QUOTED COMPANIES ALLIANCE

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28 October 2016

Dear Sirs,

Exposure Draft ED/2016/1 - Definition of a Business and Accounting for Previously Held Interests (Proposed Amendments to IFRS 3 and IFRS 11)

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Response

We welcome the opportunity to respond to the IASB's invitation to comment on proposed amendments to IFRS 3 – Business Combinations and IFRS 11 – Joint Arrangements as set out in the Exposure Draft. Indeed, we welcome the IASB's initiative and desire to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

Nonetheless, we believe that the proposed amendments to define a business, as set out in the Exposure Draft, do not sufficiently clarify the difference between a business and a group of assets to justify amending the existing text. We believe that, to some extent, the proposed amendments may add more complexity and could make it more difficult to effectively apply IFRS 3 and IFRS 11 in practice. We found that some of the examples provided seemed slightly contradictory or unclear, in particular regarding the acquisition of property shown in examples H and I, where we do not consider the transfer of employees alone is sufficient to justify a difference in the accounting.

Furthermore, we believe that the amendments do not provide a clear response as to how to proceed in case it is concluded that the set of activities and assets is not a business. This is an area where different interpretations may arise in application and guidance should be provided.

For the reasons set out above, we believe that these amendments could be added to a future review of IFRS 3 and IFRS 11 which takes into consideration the wider impact of these standards.

As a general comment, we support a principle-based approach to raising accounting standards, as opposed to a rules-based one. We believe that boards should be encouraged to use their judgement over whether an acquisition is of a business or (a set of) assets. Auditors should then apply their own judgement as to whether or not they agree with boards. We believe that the IASB should be more reserved in introducing additional rules despite the fact that there are complex judgements to be made. We believe that a significant disadvantage of providing additional guidance is that it is interpreted as additional rules.

We have commented below in more detail to the contents of the guidance from the point of view of our members, small and mid-size quoted companies.

Responses to specific questions

Q1 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 (i.e. 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?

We believe that the definition of a business, as set out in the Exposure Draft, would exclude certain types of operations which are clearly businesses. For example, if an individual acquires a property investment company, the vast majority of the fair value of the gross assets acquired will be in the buildings on the balance sheet. The value of the future rental income will be taken into account in the valuation of the investment property; however this is still a business acquisition.

Equally, we note that on the acquisition of some service businesses, there would not be much in the way of identifiable assets – the principal ones would be the order book and the value of the customer database, which, we believe, are similar things.

Q2 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?

Whilst we have not reviewed this area in detail we note that differences in wording frequently lead to differences in practice.

Q3 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 do not have any further comments.

Q4 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 do not have any further comments.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

Tim Ward
Chief Executive

APPENDIX A

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabrass (Chairman)	**Crowe Clark Whitehill LLP**
Matthew Howells (Deputy Chairman)	Smith & Williamson LLP
Jonathan Compton	BDO LLP
Amy Shepheard	Deloitte LLP
Neil Armstrong	Frontier Developments PLC
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars LLP
Joseph Archer	PKF Littlejohn LLP
Andrew Westbrook	RSM
Donna Caira	Saffery Champness
Ian Davies	Vislink PLC
Edward Beale	Western Selection Plc