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25 October 2016

Re: Exposure Draft ED/2016/01 Definition of a Business and Accounting for Previously Held Interests

Dear Jean-Paul,

We are pleased to have the opportunity to provide our comments in order to contribute to the finalisation of your comment letter in response to the IASB Exposure Draft *Definition of a Business and Accounting for Previously Held Interests* (the ED).

We appreciate the IASB's efforts to develop a proposal to amend IFRS 3 *Business Combination* (IFRS 3) and IFRS 11 *Joint Arrangements* (IFRS 11) in order to clarify both the definition of a business and the accounting for previously held interests in a joint operation when an entity obtain control over a joint operation that meets the definition of a business.

We overall agree with the IASB's proposals to clarify the guidance on the definition of a business. We encourage the IASB and the FASB to align the wording of their respective amendments as much as possible. IFRS 3 *Business Combinations* and FASB Topic 805 *Business Combinations* are substantially converged, consequently we think that the definition of a business (ie the scope of the two Standards) should remain the same.

We have some specific suggestions on the proposals, as explained better in the Appendix, related to the assessment of the concentration of fair value.

Our detailed responses to the ED questions are set out in the Appendix.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

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 (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?

OIC agrees with the IASB's proposals and supports the overall approach to determine when an acquired set of assets is a business.

However, OIC has some concerns with paragraph B11A concerning the assessment of concentration of fair value, because it seems to introduce an option in the determination of the fair value of the gross asset acquired that may lead to different results.

Notably, B11A states that "*a transaction is not a business combination if the transaction is primarily a purchase of a single asset or group of assets (…). The fair value of the gross assets acquired may be determined by adding the fair value of the liabilities assumed to the fair value of the consideration paid (plus the fair value of any non-controlling interest and previously held interest, if any)*".
We understand that this paragraph allows entity to determine the fair value of the gross assets acquired both directly (ie measuring the fair value of the assets acquired) and indirectly (adding the fair value of the liabilities assumed to the fair value of the consideration paid).
We think that, in some circumstances, the consideration paid plus the fair value of liabilities assumed may differ from the fair value of the assets acquired, for example because of goodwill and deferred taxes arising in the purchase price allocation.

For this reason, OIC suggests to substitute the expression "*the fair value of the gross assets acquired may be determined by*" with "*the fair value of the gross assets acquired is determined by*" and to clarify whether deferred tax assets and deferred tax liabilities should be excluded from the gross assets acquired.

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?

The FASB's ED does not include this sentence "*The fair value of the gross assets acquired may be determined by adding the fair value of the liabilities assumed to the fair value of the consideration paid (plus the fair value of any non-controlling interest and previously held interest, if any)*"

As explained in the previous answer, the consideration paid plus the fair value of liabilities assumed may differ from the fair value of the assets acquired. Consequently, OIC thinks that this wording difference may create differences in practice.
OIC strongly encourages the IASB and the FASB to align the wording of their respective amendments as much as possible.

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?

OIC fully agrees with the proposed amendments.

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?

OIC agrees with the proposed transition requirements.