COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

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October 7, 2016

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Reference: ED 2016/1 – Definition of a business and accounting for previously held interests

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the ED 2016/1 – Definition of a business and accounting for previously held interests.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Silvio Takahashi
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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 (i.e. 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?

CPC's comments

The CPC believes that IASB's intent to clarify and provide support in identifying whether acquisitions refer to assets or have to do with the concept of business is valid.

Additionally, the CPC agrees that a business involves inputs in a process that generates outputs and that this rationale may help define acquistions of this type.

Similarly, the CPC agrees that a screening test should be inserted for the purpose of assessing whether a set of activities or assets constitutes a business. As such, we agree with the argument that as a rule, in business acquisitions, most of the transactions's fair value is not concentrated on a single identifiable asset or group of similar identifiable assets, which renders it easier to establish that such transaction does not refer to purchase of a business.

Worth stressing, insertion of a screening test, though relevant and supported by the CPC, should not be understood as the sole driver for identifying the type of acquisition at issue (assets or a business). The screening test should be assessed in conjunction with other elements already included in IFRS 3 and by no means should override management´s judgement.

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?

CPC's response

The CPC is of the understanding that if the tentative conclusions subtantially converge, the same pattern should also be extended to FASB's and IASB's proposals.

Additionally, we stress that IASB should indicate the differences between its proposal and the proposal issued by FASB.

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?

CPC's response

The CPC agrees with the amendments proposed by the IASB.

More specifically, the concepts of equity interest and control should not be mistaken. As such, acquistion of control in a business, which figured as a joint operation under IFRS 11, should follow the format provided for in paragraph 42 of IFRS 3. This possibility should be explicitly stated in IFRS 3 in order to prevent unclearness.

Regarding obtainment of joint control in an entity in which the company already held interests, the CPC is of the understanding that these interests should not be remeasured, since this type of venture does not have the same elements as in the prior situation. However, IASB should clarify whether this provision applies to investments under IAS 28 or soley to operations under the scope of IFRS 11.

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?

CPC's response

The CPC agrees with application of referred to rules on a prospective basis, in order not to affect transactions already conducted and appropriately recorded in accordance with the current wording of IFRS 3 and IFRS 11.

We highlight that early adoption may give rise to procedure discrepancies among organizations, thus leading to adoption of different procedures for similar situations.