

# IFRS 3 amendments – Clarifying what is a business

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**“The clarification and narrowing of the current, vague definition of a business is welcome. Some of the new tests, however, are quite complex.”**

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## Amendments provide more guidance on the definition of a business, but complexities remain

### Highlights

- Optional concentration test to get to asset acquisition
- Otherwise, the assessment focuses on the existence of a substantive process – see diagram
- Effect is that the new definition is narrower but may require a complex assessment
- Effective date – January 2020

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement.

The IASB has issued amendments to IFRS 3 *Business Combinations* that seek to clarify this matter.

### Optional concentration test

The amendments include an election to use a **concentration test**. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

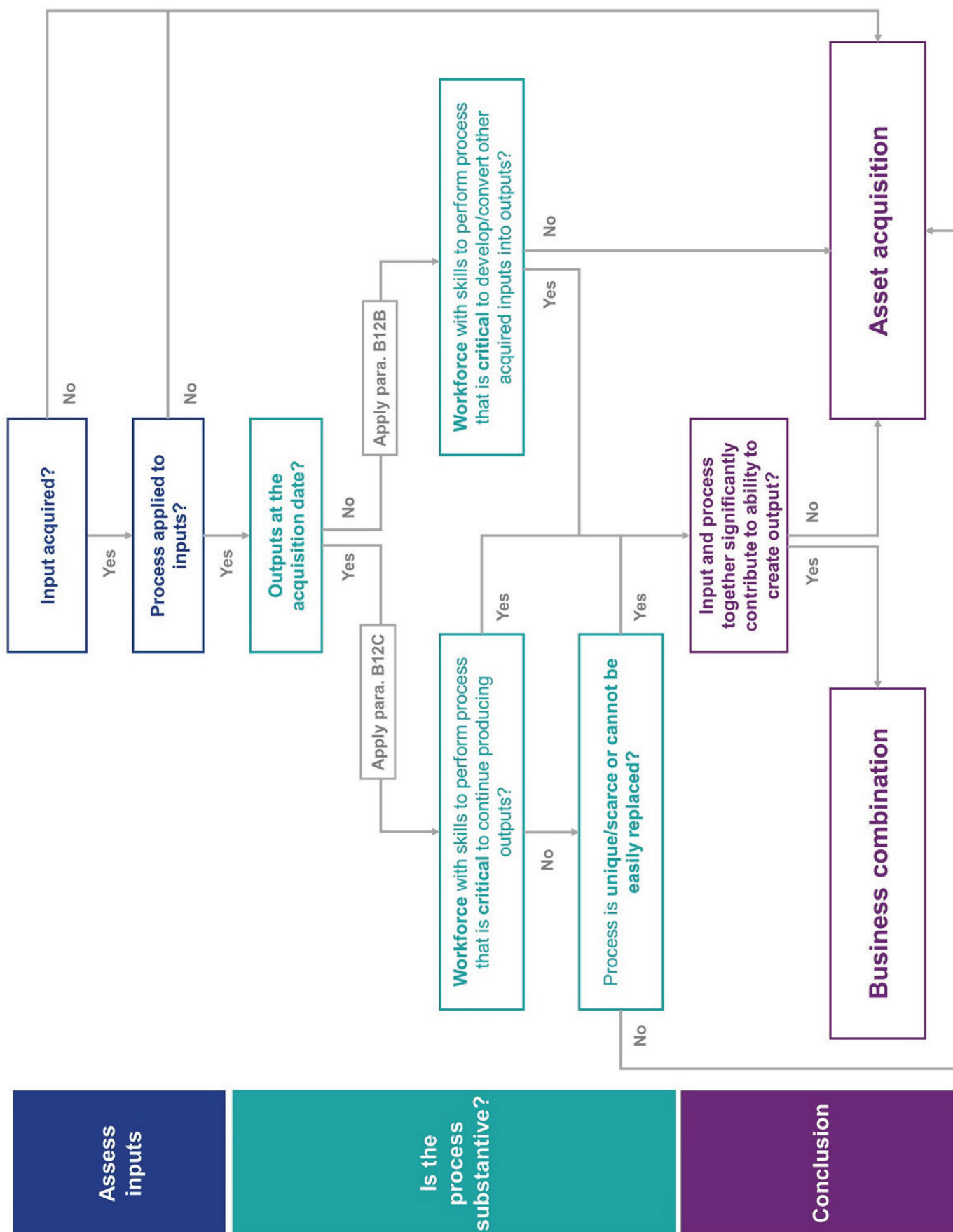
### Assessment focuses on substantive process

If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

### Narrower definition, potential complexity

The effect of these changes is that the new definition of a business is narrower – this could result in fewer business combinations being recognised.

The amendments may require a complex assessment to decide whether a transaction is a business combination or an asset acquisition. We outline the steps an entity takes for this assessment in the diagram below.



### Find out more

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

Visit our [IFRS – Business Combinations](#) page for more information on the IASB's consolidation suite of standards.