Accounting Standards Board of Japan (ASBJ)

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL http://www.asb.or.jp/

21 October 2016

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on Exposure Draft (ED/2016/1)
Definition of a Business and Accounting for Previously Held Interests :
Proposed amendments to IFRS 3 and IFRS 11

The Accounting Standards Board of Japan (the "ASBJ" or "we") welcomes the opportunity to provide comments on the International Accounting Standards Board ("IASB")'s Exposure Draft (ED/2016/1) *Definition of a Business and Accounting for Previously Held Interests: Proposed amendments to IFRS 3 and IFRS 11* (the "ED"), issued in June 2016.

We believe that the amendments proposed in the ED will reduce the diversity and difficulties in practice regarding the application of IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*, and hence will contribute to the improvement in the quality of financial reports prepared in accordance with IFRSs.

IFRS 3 and FASB Accounting Standards Codification Topic 805 *Business Combinations* were issued as converged standards, but our understanding is that the IASB issued the ED and the FASB issued the proposed Accounting Standards Update *Business Combinations (Topic 805): Clarifying the Definition of a Business* (the proposed "ASU") in order to address the perceived diversity in the application of the definition of a business. We strongly support the attempt of the IASB and the FASB to promote consistency in the application in practice across jurisdictions.

The ED includes one example (Example H) that is different from the proposed ASU and one example (Example K) that is not included in the proposed ASU, and we are concerned that these examples may lead to diversity in practice. We believe that amendments that may lead to diversity in practice should not be made. Specifically, we propose that the IASB include an additional example that is the same as Example H in the proposed ASU. Also, we believe that it is helpful in practice if Topic 805 included an example where a building and related leases are considered to be a single asset as in Example H in the ED, and an example of an acquisition of a mortgage loan portfolio as in Example K in the ED.

Furthermore, the IASB and the FASB have argued that the wording of standards can be, or should be, different in order to promote consistency in practice across jurisdictions. However, we are not convinced with such argument. We believe that the IASB and the FASB should strive to use common wording that satisfies each Board's constituents and leads to consistent application across jurisdictions. Regarding the proposals in the ED, we urge the IASB and the FASB to use the same wording with the same order of the paragraphs to the extent possible.

The ED proposes language that includes adjectives such as *substantive*, *similar* or *significant*, but these terms require judgement in their application. Considering that IFRSs are used in various jurisdictions in various languages, we are concerned that these terms may cause diversity in practice. We believe that the IASB should provide additional guidance that is sufficient to achieve consistent application in practice.

In addition, we think that the definition of *organised workforce* is vague and in some cases it would be practically difficult to determine whether the definition is met. Therefore, we propose that the IASB provide additional guidance on what would meet the definition of *organised workforce*, and how to measure its fair value. For example, it is not clear whether the ED intends to include the capacity to create outputs in the future in the measurement of the fair value of *organised workforce*. We think that it would be helpful to clarify this point, because that would affect the fair value of *organised workforce*, and hence whether the definition of a business is met.

Regarding the accounting for previously held interests, our understanding is that the ED addresses only limited types of transactions that involve changes in the interests. We believe that the IASB should holistically address the accounting for previously held interests where the accounting for the remeasurement of previously held interests is unclear, rather than adopting a piecemeal approach. We are concerned that by pursuing a piecemeal approach, consistent principles would not be applied to the various transaction patterns.

On the other hand, our view is that the proposals in the ED are consistent with existing requirements. We understand that there is diversity in practice on this issue and there is a practical request to clarify the accounting. We also understand that several transaction patterns which are outside the scope of the ED are within the scope of other IASB projects.

Considering the situation above, we propose that the IASB first finalise the accounting for previously held interests proposed in the ED, and then deliberate holistically about transaction patterns which are outside the scope of the ED as soon as possible.

For our comments on specific questions to the ED, please refer to the Appendix of this letter.

We hope our comments are helpful for the IASB's future consideration. If you have any questions, please feel free to contact us.

Yours sincerely,

Yasunobu Kawanishi

Chair, IFRS Implementation Technical Committee

Accounting Standards Board of Japan

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 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?

1. We agree with the general direction of the amendments proposed in the ED.

2. The ED proposes language that includes adjectives such as *substantive*, *similar* or *significant*, but these terms require judgement in their application. Considering that IFRSs are used in various jurisdictions in various languages, we are concerned that these terms may cause diversity in practice. We believe that the IASB should provide additional guidance that is sufficient to achieve consistent application in practice.

3. In addition, we think that the definition of *organised workforce* is vague and in some cases it would be practically difficult to determine whether the definition is met. Therefore, we propose that the IASB provide additional guidance on what would meet the definition of *organised workforce*, and how to measure its fair value. For example, it is not clear whether the ED intends to include the capacity to create outputs in the future in the measurement of the fair value of *organised workforce*. We think that it would be helpful to clarify this point, because that would affect the fair value of *organised workforce*, and hence whether the definition of a business is met.

4. Regarding the guidance on evaluating whether an acquired process is substantive, the ED proposes to consider if a set of activities and assets has outputs *at the acquisition date*. In some cases, where a set of activities and assets acquired

–previously had outputs before the acquisition date, but not at the acquisition date, it might be inappropriate to determine that the acquired set does not have outputs at the acquisition date. We recommend that the IASB clarify this point in the ED.

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?

5. As stated in the cover letter, we strongly support the attempt of the IASB and the FASB to promote consistency in the application in practice across jurisdictions. However, the ED includes one example (Example H) that is different from the proposed ASU and one example (Example K) that is not included in the proposed ASU, and we are concerned that these examples may lead to diversity in practice. We believe that amendments that may lead to diversity in practice should not be made. Specifically, we propose that the IASB include an additional example that is the same as Example H in the proposed ASU. Also, we believe that it is helpful in practice if Topic 805 included an example where a building and related leases are considered to be a single asset as in Example H in the ED, and an example of an acquisition of a mortgage loan portfolio as in Example K in the ED.

6. Furthermore, the IASB and the FASB have argued that the wording of standards can be, or should be, different in order to promote consistency in practice across jurisdictions. However, we are not convinced with such argument. We believe that the IASB and the FASB should strive to use common wording that satisfies each Board's constituents and leads to consistent application across jurisdictions. Regarding the proposals in the ED, we urge the IASB and the FASB to use the same wording with the same order of the paragraphs to the extent possible.

7. The ED presents the paragraphs relating to the assessment of concentration of fair value (paragraphs B11A to B11C) before the proposed guidance on substantive processes (paragraphs B12 to B12C), while the proposed ASU presents them in the opposite order. We believe that the order presented in the ED is more sensible and

that the order presented in the proposed ASU should be aligned to the order presented in the ED.

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?

8. As stated in the cover letter, regarding the accounting for previously held interests, our understanding is that the ED addresses only limited types of transactions that involve changes in the interests. We believe that the IASB should holistically address the accounting for previously held interests where the accounting for the remeasurement of previously held interests is unclear, rather than adopting a piecemeal approach. We are concerned that by pursuing a piecemeal approach, consistent principles would not be applied to the various transaction patterns.

9. On the other hand, our view is that the proposals in the ED are consistent with existing requirements. We understand that there is diversity in practice on this issue and there is a practical request to clarify the accounting. We also understand that several transaction patterns which are outside the scope of the ED are within the scope of other IASB projects.

10. Considering the situation above, we propose that the IASB first finalise the accounting for previously held interests proposed in the ED, then deliberate holistically about transaction patterns which are outside the scope of the ED as soon as possible.

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?

11. We agree with the proposed transition requirements.