# Commission Regulation (EU) 2020/551 of 21 April 2020 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 3 (Text with EEA relevance)

## COMMISSION REGULATION (EU) 2020/551

## of 21 April 2020

## amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 3

## (Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards[(1)], and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1126/2008[(2)] certain international standards and interpretations that were in existence at 15 October 2008 were adopted.

(2) On 22 October 2018, the International Accounting Standards Board (IASB) published Definition of a Business (Amendments to IFRS 3) in order to address the concerns highlighted by the post-implementation review of IFRS 3 *Business Combinations* about the challenges to apply the definition in practice. The objective of the amendments is to clarify the definition of a business with a view to facilitating its practical implementation.

(3) Following the consultation with the European Financial Reporting Advisory Group, the Commission concludes that the amendments to International Financial Reporting Standard (IFRS) 3 *Business Combinations* meet the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(4) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(5) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

*Article 1*

The Annex to Regulation (EC) No 1126/2008, International Financial Reporting Standard 3 Business Combinations, is amended as set out in the Annex to this Regulation.

**Changes to legislation:** *There are outstanding changes not yet made to Commission Regulation (EU) 2020/551. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

*Article 2*

Each company shall apply the amendments referred to in Article 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2020

*Article 3*

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 21 April 2020.

*For the Commission*

*The President*

Ursula VON DER LEYEN

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ANNEX

Definition of a Business
Amendments to IFRS 3

**Amendments to IFRS 3 *Business Combinations***

Paragraph 3, the definition of the term 'business' in Appendix A and paragraphs B7–B9, B11 and B12 are amended. Paragraphs 64P, B7A–B7C, B8A and B12A–B12D, and headings above paragraphs B7A, B8 and B12, are added. Paragraph B10 is deleted.

IDENTIFYING A BUSINESS COMBINATION

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| **3** | **An entity shall determine whether a transaction or other event is a business combination by applying the definition in this IFRS, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. Paragraphs B5–B12D provide guidance on identifying a business combination and the definition of a business.** |

EFFECTIVE DATE AND TRANSITION

**Effective date**

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| | ... |
| 64P | *Definition of a Business*, issued in October 2018, added paragraphs B7A–B7C, B8A and B12A–B12D, amended the definition of the term 'business' in Appendix A, amended paragraphs 3, B7–B9, B11 and B12 and deleted paragraph B10. An entity shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application of these amendments is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. |

Appendix A

**Defined terms**

***Changes to legislation:*** *There are outstanding changes not yet made to Commission Regulation (EU) 2020/551. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

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| ... | |
| **business** | An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. |

DEFINITION OF A BUSINESS (APPLICATION OF PARAGRAPH 3)

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| B7 | A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows (see paragraphs B8–B12D for guidance on the elements of a business):<br>(a) **Input:** Any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights and employees.<br>(b) **Process:** Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but the intellectual capacity of an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)<br>(c) **Output:** The result of inputs and processes applied to those inputs |

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| | that provide goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities. |

**Optional test to identify concentration of fair value**

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| B7A | Paragraph B7B sets out an optional test (the concentration test) to permit a simplified assessment of whether an acquired set of activities and assets is not a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. The concentration test has the following consequences:<br>(a) if the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.<br>(b) if the concentration test is not met, or if the entity elects not to apply the test, the entity shall then perform the assessment set out in paragraphs B8–B12D. |

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| B7B | The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. For the concentration test:<br>(a) gross assets acquired shall exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities.<br>(b) the fair value of the gross assets acquired shall include any consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired. The fair value of the gross assets acquired may normally be determined as the total obtained by adding the fair value of the consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held |