



06 October 2016

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Dear Kris

Exposure Draft 275: Definition of a Business and Accounting for Previously Held Interests

CPA Australia is pleased to provide comments in relation to the above Exposure Draft. CPA Australia represents the diverse interests of more than 155,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia welcomes the International Accounting Standards Board's (IASB) efforts to develop guidance to assist in determining whether an acquisition consists of a business or not. We have provided our responses to the questions below.

Question 1

CPA Australia acknowledges the need to introduce a requirement to assess whether substantially all of the fair value of the assets acquired is concentrated in a single asset or group of similar assets. However, we have highlighted a number of issues below that we believe should be addressed in order to ensure the intended outcomes are achieved:

- If a determination is made that substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets, the acquisition is not a business. Articulating the criteria in this arbitrary manner precludes the exercise of any judgement in borderline or unique cases. We suggest amending the criteria and provide further guidance to provide some ability to exercise judgement where it is warranted.
- It is not clear what fair value measurement criteria will apply to non-identifiable assets that are part of the gross assets, as we do not believe the IFRS 13 *Fair Value Measurement* requirements apply in these circumstances. We suggest providing some further guidance to assist with this determination.
- We note that the fair value of the gross assets can be determined by adding the fair value of the liabilities acquired to the fair value of the consideration paid. In our view, this alternative can prove problematic in the case of bargain purchases. We suggest the IASB develops and includes further guidance that adequately applies the criteria in bargain purchase scenarios.
- The existence of an organised workforce is part of the proposed assessment criteria for determining whether the acquisition is a business. Operations that are entirely or substantially automated and operations that are entirely technology based may not always have an organised workforce as envisaged. We recommend introducing further guidance that addresses these possibilities.

CPA Australia supports the proposed amendment that will require, as a minimum, that inputs and processes should have the ability to contribute to the creation of outputs. We note the inclusion of "other revenues" as part of the definition of outputs, however we do not believe this adequately captures cost reductions and other efficiencies that may arise from a business acquisition. We therefore suggest that the definition of outputs should also include cost reductions and other efficiencies that may arise as a result of a business acquisition.

CPA Australia supports the inclusion of examples that seek to illustrate the application of the proposed new criteria. However, we believe the examples require further development to clearly articulate how the proposed criteria will be applied. In our view, the circumstances depicted do not provide sufficient details that enable a reader to understand the judgements exercised in arriving at the relevant conclusions.

Question 2


It is our view that any proposals developed by the IASB and FASB should be closely aligned.

Questions 3 and 4

We support the proposals.

If you require further information on any of our views expressed in this submission, please contact Ram Subramanian, CPA Australia on 03 9606 9755 or by email at ram.subramanian@cpaaustralia.com.au.

Yours sincerely



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