

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

BCDGI – ASAF Educational session on disclosure proposals

Cover note

Objective

- 1 At the July 2023 ASAF meeting, the IASB staff will present an educational session on the IASB's proposals to require an entity to disclose better information about business combinations. In particular, the IASB staff will discuss what information the IASB's proposals are intended to capture and how the proposals are intended to work.
- 2 The purpose of this session is to ask EFRAG TEG-CFSS members whether they have any questions on the disclosure requirements presented in the IASB presentation in agenda paper 09-02.

Agenda Papers

- 3 In addition to this cover note, the following agenda paper is provided:
 - (a) Agenda paper 09-02 – IASB Agenda paper AP3 – ASAF presentation

Note to EFRAG TEG-CFSS members

- 4 On 14 June 2023 the EFRAG Secretariat sent an email to EFRAG TEG-CFSS members informing of the upcoming education session on the BCDGI project and asking members to forward any questions on the IASB's disclosure proposals which could be raised by the EFRAG representative at the July 2023 ASAF meeting. The deadline for questions was 23 June.

Questions from CFSS member

- 5 Only one CFSS member responded to the EFRAG Secretariat's request.
- 6 This member had a question on slide 17 (duration of disclosure) of agenda paper 09-02 regarding the different levels of "monitoring" mentioned on this slide.
- 7 Specifically, this member noted:

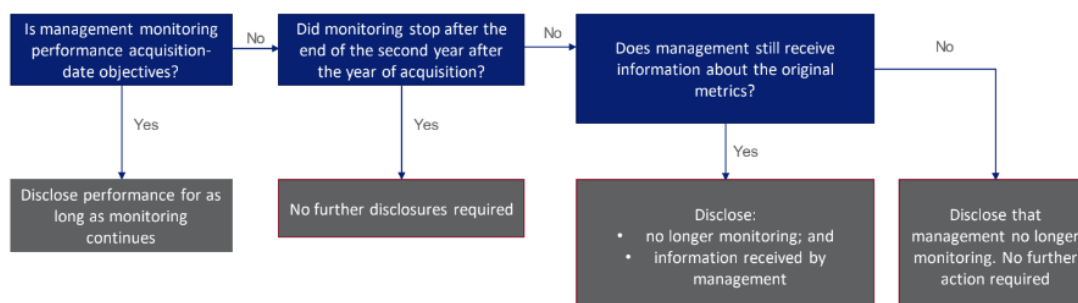
"I am puzzled by the third grey box, as it states that one should disclose that the business combination is no longer monitored, even though the answer to the second blue box is No – that the entity has NOT stopped monitoring the business combination."
- 8 This member raised the question with the IASB staff who explained that:

"There are two levels of monitoring, and the first blue box relates to monitoring against the initial objectives and targets of the acquisition, whereas the monitoring in the second blue box relates to a more up-to-date reporting and monitoring, but without reporting on deviations from the expected performance that formed the investment decision."
- 9 Slide 17 is reproduced below:

Duration of disclosure

In considering how long an entity should be required to disclose information about the performance of its strategically important business combinations, the IASB seeks to achieve a balance between:

- Ensuring users receive information about a business combination for a reasonable amount of time; and
- Preparers not being required to disclose the information indefinitely



Other questions identified by the IASB staff

- 10 Slide 17 of agenda paper 09-02 noted some questions identified by the IASB staff and the respective responses.

Question	Response
What if the acquired business is integrated with the existing business?	If integration is planned, the entity’s objectives, targets and metrics might be about the combined business rather than the acquired business in isolation. An entity would not be required to directly attribute the performance of a combined business to pre-existing and acquired businesses.
Would the information required by the IASB’s proposals be auditable?	Most auditors said the information would be auditable at additional cost. The IASB expects an auditor would be able to verify: <ul style="list-style-type: none"> • whether the information disclosed is information management receives to monitor the business combination; and • whether there is adequate explanation of how the information has been prepared.
Why is the IASB requiring this information only for business combinations and not other types of transactions?	The project began in response to PIR of IFRS 3, where we heard users rely on information from impairment test to understand the success of a business combination. Feedback suggests business combinations can be a riskier form of investment.

Background on the project

IASB

- 11 The IASB issued its Discussion Paper [Business Combinations – Disclosures, Goodwill and Impairment](#) (‘the DP’) in March 2020 with a comment period that ended on 31 December 2020.

- 12 The objective of the *Business Combinations—Disclosures, Goodwill and Impairment* project (the project) is to provide users of financial statements with more useful information about the business combinations entities make, at a reasonable cost.
- 13 In November 2022, the IASB tentatively decided to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill.
- 14 So far, IASB has taken tentative decisions on most aspects of disclosures on the objective and subsequent performance of a business combination.
- 15 In 2023, the IASB started to redeliberate improvements to the goodwill impairment test including reducing costs and complexity of applying the test and improving effectiveness of the impairment test.
- 16 An overview of the IASB tentative decisions so far is provided in the appendix to [IASB AP18](#) of the May 2023 IASB meeting.
- 17 An exposure draft is expected in H1 of 2024.

EFRAG discussions

- 18 EFRAG has discussed the IASB’s tentative decisions on disclosures at several meetings in recent months. Discussions show that there are mixed views between EFRAG FRB/EFRAG FR TG and EFRAG User Panel.
 - (a) During the joint EFRAG FRB and EFRAG FR TEG meeting in February 2023, some members continued to express concerns with requiring information in the financial statements on synergies and performance, commercially sensitive information, audit concerns on forward-looking information, concerns on how to consider integration and concerns that individually small business combinations - but important when combined - might not be captured by the proposed disclosure requirements. The appendix to this paper provides a summary of the meeting.
 - (b) EFRAG User Panel members generally supported the direction to improve the disclosures on business combinations in the financial statements. Members were of the view that the information is known by the company and generally available to external sources (such as investment bankers) so there was no reason why the information could not be included in the financial statements.

Questions for EFRAG TEG-CFSS members

- 19 Do members have other questions other than the ones raised in paragraph 7 and paragraph 10?
- 20 Do you have other comments you would like to raise during the ASAF educational session?

Appendix 1: Summary of Discussions and Decisions

EFRAG FR TEG - EFRAG FRB joint physical meeting held on 8 February 2023

1 A summary of the joint EFRAG FR TEG and EFRAG FRB meeting in February 2023 is provided below.

IASB Project *Business Combinations: Disclosures, Goodwill and Impairment*

Objective

- To better understand the EFRAG FRB members' concerns on the IASB's tentative decisions taken so far on the IASB's tentatively agreed disclosure requirements about business combinations and to align views of EFRAG FRB and EFRAG FR TEG members in this respect.

Discussions/ Decisions

- It was noted that the current position of the IASB is an improvement compared to the current requirements of IFRS 3 and that it represents a compromise in particular to accommodate the concerns of preparers.
- Some EFRAG FRB members commented that the IASB project started with a lot of ambition and ended up with marginal proposals for disclosure requirements.
- Some EFRAG FRB members highlighted that the proposed disclosure requirements are emphasising the concept of stewardship that is currently embedded in the Conceptual Framework into the disclosure requirements and this creates some tension.
- Several EFRAG FRB and FR TEG members considered that the proposed disclosures would not meet the objective of providing relevant information to users as they will be difficult to implement in practice and potentially result in boiler plate information.
- Some EFRAG FRB and FR TEG members questioned the bringing in forward-looking, non-financial and non-GAAP information (e.g., information about synergies, such as increase in market share or sustainability goals) in IFRS financial statements. It was noted some information would better be located in the management report.
- EFRAG FRB and FR TEG members provided mixed views on auditability of the disclosures, some considering that forward-looking judgements, information about synergies (without a definition of synergies and in case synergies represent non-financial information) would be difficult to audit, while others stating that forward-looking assumptions are already being audited, e.g., ECL amounts under IFRS 9 *Financial Instruments*.
- Different views were expressed about comparability of the proposed disclosures, with some saying the information was not required in a standardised way and that forward-looking aspects will make them hardly comparable by design, while others saying

that every business combination is unique and it is unreasonable to expect uniform information in this respect.

- Relating to information in subsequent periods on the extent to which management’s objectives are being met, one EFRAG FR TEG member noted that if an acquired business is integrated into the business of the acquirer, then it will not be possible to identify if meeting management’s objectives or not is or is not related to the acquisition or the performance of its pre-existing business. Another EFRAG FR TEG member shared a similar concern. Some considered whether the information could be provided under IFRS 8 *Operating Segments* rather than IFRS 3.
 - Some EFRAG FRB and FR TEG members noted that despite the proposed simplifications and exemptions, the cost-benefit of the disclosures will remain questionable, while others considered that the disclosure achieved a good compromise from a cost-benefit perspective.
 - EFRAG FRB and FR TEG members reiterated concerns that several individually small business combinations, but important when combined, might not be captured by the proposed disclosure requirements.
 - EFRAG FRB and FR TEG members with user’s background highlighted that users need the information about subsequent performance of business combinations and synergies and that the proposed disclosures provided a reasonable compromise.
 - Given the mixed views, EFRAG FRB and FR TEG members suggested to perform field-testing of the proposed disclosure requirements at the stage of the exposure draft when the wording and application guidance becomes clearer.
 - EFRAG FRB and FR TEG members concluded that the project should be further pursued despite the concerns expressed above. Some members highlighted that the project was ongoing for several years and the exposure draft should be published without undue delay.
- Next steps*
- The EFRAG Secretariat to discuss the concerns of EFRAG FRB and FR TEG members with the IASB staff.