המוסד הישראלי לתקינה בחשבונאות
Israel Accounting Standards Board

November 1st, 2016

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

Dear IASB members,

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

The Israel Accounting Standards Board welcomes the opportunity to comment on the 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* published in June 2016.

Please find below our detailed comments for the questions raised in the ED:

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?

14 Gruzenberg st., Tel-Aviv 65811, Tel ,972 3 5109977 .טל ,65811 ת״א ,14 רח׳ גרוזנברג
www.iasb.org.il , E-mail: iasb@iasb.org.il ,Fax. 972 3 5109988 .פקס

We generally agree that there is a need for clearer application guidance for the definition of a business in order to achieve more consistent application. We also agree that to constitute a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs.

However, we are concerned about the following aspects of the proposed amendments:

(a) In a principle-based set of accounting standards, as the IFRS standards, there is a need for a clear hierarchy of a core principle, guidance to explain that principle and illustrative examples to illustrate the application of the principle. In our opinion, the proposed amendments tend to be rule-based and deviate from the above-mentioned pattern. That is because the fair value concentration test (ie substantially all the fair value of the gross assets acquired are concentrated in a single asset or a group of similar assets), which is a rule, is a mandatory step in the decision-making process which overcomes the core principle. We believe that a balance should be achieved between the need to clarify and simplify the definition of a business and setting definite rules that do not allow any judgment.

(b) As mentioned above, we agree that to constitute a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs. We understand the need in further clarifications for the assessment of the existence of inputs and a substantive process. Yet, we believe that this is the core principle to distinguish a business from a set of activities and assets that is not a business and the fair value concentration test should be only an example for such a set of activities and assets rather than a stand-alone test for the existence of a business. This is because a set of rules cannot replace the core principle, but can assist in the application of the principle. This would also allow exercising judgment, as appropriate in a principle-based set of accounting standards.

(c) In our opinion, the determination whether an acquisition of a group of assets is an acquisition of a business requires judgment. We believe weight should also be given to the quantity of the assets acquired (even if all assets are similar). This is because the management of an activity with many similar assets requires many actions to be taken and personnel to perform those actions and thus it forms a business. For example, managing

100 investment properties requires ongoing actions such as locating tenants, signing rental contracts, collecting rentals, coordinating with craftsman to repair malfunctions, paying those craftsman and book-keeping. Therefore, in our opinion, when the set of activities and assets acquired includes many assets, the similarity of the assets and the fair value of the workforce cannot be a determinative criteria for the classification as an acquisition of an activity rather than a business.

(d) The proposed amendments would narrow the definition of a business and many more acquisitions of sets of activities and assets would be classified as acquisitions of assets rather than business combinations. Yet, the accounting for acquisitions of a group of assets is based merely on paragraph 2(b) of IFRS 3 and there is no further guidance for acquisitions of a group of assets. The lack of such guidance would create diversity in practice if more acquisitions of sets of activities and assets would be classified as acquisitions of assets. Therefore, if the Board were to proceed with the proposed amendments, we suggest that the Board will add guidance for the measurement of items acquired as part of an acquisition of a group of assets (not classified as a business combination) for example employee shared-based payment transactions, assets held for sale, deferred tax, contingent consideration etc.

We appreciate the opportunity to provide our comments.

Sincerely,
Dov Sapir, CPA, Chairman
Israel Accounting Standards Board