International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Stockholm 13 October 2016

ED/2016/1 Definition of a Business and Accounting for Previously Held Interests – Proposed amendments to IFRS 3 and IFRS 11

FAR, the Institute for the Accountancy Profession in Sweden is responding to your invitation to comment on the *Exposure Draft ED/2016/1 Definition of a Business and Accounting for Previously Held Interests – Proposed amendments to IFRS 3 and IFRS 11*.

FAR generally supports the new and revised definition of a business in IFRS 3. FAR believes that the proposed definition of a business together with the illustrative examples will provide a more robust and workable guidance resulting in reduced diversity in practice. However, FAR would recommend the IASB to further explain what is meant by "similar group of identifiable assets" in the context of paragraph B11A-C. For example, would a portfolio of investment properties always be considered "similar" even if they may include various types of properties (e.g. household and commercial properties)?

FAR also supports the proposed amendments to IFRS 3 and IFRS 11 with regards to when control or joint control is obtained in a former joint operation.

Finally, FAR appreciates the Board's proposed relief that the transition requirements should be applied prospectively. In this specific case FAR finds this to be a pragmatic solution.

Please see the appendix for FAR's detailed answers to questions for respondents.

FAR

Pernilla Lundqvist
Chairman FAR's Accounting Policy Group

FAR

Appendix

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 the proposed amendments to IFRS 3?

In particular, do you agree with the Board's conclusion that if substantially all of the fair value of the gross assets acquired (i.e. the identifiable assets and non-identifiable assets) is concentrated in a single identifiable asset or group of similar assets, then the set of activities and assets is not a business (see paragraph B11A-B11C)?

Why or why not? If not, what alternative would you propose, if any, and why?

FAR generally supports the proposed amendment to IFRS 3 to clarify the guidance on the definition of a business.

FAR also shares the conclusion that if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets, then it is not a business. In many cases this will lead to practical and useful guidance when determining whether an entity has acquired a business or an asset.

Having said this FAR is somewhat concerned about how to apply the assessment test under paragraphs B11A-C and, more specifically, how to understand what is meant by a group of similar assets. Would, for example, a group of investment properties be considered a group of similar assets, even if they were to include various types of properties, mix of tenants and so on? If considered a group of similar assets, FAR would think that in almost all cases an acquisition of a real estate company would result in an asset transaction rather than a business combination. Using Example I as an example, it is FAR's experience that the purchase price for a real estate company including staff, management and processes in practice would not differ significantly from the fair value of substantially all of the investment properties.

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 FASBs 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?

It is FAR's view that it is better, if possible, to use identical wordings in order to avoid unnecessary differences in practice between US GAAP and IFRS. FAR has no specific thoughts or input on what could emerge as a result from the different wording.

Question 3

To address diversity in 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:

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

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?

FAR agrees with proposed amendments to IFRS 3 and 11 with regard to acquisitions of interests in businesses that are joint operations.

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?

FAR agrees with the proposed transition requirements. FAR finds the transition requirements under these specific circumstances to be a pragmatic and workable solution in practice.