

IFRS[®] Discussion Group

Report on the Public Meeting

January 10, 2019

The IFRS Discussion Group's purpose is to act in an advisory capacity to assist the Accounting Standards Board (AcSB) in supporting the application in Canada of IFRS Standards. The Group maintains a public forum at which issues arising from the current application, or future application, of issued IFRS Standards are discussed and makes suggestions to the AcSB to refer particular issues to the International Accounting Standards Board (IASB) or IFRS Interpretations Committee. In addition, the Group provides advice to the AcSB on potential changes to IFRS Standards and such discussions are generally held in private.

The Group comprises members with various backgrounds who participate as individuals in the discussion. Any views expressed in the public meeting do not necessarily represent the views of the organization to which a member belongs or the views of the AcSB.

The discussions of the Group do not constitute official pronouncements or authoritative guidance. This document has been prepared by the staff of the AcSB and is based on discussions during the Group's meeting. For a full understanding of the discussions and views expressed at the public meeting, listen to the [audio clips](#).

Comments made in relation to the application of IFRS Standards do not purport to be conclusions about acceptable or unacceptable application of IFRS Standards. Only the IASB or the IFRS Interpretations Committee can make such a determination.

ITEMS PRESENTED AND DISCUSSED AT THE JANUARY 10, 2019 MEETING

[All other items discussed at the January 10, 2019 meeting will be posted mid-February]

IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations* that clarify the definition of a business. The objective of the amendments is to assist entities in determining whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments were incorporated into Part I of the CPA Canada Handbook – Accounting on December 1, 2018.

Paragraph 64P of IFRS 3 states:

Definition of a Business, issued in October 2018, added paragraphs B7A–B7C, B8A and B12A–B12D, amended the definition of the term 'business' in Appendix A, amended paragraphs 3, B7–B9, B11 and B12 and deleted paragraph B10. An entity shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur

on or after the beginning of that period. Earlier application of these amendments is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

The Group considered a fact pattern and discussed when the amendments can be applied early.

Fact Pattern

- Entity A made three acquisitions during 2018. The acquisitions occurred on February 1, November 1 and December 1. Prior to the amendments to IFRS 3, these acquisitions would be accounted for as business combinations.
- If the transactions are assessed under the amended definition of a business, then all three acquisitions would be accounted for as asset acquisitions.
- Entity A has a December 31 year-end and would like to early apply the amendments to IFRS 3 in fiscal 2018.

Issue 1: Assume Entity A does not have quarterly reporting requirements. To which acquisition could Entity A apply the amended definition of a business?

View 1A – Only to the December acquisition.

The amendments are to be applied prospectively and can only be applied after they have been incorporated into Part I of the CPA Canada Handbook – Accounting. Therefore, since Entity A is early adopting the amendments to IFRS 3, the February and November acquisitions would be accounted for as business combinations and the December acquisition would be accounted for as an asset acquisition.

View 1B – To all three acquisitions.

The amendments are to be applied prospectively at the beginning of the first annual reporting period adopted. Since Entity A is early adopting the amendments for fiscal 2018, the amended definition of a business would be applied to all the acquisitions during the year.

View 1C – The entity has a policy choice and could apply View 1A or 1B.

Paragraph 64P of IFRS 3 does not specify whether early adopters apply the amended definition of a business from the beginning of the fiscal year in which the amendments were adopted. Therefore, a policy choice exists.

View 1D – None of the acquisitions.

Since the amendments were issued after the beginning of the fiscal year, Entity A cannot early adopt them until January 1, 2019.

The Group's Discussion

In the fact pattern described, Group members supported applying the amended definition of a business to all three acquisitions if the amendments were early adopted (View 1B). Their rationale was that an entity should apply the same accounting policy consistently for similar transactions based on guidance in paragraph 13 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. As a result, Group members thought that the views of applying the amendments to only

the December acquisition or that an accounting policy choice existed are not reasonable (View 1A or 1C). The view of applying the amendments to none of the acquisitions (View 1D) was considered reasonable because Entity A would still be applying a consistent accounting policy (i.e., existing definition of a business) throughout the year. However, Group members thought there was nothing within IFRS Standards that would preclude Entity A from early adopting the amendments in fiscal 2018 from the beginning of the fiscal year.

To be considered Canadian GAAP, it is important to note that new IFRS Standards or amendments must be endorsed by the Accounting Standards Board and incorporated into Part I of the CPA Canada Handbook – Accounting. One Group member commented that the amendments to IFRS 3 are available for early adoption as long as they are incorporated into Canadian GAAP by the time the financial statements are authorized for issue (i.e., using the date of authorization for issue under IAS 10 *Events After the Reporting Date*).

Another Group member observed that the transition requirements in U.S. GAAP, Accounting Standards Update (ASU) 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* indicate that early application of the amendments is allowed only when the transaction has not been reported in financial statements that have been issued or made available for issuance.¹ Considering this point, this Group member also supported View 1B.

Issue 2: Assume Entity A has quarterly reporting requirements. To which acquisitions could Entity A apply the amended definition of a business?

View 2A – Only to the December acquisition.

This view is similar to View 1A.

View 2B – To the November and December acquisitions.

This view considers that the transitional provision does not specify annual periods when referring to early application. Entity A could also adopt the amendments at the beginning of its fourth quarter interim period (i.e., starting October 1, 2018). The February acquisition would be accounted for as a business combination and the November and December acquisitions would be asset acquisitions.

View 2C – To all three acquisitions.

This view considers that the amendments are to be applied prospectively at the beginning of the first annual period adopted. Since Entity A is early adopting for its December 2018 year-end, the amended definition of a business would apply to all the acquisitions during the year, and therefore, the acquisitions would be accounted for as asset acquisitions. Entity A would restate its previously issued quarterly financial statements.

View 2D – The entity has a policy choice and could apply View 2A, 2B or 2C.

This view is similar to View 1C in that paragraph 64P of IFRS 3 does not specify whether early adopters apply the amendments from the beginning of an annual or interim reporting period. Therefore, a policy choice exists.

¹ Refer to pg. 4 of [ASU 2017-01, Business Combinations \(Topic 805\): Clarifying the Definition of a Business](#).

View 2E – None of the acquisitions.

This view is similar to View 1D.

The Group's Discussion

Most Group members supported applying the amended definition of a business to all three acquisitions if the amendments were early adopted, even if quarterly reporting requirements exist (View 2C). One Group member noted that the guidance in paragraphs 43-45 of IAS 34 *Interim Financial Reporting* would not allow for two different accounting policies to be applied to a particular class of transactions within a single financial year. Other Group members also thought that View 2C would produce better results for investors because there would not be two different definitions of a business applied to similar transactions in the same annual financial statements. Overall, Group members thought Views 2A, 2B and 2D cannot be supported under existing IFRS Standards. Similar to Issue 1, Group members thought that there was nothing that would preclude Entity A from early adopting the amendments in fiscal 2018 from the beginning of the fiscal year.

One Group member expressed a different view by referring to U.S. GAAP (i.e., ASU 2017-01). In this fact pattern, since interim financial statements have been issued, ASU 2017-01 would prohibit the amended definition of a business to be applied to previously reported acquisitions.

In addition to Issue 2, the topic of filing requirements from a securities regulations perspective also came up during the Group's discussion. The Group briefly discussed the implications of an entity early applying the amended definition of a business to previously filed quarterly interim financial information.² Although materiality is a factor to consider when deciding whether restating and refiling is needed, a representative from the Canadian Securities Administrators (CSA) encouraged reporting issuers to be conservative in making that judgment call.

The Group talked about a situation in which an entity makes various acquisitions in Q1, Q2 and Q3 of 2018, and the entity decides to adopt the amendments in Q4 of 2018. The question raised was whether an entity would have to consider refiling restated financial information for Q1, Q2 and Q3 of 2018, or whether the entity may refile only the restated Q3-2018 interim financial information with detail showing the impact of the amendments to each quarter. That is, the restated Q3-2018 interim financial information would include the cumulative effect of applying the amended definition of a business as if it had been applied from the beginning of the fiscal year. If this situation were to arise, the CSA representatives encouraged reporting issuers to contact their local securities regulator to discuss the extent of disclosure needed based on the entity's facts and circumstances.

The Group also briefly discussed another issue, which is what the words "earlier application of these amendments is permitted" in the transition provision imply (i.e., paragraph 64P of IFRS 3). For

² In Canada, each province and territory has its own securities regulator that is responsible for the administration and enforcement of the jurisdictional Securities Act, which includes filing of disclosure documents (i.e., financial statements prospectuses, etc.) by reporting issuers. The requirements for filings and necessary conditions for refiling are within the domain of the securities regulators. After the meeting, representatives from the Canadian Securities Administrators indicated that reporting issuers should contact their jurisdictional securities regulators for refiling questions related to early adopting the amendments to IFRS 3.

example, do those words cover only the annual reporting period between the IASB's issuance date of the amendments and the mandatory effective date, or do those words extend back to prior periods? Mixed views were expressed, and therefore, the Group recommended that the AcSB staff connect with the IASB staff to obtain insight as to the intent of this part of the transition provision and report back at a future meeting.

Overall, the Group's discussion raises awareness about whether the amendments to IFRS 3 can be early adopted by entities for annual reporting periods beginning on or after January 1, 2018. Except for the AcSB staff connecting with the IASB staff as noted above, no further action was recommended to the AcSB.

(For a full understanding of the discussions and views expressed, listen to the [audio clip](#)).