contributes to the ability to continue producing outputs and is considered unique, scarce, or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.
- e) to remove from paragraph B8 of IFRS 3, the requirement that a set is a business if market participants can replace the missing elements and continue to produce outputs;
- f) to not consider a set a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If this threshold is met, the set of assets would not be a business and an entity does not need to consider the guidance to determine whether the set includes a substantive process. The IASB also decided to provide guidance on what could be considered a single asset, or a group of similar asset, for purposes of applying the threshold;

- g) to revise the definition of outputs to focus on goods and services provided to customers. Thus, the definition of output should not include returns in the form of lower costs or other economic benefits directly to investors or other owners, members, or participants;
- h) to add examples to help with the interpretation of what is considered a business; and
- i) that an entity would be required to apply the proposed amendments to transactions occurring on or after the effective date.

### **Intention to dissent**

4. We note that when the IASB members voted on the proposed amendments to IFRS 3, no IASB members voted against. However, we are required to formally ask whether any IASB members intend to dissent from these proposed amendments before we ballot.

### **Comment period**

5. We recommend that the IASB should publish the Exposure Draft with a comment period of 120 days. This is the minimum normal period that the IASB allows for comment on an Exposure Draft in accordance with paragraph 6.7 of the [IFRS Foundation Due Process Handbook](#) (February 2013).

### **Proposed timetable for balloting and publication of the Exposure Draft**

6. We expect the balloting process of the exposure draft to commence in January 2016, with publication of the Exposure Draft scheduled during the second quarter of 2016.

### **Confirmation of due process steps**

7. In **Appendix A** of this paper we have summarised the due process steps followed by the IASB in developing the Exposure Draft. In summarising these steps, and thereby demonstrating that the IASB has met all the due process requirements to date, we used the reporting template ‘Development and publication of an Exposure Draft (ED) for a Standard, Practice Guidance or Conceptual Framework chapter’ from the [Due Process Protocol](#).

We note that the required due process steps applicable so far at this stage have been completed. We think that the completion of these steps support the publication of the Exposure Draft.

### Questions to the IASB

1. Do any IASB members intend to dissent from the proposed amendments to IFRS 3?
2. Is the IASB satisfied with the due process steps required to date that relate to the publication of the proposed amendments to IFRS 3?
3. Does the IASB agree with a comment period of no less than 120 days for the proposed amendments to IFRS 3?
4. Do the staff have permission to ballot the Exposure Draft?

## Appendix A: Actions taken to meet the due process requirements

A1. The following table sets out the actions taken by the IASB to meet the due process requirements required.

<i>Step</i>	<i>Required/ optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
The IASB's and the Interpretations Committee's meetings are held in public, with papers being available for observers. All decisions are made in a public session.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion.	The proposed amendments were discussed and approved by the IASB at its meeting in September (see <a href="#">Agenda Paper 13A</a> ), October (see <a href="#">Agenda Paper 13</a> ) and December 2015 (see <a href="#">Agenda Paper 13</a> ). The IFRS Interpretations Committee discussed the proposed amendments in November 2015 (see <a href="#">Agenda Paper 3</a> ). The <a href="#">project webpage</a> has been updated by the staff after every IFRS Interpretations Committee or IASB meeting in which the proposed amendments were discussed. Agenda Papers were posted on the website before every Interpretations Committee or IASB meeting on a timely basis.
Consultation with the Trustees and the IFRS Advisory Council (the 'Advisory Council').	Required	Discussions with the Advisory Council.	The Post Implementation Review (PIR) of IFRS 3 concluded that the definition of a business is one of the top four concerns with IFRS 3. The Advisory Council discussed the PIR of IFRS 3 in June 2014, see <a href="#">Agenda Paper 8</a> .
Fieldwork is undertaken to analyse proposals.	Optional	The IASB has described publicly the approach taken on fieldwork. The IASB has explained to the Due Process Oversight Committee (DPOC) why it does not believe that fieldwork is warranted, if that is the preferred path. Extent of field tests taken.	Sufficient input has been obtained from the PIR of IFRS 3.
Outreach meetings with a broad range of stakeholders, with special effort to consult investors.	Optional	Extent of meetings held. Evidence of specific targeted efforts to consult investors.	Sufficient input has been obtained from the PIR of IFRS 3.
Webcasts and podcasts to provide interested parties with high-level updates or other useful information	Optional	Extent of, and participation in, webcasts.	Not considered necessary.

about specific projects.			
Public discussions with representative groups.	Optional	Extent of discussions held.	Sufficient input has been obtained from the PIR of IFRS 3.
Online survey to generate evidence in support of or against a particular approach.	Optional	Extent and results of surveys.	Not considered necessary.
The IASB hosts regional discussion forums, where possible, with national standard-setters.	Optional	Schedule of meetings held in these forums.	Sufficient input has been obtained from the PIR of IFRS 3.
Round-table meetings between external participants and members of the IASB.	Optional	Extent of meetings held.	Sufficient input has been obtained from the PIR of IFRS 3.
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	Publication of the Effects Analysis as part of the Basis for Conclusions.	N/A. The scope of the proposed amendments is narrow.
<b>Finalisation</b>			
Due process steps are reviewed by the IASB.	Required	Summary of all the due process steps have been discussed by the IASB before an Exposure Draft is published.	In this paper we are demonstrating that all the required due process steps applicable to date have been performed.
The Exposure Draft has an appropriate comment period.	Required	The period has been set by the IASB.  If outside the normal comment period, an explanation from the IASB to the DPOC has been provided and the decision has been approved.	In accordance with the IFRS Foundation <a href="#">Due Process Handbook</a> , we are proposing a comment period of 120 days.
<b>Drafting</b>			
Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.	To be done in due course.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	To be done in due course
Drafting quality assurance steps are adequate.	Optional	The Editorial team has been included in the review process.  In addition, external reviewers are used to review drafts for	To be done in due course.

		editorial review and the comments collected are considered by the IASB.	
Drafting quality assurance steps are adequate.	Optional	Drafts for editorial review have been made available to members of the International Forum of Accounting Standard Setters (IFASS) and the comments have been collected and considered by the IASB.	To be done in due course.
<b>Publication</b>			
Exposure Draft published.	Required	ED posted on the IASB website.	To be done in due course.
Press release to announce publication of the Exposure Draft.	Required	Press release published. Media coverage of the release.	To be done in due course.