

Explanatory Statement

Accounting Standard AASB 2018-6 *Amendments to Australian Accounting Standards –* *Definition of a Business*

December 2018



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2018-6

This Standard makes amendments to AASB 3 *Business Combinations* (August 2015).

These amendments arise from the issuance of International Financial Reporting Standard *Definition of a Business* (Amendments to IFRS 3) by the International Accounting Standards Board (IASB) in October 2018.

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Main Features of AASB 2018-6

Main Requirements

The Standard amends AASB 3 to clarify the definition of a business, assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments:

- (a) clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- (b) remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- (c) add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- (d) narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- (e) add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Application Date

This Standard applies to annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 275 *Definition of a Business and Accounting for Previously Held Interests* in June 2016 for comment by 23 September 2016. ED 275 incorporated IASB Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests*. Two submissions were received by the AASB in respect of the proposals in ED 275, broadly supporting the proposed amendments to the definition of business. The AASB did not make a submission to the IASB on ED/2016/1 as no significant issues were identified by the AASB or constituents. Two Australian constituents made submissions to the IASB on ED/2016/1, broadly supporting the IASB's proposed amendments.

The IASB analysed the feedback it received on the proposed amendments to IFRS 3 *Business Combinations* and decided to finalise those amendments with no substantive changes. The IASB set an effective date of annual periods beginning on or after 1 January 2020, with earlier application permitted. The AASB considered the amendments made by the IASB to IFRS 3 and the Australian-specific comments in the submissions received in finalising AASB 2018-6 and the amendments to AASB 3.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2018-6 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

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Overview of the Accounting Standard

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Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.