

Amendments to IFRS 3 Business Combination

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Definition of a business – Concentration of fair value test

Concentration of fair value test:

- Why conduct a concentration test?
- Optional; may be equally costly to conduct depending on circumstances
- Judgments can be challenged; what is “substantially all” or “similar” assets?
- Result may not be consistent with full test
- Only identifies what is not a business; no shortcut to conclude that acquiree is a business



Definition of a business - Summary of examples

Brief description	Conclusion
Acquire portfolio of 10 similar homes	Not a business
Acquire office building, car park, plus cleaning and security contracts	Not a business
Acquire office building, car park, plus employees for leasing, tenant management, and operations	Business
Acquire potential diabetes drug compound in final testing phase including formula and know-how, and outsourced clinical trial contract	Not a business
Acquire potential diabetes plus Alzheimer drug compound in final testing phase including formula and know-how	Not a business
Acquire in-process drug compounds with senior scientists and management with necessary skills	Business
Acquire communications license, broadcasting equipment, and office building	Not a business



Definition of a business - Summary of examples

Brief description	Conclusion
Acquire land, building and equipment of closed manufacturing facility; required to take over employees by law	Not a business
Acquire exclusive sub-license to distribute product in a specified jurisdiction plus a product supply contract	Not a business
Acquire worldwide product distribution rights, associated intellectual property, all customer contracts and relationships, inventories, supply contracts, etc.	Business
Acquire portfolio of similar loan contracts	Not a business
Acquire portfolio of dissimilar loan contracts	Not a business
Acquire portfolio of dissimilar loan contracts plus employees who manage credit risk and customer relationships	Business

Critical to consider details on how the above conclusions are reached in practical application!

