



Our Ref.: C/FRSC

**Sent through electronic mail**

20 July 2017

Mr Hans Hoogervorst  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Hans,

**Definition of a Business:  
April IASB Board tentative decisions**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, and ethics for professional accountants, in Hong Kong.

The HKICPA provided its comments on the Exposure Draft ED/2016/1 on 11 November 2016 and continues to appreciate the IASB's effort in this regard. However, the HKICPA would like to express concerns on and urges the IASB to reconsider two tentative decisions made in April:

- making the screening test optional on a transaction-by-transaction basis; and
- confirming that the screening test is determinative.

Our concerns are outlined below.

*Creating structural opportunities*

HKICPA foresees the optional screening test would become another form of structuring opportunity. That is, entities may choose to apply the screening test as and when it wants, depending on the preferred accounting outcome.

*Diminished comparability of financial statements*

Transactions with similar facts and circumstances would be accounted for differently depending on whether entities elected to apply the screening test. This incomparability would exist for similar transactions among entities and within the same entity.

*Costs would likely outweigh the benefits*

HKICPA acknowledges that it is challenging to determine whether a group of assets constitutes a business and that some level of judgement is inevitable. However, adding an optional screening test with no conceptual basis would exacerbate the confusion and costs as the screening test could produce results that are counterintuitive, manipulated and incomparable.



**HKICPA recommendation**

Due to our concerns above, the HKICPA recommends removing the screening test in its entirety or making the screening test a part of a holistic assessment to determine a business. HKICPA also strongly recommends that the IASB first conducts a thorough Effects Analysis, particularly on providing an optional screening test, before finalising its decisions.

Finally, the HKICPA urges the IASB to take a step back and revisit, conceptually, the fundamental need for having different accounting requirements for asset and business acquisitions. The HKICPA would be happy to explore this further with the IASB.

The HKICPA and our stakeholders would be very grateful if you would consider the points made above.

If you have any questions regarding the matters raised in this letter, please contact me, or Kam Leung ([kamleung@hkicpa.org.hk](mailto:kamleung@hkicpa.org.hk)), Associate Director of our Standard Setting Department.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'CNg'. The signature is stylized and cursive.

Christina Ng  
Director, Standard Setting Department