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Berlin, 10 October 2016

Dear Jean-Paul,

IASB Exposure Draft 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 EFRAG's Draft Comment Letter on the IASB's ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* (herein referred to as the 'ED'). We appreciate the opportunity to respond to EFRAG's Draft Comment Letter (herein referred to as 'DCL').

Like EFRAG in its DCL we:

- a) welcome the IASB's aim to provide clearer application guidance to help distinguishing between an asset acquisition and the acquisition of a business;
- b) agree that the examples included in the ED need to be revised since applying the amendments to the examples included in the ED would not always or automatically result in the appropriate outcome or indicate that the application of the definition of a business is not sufficiently clear;
- c) support the amendments proposed regarding the accounting of previously held interests.

However, we are generally more concerned than EFRAG in its DCL about the specific amendments regarding the definition of a business. We think that the amendments as proposed are not helpful in determining whether a group of assets or a business has been acquired. In particular, we see difficulties with regard to the amended paragraph B8 as well as the screening test.

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

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Yours sincerely,

Andreas Barckow

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Berlin, 7 October 2016

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 application of the screening test and would further like to mention that there still does not seem to be an uniform understanding of the terms 'input', 'process' and 'output'. In addition, we think that the majority of the illustrative examples included in the ED do not seem to conform to the amendments proposed. We believe that when applying the amendments to the examples they do not always seem to result in the appropriate outcome, or they illustrate to us that the application of the definition of a business still does not seem to be sufficiently clear, as we sometimes would have reached a different conclusion.

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,

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Andreas Barckow
President



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?

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.

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 believe that the general thinking of the amendments go in the right direction and help clarifying and narrowing the definition of a business. However, we think that the details of the proposed amendments are still unclear and do not enable an unambiguous application of the amendments. Especially, we see difficulties in applying the screening test without doubt, particularly when applying the proposed amendments to the examples included in the ED. In our view, the screening test as currently proposed raises several questions, which are described in more detail below.

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 have concerns regarding either of the two steps of the test. As far as the assessment of concentration of fair value is concerned, we suggest deleting the definition of fair value in paragraph B11A (sentences three and four), as we fail to see how the definition would help in determining whether a set of activities constitutes a business or not. Especially, the reference to the existence of 'any other intangible asset that is not identifiable', which we presume is goodwill and may be – in accordance with B12 – an indicator for *having* a business, does not help in determining when the group is *not* a business and is therefore rather confusing within this paragraph.

It is further unclear to us what exactly constitutes 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. Also, it is not sufficiently clear what ‘similar’ itself exactly means. For instance, and referring to example A, it is not clear to us why single-family homes with a different floor area and different interior design are necessarily similar. Thus, a clarification of these terms would be of help, irrespective of the fact that any clarification should still be principles-based.

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 too simplistic. 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. Therefore, we think that the IASB should not prescribe an order for the screening test, but simply state that both conditions must be met and leave the order in which they are tested to the entity. Since both conditions of the assessment process must be met, logically, they should always lead to the same conclusion; hence, there is no need to prescribe the order of the screening test.

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.

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. In this regard, the necessity of acquiring workforce is not sufficiently clear to us either. The examples included in the ED, for instance illustrative examples H and I as well as illustrative example D, seem to indicate the importance of having workforce being of a business combination. If this criterion was of major significance, it should be explained clearer within the body of the Standard.



In this context, we further note that the understanding of 'input', 'process' and 'output' either do not seem to be clear, or the terms are apparently not understood in the same way. This again becomes particularly evident when applying the amendments to the examples included in the ED. For instance, we do not understand why the IASB feels that illustrative example C did not contain an output or why there was no input in illustrative example D. Apparently, there seems to be a different understanding of the specific elements that constitute a business, as our assessments would have differed from the IASB's intended outcomes in these cases.

These considerations demonstrate that we do not believe that the examples as drafted 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. It seems that the examples do not always conform to the amendments. We believe that it would be helpful if, in each of the examples, the IASB explained what the Board believes the inputs, processes and outputs to be in order to facilitate a uniform understanding of these terms. As mentioned earlier in this letter, we suggest highlighting which role the allocation of the fair value plays for each element and what the consequences of (not) acquiring workforce are. That way, the examples might better illustrate the definition of a business and enable entities to apply the definition correctly and uniformly.

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?

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. As already explained in our answer to Question 1, we think that there should not be a prescribed order of the screening test as either version should ultimately lead to the same. However, if the IASB wanted to retain a specified sequence, we believe that it would be beneficial to have the same order of the screening test in both IFRS 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 would at least 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?

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?

We agree with the proposal to apply the amendments to IFRS 3 and IFRS 11 prospectively with early application permitted, since in most cases retrospective application would not be possible without applying hindsight.