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Definition of a business – the screening test and other proposals in the ED

Cover Note

Objective

- 1 The objective of this session is to seek views from EFRAG CFSS and EFRAG TEG on the following in preparation for the September 2017 ASAF meeting:
 - (a) the IASB tentative decisions on the definition of a business in Exposure Draft *Definition of a Business and Accounting for Previously Held Interests* (the ED); and
 - (b) the differences between the IASB's tentative decisions and the Accounting Standards Update *Clarifying the Definition of a Business* (FASB Amendments).
- 2 Specifically, the IASB Staff will seek ASAF members' views on the differences between the IASB's tentative decisions on the ED and the FASB Amendments to clarify the definition of a business.

Background

- 3 In June 2016, the IASB published the ED following its Post-implementation Review of IFRS 3 *Business Combinations*. EFRAG issued its [comment letter on the ED](#) in November 2016.
- 4 In November 2015, the US Financial Accounting Standards Board (FASB) published the Proposed Accounting Standards Update *Clarifying the Definition of a Business*. In January 2017, the FASB published the Accounting Standards Update *Clarifying the Definition of a Business* (the FASB Amendments).
- 5 In June 2017, the IASB completed its discussions on the comments received on the ED.
- 6 The aim of both boards is to clarify the definition of a business and related application guidance in IFRS 3 *Business Combinations* and in FASB's Topic 85 *Business Combinations*, which are substantially converged Standards.
- 7 The IASB reached similar tentative decisions to the requirements in the FASB Amendments on most aspects of the proposals. However, the IASB came to a different tentative conclusion on the screening test. The IASB decided to make the screening test optional on a transaction-by-transaction basis, while the test included in the FASB Amendments is mandatory. Agenda paper 09-02 and agenda paper 09-04 (ASAF paper 4A provided as background) discuss these differences in more detail.

Feedback from previous discussions with TEG-CFSS and ASAF

- 8 At its meeting in February 2017, EFRAG TEG and EFRAG CFSS considered comments received on the proposed amendments, with a specific focus on the screening test. The intended purpose of the test was to reduce the cost and complexity of applying the guidance on the definition of a business in cases that are straightforward.
- 9 ASAF members discussed the screening test at the March 2017 meeting. Of the proposals in the ED, the screening test attracted the greatest attention in the comment letters received, including from ASAF members.

Agenda Papers

- 10 In addition to this cover note, agenda papers for this session are:
 - (a) agenda paper 09-02 Issues paper on Definition of a business;
 - (b) agenda paper 09-03 ASAF paper 4 – Definition of a business – cover note (for background only);
 - (c) agenda paper 09-04 ASAF paper 4A – Comparison between FASB Amendments and IASB tentative decisions (for background only); and
 - (d) agenda paper 09-05 ASAF paper 4B – Summary of IASB tentative decisions on the Definition of a Business project (for background only).