

Final Comment Letter

You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

Comments should be submitted by 28 June 2024.

International Accounting Standards Board

7 Westferry Circus, Canary Wharf

London E14 4HD

United Kingdom

[XX Month 2024]

Dear Mr Barckow,

Re: Exposure Draft *Business combinations – Disclosures, Goodwill and Impairment*

On behalf of EFRAG, I am writing to comment on the IASB's Exposure Draft Business Combinations – Disclosures, Goodwill and Impairment issued by the IASB on 14 March 2024 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

In principle, EFRAG supports the objective of the IASB and appreciates its efforts to provide users with better information at a reasonable cost to preparers. However, **EFRAG has several key reservations and recommendations to the proposed amendments to IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets*.**

Regarding the proposed disclosures on performance and quantitative information on expected synergies we have **strong reservations whether this information should be disclosed in the financial statements** given its sensitive and often forward-looking nature.

Regarding the amendments to the impairment test, we are not convinced that they will change existing practice and thus fail to meet the IASB's objective.

Proposed disclosure requirements for business combinations

EFRAG ~~welcomes~~ is supportive of the IASB's ~~efforts~~ objective to ~~develop improved disclosure requirements in IFRS 3 that will provide users with more useful~~ relevant information ~~about~~ to help them assessing the subsequent performance of major business combinations. ~~Overall, During EFRAG's outreach discussions and feedback received users have strongly supported the proposals for better information for major business combinations.~~

EFRAG ~~considers that~~ also welcomes the IASB ~~is trying~~ IASB's efforts to ~~achieve~~ strike the right balance ~~to improve the disclosure requirements, at a reasonable cost to~~ between costs for preparers and benefits for users, notably by significantly changing the proposals in the 2020 IASB Discussion Paper ~~following EFRAG's suggestions.~~

EFRAG ~~generally agrees that for strategic business combinations (a subset of material business combinations identified using a set of thresholds), an entity would be required to provide information reviewed by its key management personnel about its acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met. EFRAG considers that the proposed information is in line with user requests.~~

EFRAG ~~generally supports the other proposed amendments to the disclosure requirements in IFRS 3, including new disclosures on expected synergies and the strategic rationale for business combinations. EFRAG disagrees with the IASB's proposal to specify that the basis of the information required by paragraph B64(q)(ii) of IFRS 3 is an accounting policy and recommends the IASB to instead require entities to provide an explanation of the basis used to prepare the information.~~

However, feedback from EFRAG's outreach and comment letters received from non-user EFRAG constituents (preparers, auditors and national standard setters) **highlighted significant reservations/concerns with some of the disclosure proposals.** These are summarised below:

- **Performance information on strategic business combinations** – In principle, EFRAG supports the proposed performance disclosures objectives, as it would provide useful information for users and would be required only for a subset of acquisitions, subject to the exemption under certain circumstances. However, we note that many non-user constituents have highlighted significant reservations with the proposals when this information is considered sensitive (because of for example commercial sensitivity or legal constraints) and includes non-financial key performance indicators (KPIs) which can be costly to prepare and verify. Although the proposed exemption could be helpful to mitigate some of these concerns, we understand that this will not always be the case.

EFRAG also questions whether the performance information, post-integration, will become so detached from the acquired business that the actual information value to users will be reduced. Overall, and based on the feedback received from non-user constituents, EFRAG is not convinced that most of the proposed performance information should be included in the financial statements. We strongly encourage the IASB to engage in field-testing the proposed disclosures and assessing the extent to which users are already receiving the information from market communication sources to avoid disclosure overload in the financial statements which may hinder its usefulness to users. In our detailed response in the Appendix, we provide some recommendation for the IASB to consider

- **Thresholds** - EFRAG generally supports the proposed closed-list approach as being the most practical solution. However, we consider that the proposed thresholds in their current form, together with the proposal to meet only one of the thresholds, may not capture the major (strategic) business combinations from a user perspective. We also do not support using operating profit or loss as a threshold given its volatility.
- **Quantifying expected synergies** – EFRAG does not support the proposed disclosure requirements regarding information on quantitative expected synergies in the year of acquisition for all material business combinations. We consider that such information could contain forward-looking information (not verifiable and potentially unreliable) and sensitive information which may introduce litigation risk and weaken the negotiation position of the reporting entity and therefore carry a cost to users. The quantification is also subject to judgement and uncertainty and will not only be costly to produce the information but also to audit. Furthermore, it remains unclear whether the information on expected synergies is intended to include only those that the acquirer paid for (that reconcile to the paid price and thus justify the goodwill resulting from the acquisition) or the total expected synergies for the group as whole which may be higher.
- **Exemption** - EFRAG welcomes the proposal to exempt entities from disclosing some of the information, if that information can be expected to prejudice seriously the achievement of the acquisition-date objectives. However, EFRAG certain prerequisites are met considering the accompanying guidance. However, EFRAG has some concerns with the use cases for the exemption noted in the ED and requiring an entity to provide the reasons why it has not disclosed the item information. EFRAG also notes the practical challenges of not prescribing the ‘specific circumstances’ in which the exemption would

be applied and recommends the IASB to include illustrative examples of “specific circumstances’ circumstances”.

- Level of management – EFRAG questions whether it is necessary for the IASB to specify the level of management at which the acquisition-date key objectives and related targets of a strategic business combination are reviewed. The management structure varies across entities and therefore in our view designating a specific management level risks creating confusion omitting the required information.

Proposed amendments to IAS 36

EFRAG regrets that the IASB deviates from the project’s initial objective to reduce goodwill shielding and misses the opportunity to make significant improvements to the impairment test to address the ‘shielding’ issue.

EFRAG supports the proposed amendments regarding goodwill allocation to cash-generating units but notes that the amendment in paragraph 80A(b) could be interpreted in different ways and recommends the IASB to reconsider the drafting of that paragraph. Whilst EFRAG agrees with the idea of allocating goodwill to the lowest level possible, EFRAG is not convinced that the proposed amendments will change much from existing practices.

EFRAG agrees with the proposal to no longer prohibit the inclusion of cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset’s performance, on the basis that it brings the cash flows inputs to the value in use measurement in much better alignment with the internal forecasting. However, EFRAG notes that removing these prohibitions leads to a need for guidance on what is, and what is not, to be included as part of uncommitted future restructuring or enhancing an asset’s performance. Furthermore, where a significant amount of the value in use is derived from uncommitted future restructuring or enhancement of an asset’s performance, users would know the extent to which the calculated value in use is influenced by expected uncommitted restructuring and future enhancements. Therefore, further guidance in this regard would be helpful taking into account the additional costs such disclosures might impose to preparers.

EFRAG agrees with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use.

EFRAG’s detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Isabel Batista or me.

Yours sincerely,

Wolf Klinz

President of the EFRAG FRB

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Question 1 - Disclosures: Performance of a business combination

Question 1 - Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)

In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that:

- users need better information about business combinations to help them assess whether the price an entity paid for a business combination is reasonable and how the business combination performed after acquisition. In particular users said they need information to help them assess the performance of a business combination against the targets the entity set at the time the business combination occurred (see paragraphs BC18–BC21).

- preparers of financial statements are concerned about the cost of disclosing that information. In particular, preparers said the information would be so commercially sensitive that its disclosure in financial statements should not be required and disclosing this information could expose an entity to increased litigation risk (see paragraph BC22).

Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost. In particular, the IASB is proposing to require an entity to disclose information about the entity's acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination). The IASB has responded to preparers' concerns about disclosing that information by proposing:

- to require this information for only a subset of an entity's business combinations—strategic business combinations (see question 2); and
- to exempt entities from disclosing some items of this information in specific circumstances (see question 3).

(a) Do you agree with the IASB's proposal to require an entity to disclose information about the performance of a strategic business combination, subject to an exemption? Why or why not? In responding, please consider whether the proposals appropriately balance the benefits of requiring an entity to disclose the information with the costs of doing so.

(b) If you disagree with the proposal, what specific changes would you suggest to provide users with more useful information about the performance of a business combination at a reasonable cost?

EFRAG's response

1 EFRAG ~~welcomes~~supports the ~~proposals for better~~IASB's objective to provide users with relevant information on to help them assess the subsequent performance of strategic major business combinations as this will provide users of financial statements with better, at a reasonable cost to preparers. This is because:

(a) We understand that having relevant information on the performance to make this assessment is imperative for users and investors;

(b) We acknowledge that one of the shortcomings highlighted in the Post-Implementation Review (PIR) of IFRS 3 was the lack of information received by users for major business combinations, mainly in the years after the acquisition; and

~~(a)~~(c) Users argue business combinations are generally major events and that to assess whether a business combination and generally help users to evaluate the success of major acquisitions is successful or not, the initial objectives and targets of the acquisition and how achievable they are should be known.

2 However, feedback from EFRAG ~~appreciates the IASB's efforts~~outreach and comment letters received from non-user EFRAG constituents (preparers, auditors and national standard setters) highlighted significant reservations on the proposed performance information. These concerns are explained in more detail below together with some alternatives the IASB could consider in reaching a more balanced compromise for preparers and users by requiring the proposed information on performance to be provided only for strategic business combinations and exempting an entity from providing.

~~23~~ Many preparers informed EFRAG that although ~~the information in specific~~exemption could be helpful in some cases (when doing so could prejudice seriously, it will not mitigate all their concerns and might result in difficulties in applying the entity achieving its key objectives and targets for undertaking the business combination exemption (for example, due to high threshold) and be commonly used in practice (See question 3).

Information on the performance Performance of strategic business combinations

3 EFRAG ~~considers~~agrees that the proposed information for major (strategic) business combinations is in line with the request from users of financial statements ~~to have improved information on the intended key objectives and targets of major business combinations and the success of these business combinations.~~

4 ~~.. In EFRAG’s view, principle, we consider that~~ requiring the information only for strategic business combinations will address some concerns about ‘disclosure overload’ and at the same time minimise costs to preparers.

Sensitivity of information

5 ~~However, EFRAG notes that many entities remain reluctant to provide the proposed performance information in the financial statements as they consider this information to be sensitive in nature – commercially sensitive (costs savings, revenue attribution, employee-related information, etc.) and sensitive from a legal perspective (employee-related information in some jurisdictions). Therefore, EFRAG welcomes the IASB’s proposal to exempt an entity from providing the information when specific conditions are met and the accompanying guidance.~~

6 ~~EFRAG highlights that many preparers consider that the exemption will be difficult to use in practice (challenging to meet the proposed criteria) but at the same time likely to be commonly applied. The frequent use might be contrary to the intention of the IASB that an entity would be able to apply the exemption only in certain “prejudicial” cases. EFRAG’s views on the application of the exemption is discussed in question 3.~~

5 ~~EFRAG also considers the requirement to provide information on whether the objectives of an acquisition have been met using the metrics determined at the acquisition date as essential for users of financial statements to assess whether the acquisition-date objectives are being met.~~

EFRAG highlights Integration

7 ~~EFRAG understands~~ that if an entity plans to integrate an acquired business, the entity’s key objectives and targets for an acquisition will be based on the combined (integrated) business rather than the acquired business in isolation. EFRAG generally agrees that disclosing performance information based on the integrated business is appropriate if this is the way management reviews and monitors the acquired business.

68 ~~However, EFRAG questions whether there could be cases when the integrated information becomes so detached from the acquired business that it might fail to meet its intended objectives and thus lose its information value to users of financial statements. Furthermore, some preparers informed EFRAG that they consider that providing information on a combined basis goes beyond the objective of the ED and might discourage companies from growing inorganically.~~

Location of information

- 9 Many of EFRAG’s non-user constituents, both during outreach and through their comment letters, raised concerns on the location of the proposed information.
- 10 EFRAG acknowledges that users would prefer to have the information in the financial statements, to give them a level of assurance that the management report might not provide. We also understand that the proposed disclosures on performance information for strategic business combinations are based on the information reviewed and monitored by key management personnel. This means that the performance information on key objectives and targets and subsequent follow up of these acquisition date key objectives is already should be internally defined and available for internal purposes and used for investor presentations when an entity communicates the acquisition and post-acquisition information to its investors. The timing for providing the performance information will depend on how long an entity’s management reviews the information. Therefore, EFRAG understands that some preparers already disclose key objectives and related targets in various publications in the year of acquisition and post-acquisition.
- 11 EFRAG also notes that some of the proposed disclosures relate to non-financial KPI’s/non-IFRS measures – such as certain synergies (when these are considered to be a key objective or related target), market share or achieving a competitive position (such as acquiring a competitor). EFRAG understands that in practice such non-IFRS performance measures are likely to create challenges for auditors in providing the required level of assurance, litigation risks and in some cases unverifiable measures. Should non-IFRS KPI information be required, EFRAG considers that an entity should separately identify that information and disclose their basis for preparation and key assumptions used.
- 12 Overall, and based on the feedback received from non-user constituents including national standard setters, **EFRAG is not convinced that most of the proposed performance information is better suited for the management report and not the financial statements.** However, should the IASB decide to pursue the proposals we recommend the following:
- (a) the IASB considers other alternatives - for example to only require disclosures that support the measurement of financial statements’ items (notably goodwill). This would align the requirements with the current role of the financial statements and be more consistent with the Conceptual Framework; and
 - (b) the IASB explores an approach similar to that in IFRS 8 *Operating Segments* or IAS 33 *Earnings per Share* where certain disclosure requirements only apply to listed entities.

13 Finally, we strongly encourage the IASB to field-test the proposed disclosures and any alternatives it might develop and assess the extent to which users are already receiving the information from other sources, to avoid disclosure overload in the financial statements which may hinder its usefulness to users.

Information on actual performance

14 Paragraphs B67A(a) and B67A(b) of the ED also requires, for strategic business combinations, information about actual performance and a qualitative statement of whether actual performance is meeting or has met the acquisition-date key objectives and the related targets. EFRAG notes the concerns raised by some IASB members (paragraph BC44 of the Basis for Conclusions on the ED) on this proposal especially given that the qualitative statement of whether actual performance is meeting or has met the acquisition-date key objectives and the related targets, is subject to an exemption in certain cases.

~~7~~15 However, subject to our comments above, EFRAG agrees that having information on actual performance is still useful for users even if an entity applies the exemption.

Commercial sensitivity

~~8~~ EFRAG notes that some entities remain reluctant to provide performance information as they consider this information to be commercially sensitive. Therefore, EFRAG welcomes the IASB's proposal to exempt an entity from providing the information when specific conditions are met.

~~9~~ EFRAG also welcomes the guidance in the ED stating that an entity can only use the exemption if disclosing the information would be expected to prejudice seriously the achievement of any of its acquisition-date key objectives for the business combinations.

~~10~~ EFRAG understands that an entity would be able to apply the exemption only in rare cases.

~~11~~11 In EFRAG's comment letter on the DP, EFRAG suggested that the IASB consider a "disclose or explain" approach to address concerns on commercial sensitivity under which an entity would not disclose some information if disclosing the information would seriously harm the entity's possibilities to meet the expected objectives. Overall, EFRAG considers that the proposed exemption will serve a similar purpose to EFRAG's earlier suggestion. EFRAG's views on the application of the exemption is discussed in question 3.

Question 2 - Disclosures: Strategic business combinations

Question 2 - Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of a business combination (that is, information about the entity’s acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met) for only strategic business combinations—a subset of material business combinations. A strategic business combination would be one for which failure to meet any one of an entity’s acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy.

The IASB is proposing that entities identify a strategic business combination using a set of thresholds in IFRS 3—a business combination that met any one of these thresholds would be considered a strategic business combination (threshold approach) (see paragraphs BC56–BC73).

The IASB based its proposed thresholds on other requirements in IFRS Accounting Standards and the thresholds regulators use to identify particularly important transactions for which an entity is required to take additional steps such as providing more information or holding a shareholder vote. The proposed thresholds are both quantitative (see paragraphs BC63–BC67) and qualitative (see paragraphs BC68–BC70).

(a) Do you agree with the proposal to use a threshold approach? Why or why not? If you disagree with the proposal, what approach would you suggest and why?

(b) If you agree with the proposal to use a threshold approach, do you agree with the proposed thresholds? Why or why not? If not, what thresholds would you suggest and why?

EFRAG’s response

16 EFRAG generally supports the proposed closed-list approach as being the most practical solution – from an application, audit and enforcement perspective. EFRAG also acknowledges that the proposed criteria included in the proposed thresholds are already used elsewhere in IFRS Accounting Standards, thus allowing entities to leverage on existing definitions and avoid the IASB having to develop new criteria.

17 However, as discussed below, we have several concerns with the proposed thresholds – quantitative and qualitative - in their current form. We also consider there is a potential inconsistency between the definition of “strategic” in BC54 and the proposed threshold approach.

Definition of “strategic” in BC54

~~1218~~ EFRAG generally agrees that a strategic business combination (a subset of material business combinations) is one of strategic value to the entity. However, EFRAG questions whether

the second part of the description of a strategic business combination in paragraph BC54 of the Basis for Conclusions on the ED ('... failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy') is consistent with the proposed thresholds. For example, EFRAG considers that it is difficult to conclude that for those acquisitions meeting the 10% measure, their failure would put at risk the entity's overall strategy. EFRAG therefore suggests deleting the latter part of paragraph BC54 or developing a more robust definition of "strategic" that aligns with the proposed threshold approach.

19 ~~Threshold~~ EFRAG considers that the description in BC54 of a strategic business combination does not seem to be aligned with the proposed thresholds. Given that there may be multiple acquisition-date key objectives, failing only one of them may not put the overall business strategy at risk. EFRAG also considers that a description of a strategic business combination should be included in the main text of the Standard to support consistent application of the thresholds, and not in the Basis for Conclusions.

Proposed threshold approach versus principle-based approach

20 EFRAG generally supports the ~~proposal to identify a strategic business combination based on a closed list approach using a specific set of thresholds as this approach is similar to other approaches already used in IFRS Accounting Standards. In addition, it requires less judgement from management that would fail to capture the intended population of acquisitions and could result in difficulties to audit and enforce and therefore higher costs. However, EFRAG questions~~ proposed closed-list approach as being the most practical solution to identify a strategic business combination.

~~1321~~ EFRAG considered whether there could be cases where applying the proposed closed-list approach would fail to capture the intended population of acquisitions. ~~For example, there could be cases where the closed list thresholds would capture business combinations that the entity's management consider to be non-strategic to the entity. Likewise, a business combination that is considered by management to be strategic could fail to meet any of the proposed closed list thresholds. Therefore, EFRAG considers~~ Therefore, EFRAG considered whether applying a more-principles based approach (e.g., an open-list approach) would be consistent with the overall management approach proposed by the IASB for providing the proposed information. At the same time EFRAG acknowledges that such an approach would involve a higher level of judgement and therefore potentially result in a loss of comparable information.

Proposed thresholds

~~14~~ EFRAG supports the proposed thresholds to identify a strategic business combination being based on meeting one of the proposed quantitative or qualitative thresholds. EFRAG highlights that both these measures/criteria are already used in IFRS Accounting Standards, thus allowing entities to leverage on existing definitions and avoid the IASB having to develop new criteria.

~~1522~~ However, EFRAG notes that feedback received from some preparers Some constituents highlighted that a combination of both quantitative and qualitative thresholds would be more appropriate. These to capture the appropriate level of major acquisitions. For example, some preparers noted that entering a new geographical area does not necessarily mean that the business combination has strategic importance (it may involve very immaterial business combinations), and this is why at least one of the quantitative thresholds should be met in conjunction with a qualitative threshold. ~~To address this concern, EFRAG recommends the IASB to include a caveat when meeting the qualitative thresholds for immaterial business combinations.~~

~~1623~~ EFRAG also acknowledges Other constituents highlighted that there could be cases where the 10% quantitative threshold measure may be easily met (e.g., for a service company or smaller entities) but for other cases (e.g., more mature manufacturing companies) more difficult. ~~Thus, EFRAG questions whether 10% could be appropriate to capture the intended population of business combinations.~~

~~24~~ Finally Overall, EFRAG has learned that there could be cases where the closed-list thresholds would capture business combinations that the entity's management consider to be non-strategic to the entity. Likewise, a business combination that is considered by management to be strategic could fail to meet any of the proposed closed-list thresholds.

Rebuttable presumption / indicators and focus on materiality

~~25~~ To address the concerns noted above, EFRAG recommends that a subset of 'strategic' acquisitions is identified by first applying both the quantitative and qualitative thresholds (subject to other suggestions below). However, where an acquisition meets one or more of the qualitative or quantitative thresholds, an entity should be able to rebut the presumption that the acquisition is 'strategic' if it can demonstrate that the acquisition does not meet the management's overall view of a strategic business combination.

~~26~~ An alternative to a rebuttable presumption could be for the **thresholds to be considered as indicators**, which would also allow entities to assess the acquisition as strategic, even when not meeting any of the thresholds.

27 Furthermore, EFRAG notes that the concept of materiality would apply in cases when the proposed thresholds (quantitative or qualitative) would capture business combinations that the entity would consider to be immaterial. EFRAG recommends the IASB to elaborate on this point in the Basis for Conclusions on the ED- appreciating that materiality is a concept universally applicable in IFRS Accounting Standards

Quantitative thresholds

28 **We do not support using Operating Profit or Loss as a threshold**, given its volatility and fluctuation from year to year. Consequently, in a lower profitability period, an increased number of business combinations would likely qualify as strategic solely because of meeting the profitability threshold. The reverse could also happen. Using this volatile threshold hampers comparability.

29 EFRAG also notes that for the Revenue threshold could be subject to some fluctuation and therefore considers that averages over multiple reporting periods should be used instead of the proposed “most recent annual reporting period”. This would avoid “one-off” distortions in the revenue number.

30 EFRAG recommends adding enterprise value (market capitalisation) as a quantitative threshold. We acknowledge that as noted in BC64 this could pose a challenge for non-listed entities. However, it would align with EFRAG’s recommendation for the IASB to consider requiring the proposed disclosures only for listed companies.

Acquiree not reporting under IFRS

31 EFRAG considers that the IASB should clarify how to apply both the Operating Profit or Loss and the Revenue thresholds if the acquiree previously did not report under IFRS. In this case, additional information would need to be prepared to compare like for like. Since the level of precision required in obtaining this information might influence whether a threshold is met or not, we recommend the IASB to specify how to derive these numbers taking into account cost-benefit considerations.

Other clarifications and editorial suggestions

32 EFRAG notes that IFRS 3 gives the acquiring company the choice to either recognise any resulting goodwill in full (including the amount attributable to non-controlling interests) or in part (limiting the goodwill to the share of the acquirer). We therefore recommend the IASB to provide guidance on this matter in relation to the Total Assets (including goodwill) threshold.

4733 For clarification and consistent interpretation, EFRAG recommends adding an “or” after paragraph B67C(a)(ii).

Series of business combinations

~~1834~~ EFRAG considers that it would be useful to have guidance on when to assess whether the first business combination, which might be small, is part of a series of business combinations to be entered into that, together, could be considered as a single strategic business combination. [EFRAG outreach and other feedback received confirmed this.](#)

~~1935~~ EFRAG notes that the IASB explains in paragraph BC72 of the Basis for Conclusions on the ED that it was not able to develop such a guidance mainly because the IASB is proposing a management approach to ~~disclosing~~disclose information and that any requirement developed by the IASB might be inconsistent with the way an entity groups business combinations. A specific requirement to link a series of business combinations might therefore not provide useful information to users. However, EFRAG believes that such a guidance is desirable to help entities assess when the first business combination should be considered as part of a coordinated [business](#) plan to enter into a series of business combinations that in aggregate will meet at least one of the thresholds to be considered as a strategic business combination.

~~2036~~ ~~In EFRAG's view, the proposal to identify a strategic business combination is based on meeting one of the proposed thresholds and therefore not a management approach. Therefore,~~ EFRAG considers that guidance on assessing a series of business combinations would not be contrary to the management approach.

~~2137~~ EFRAG therefore recommends the IASB to bring forward the guidance in paragraph BC73 of the Basis for Conclusions on the ED into the main text of the Standard. This could provide entities with some direction when deciding whether to consider a 'series of business combinations' as a single acquisition that could meet the definition/thresholds of strategic business combination and when to conduct the assessment (e.g., after the series of acquisitions has occurred).

Question 3 - Disclosures: Exemption from disclosing information

Question 3—Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)

The IASB is proposing to exempt an entity from disclosing some of the information that would be required when applying the proposals in this Exposure Draft in specific circumstances. The exemption is designed to respond to preparers' concerns about commercial sensitivity and litigation risk but is also designed to be enforceable and auditable so that it is applied only in the appropriate circumstances (see paragraphs BC74–BC107).

The IASB proposes that, as a principle, an entity be exempt from disclosing some information if doing so can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination (see paragraphs BC79–BC89). The IASB has also proposed application guidance (see paragraphs BC90–BC107) to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption.

(a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns.

(b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.

EFRAG's response

2238 EFRAG welcomes the IASB's efforts to address some of the concerns expressed in the feedback received, by proposing an exemption to some items of information in specific circumstances. However, as noted below EFRAG has some concerns with the proposed exemption.

~~23 In its comment letter to the DP, EFRAG previously expressed concerns about disclosing commercially sensitive information in the financial statements and disagreed with the IASB's view that commercial sensitivity would never be a reason to prevent disclosure of information that investors find useful. Accordingly, EFRAG proposed two alternatives for addressing these concerns: the 'disclose or explain' approach, or to specify alternative information in the case an entity would not provide the required disclosures. Therefore, EFRAG is pleased that the ED includes an approach that would address most of the concerns on commercial sensitivity.~~

Principle underpinning the exemption

When to apply the exemption

2439 EFRAG supports the IASB's proposed principle for the exemption, which aligns with the approach in paragraph 92 of IAS 37 and is consistent with the 'disclose and explain approach' suggested by EFRAG in its comment letter to the DP.

What information to exempt

~~**2540** In EFRAG's comment letter to the DP, it was previously considered that commercially sensitive information could include details, such as a 'secret strategy', or the amount an entity is willing to pay for potential future targets as part of its acquisition strategy.~~

~~Therefore, EFRAG welcomes the IASB's proposal to exempt information from being disclosed if it is considered to seriously prejudice the entity's acquisition-date objectives of the acquisition.~~ EFRAG also welcomes the IASB's proposal to define and frame the situations when the exemption can be applied. EFRAG also acknowledges that it is important for users to receive at least some information on the business combination and its performance, which should not be exempted, and therefore agrees with the IASB's proposal not to exempt entities from disclosing the strategic rationale and the actual performance of the strategic business combination.

41 However, in EFRAG's view information that is likely to be seriously prejudicial is not limited to information that might impair the entity's ability its key objectives defined at acquisition date. There are other considerations, such as social or legal matters that could pose a risk of serious prejudice to the entity, without jeopardizing those key objectives.

Application guidance for the exemption

~~2642~~ EFRAG welcomes the proposed application guidance that would help entities in identifying the circumstances in which the application of the exemption would be appropriate and ensure its enforceability and auditability. In EFRAG's view, the application guidance would play an important role in addressing concerns raised by some preparers that the proposed exemption may not adequately address issues of commercial sensitivity.

Disclosing the reason for applying the exemption

43 EFRAG acknowledges that disclosing the reason for applying the exemption aligns with the requirement in paragraph 92 of IAS 37.

~~2744~~ EFRAG expects that in some entities would disclose the reason for applying the exemption at a sufficiently high level that would not put at risk the achievement of any of the entity's acquisition-date key objectives for the business combination.

45 However, several preparers have informed EFRAG that disclosing the reason for applying the exemption could mean disclosing commercially sensitive or legally constrained information (such as employee-related information), thereby defeating the purpose of the exemption. EFRAG therefore recommends the IASB to amend the proposal in B67E and **not to require entities to disclose the reasons why it has not disclosed an item of information**. If the IASB pursues requiring disclosure of the reasons, we recommend whether there is a difference between the term 'reasons' used in paragraph B67E compared to 'specific reason' as referred to in paragraph B67D(a) of the ED.

Disclosing information in a different way

~~28~~46 EFRAG notes that providing the information at an aggregated level (e.g., disclosing the total amount of quantitative synergies) is preferable to not providing it at all by applying the exemption. Therefore, if the IASB goes ahead with the proposed disclosures, EFRAG supports the IASB's proposal to require entities to first consider if presenting information differently (e.g., at a sufficiently aggregated level) is possible without having a prejudicial effect on the entity before applying the exemption.

Factors to consider when determining whether to apply the exemption

~~29~~47 EFRAG notes that the purpose of the exemption is not to provide entities with an exit route not to provide the information, but rather to use it in those situations in which publicly disclosing the information is expected to seriously prejudice any of the entity's objectives for the business combination (consistent with the proposed principle). In EFRAG's view the exemption would be used in rare cases (e.g., in jurisdictions where information on restructuring is subject to legal requirements before being made public).

~~30~~48 However, EFRAG highlights some practical challenges that arise from the IASB's decision not to prescribe the 'specific circumstances' in which the exemption would be applied, and instead to provide a non-exhaustive list of factors to consider. In particular, EFRAG notes that the interpretation of 'specific circumstances' could differ across jurisdictions, sectors and entities, and therefore further clarifications should be provided.

~~31~~49 For the above reason, EFRAG **suggests including illustrative examples of 'specific circumstances' in which the exemption would be applied** to support preparers in appropriately applying the exemption. Furthermore, EFRAG suggests illustrating how entities would be disclosing the fact that they applied the exemption and when to disclose the previously exempted information.

Reassessment in subsequent periods

50 EFRAG generally supports the IASB's proposal in B67G to require entities to reassess the eligibility for the exemption each reporting period for as long as the entity would otherwise be required to disclose the information.

~~32~~51 However, EFRAG notes that some constituents highlighted that implementing this proposal is likely to be costly and burdensome to preparers and therefore suggests the IASB reconsider its usefulness in light of cost-benefit considerations.

Question 4 - Disclosures: Identifying information to be disclosed

Question 4—Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of the entity's strategic business combinations (that is, information about its acquisition-date key objectives and related targets for a strategic business combination and whether these key objectives and related targets are being met) that is **reviewed by its key management personnel** (see paragraphs BC110–BC114).

The IASB's proposals would require an entity to **disclose this information for as long as the entity's key management personnel review the performance of the business combination** (see paragraphs BC115–BC120).

The IASB is also proposing (see paragraphs BC121–BC130) that if an entity's key management personnel:

- do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so;
- stop reviewing whether an acquisition-date key objective and the related targets for a business combination are met before the end of the second annual reporting period after the year of acquisition, the entity would be required to disclose that fact and the reasons it stopped doing so; and
- have stopped reviewing whether an acquisition-date key objective and the related targets for a business combination are met but still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition.

(a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed about the performance of a strategic business combination?

(b) Do you agree that:

(i) an entity should be required to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information? Why or why not?

(ii) an entity should be required to disclose the information specified by the proposals when the entity's key management personnel do not start or stop reviewing the achievement of a key objective and the related targets for a strategic business combination within a particular time period? Why or why not?

EFRAG's response

3352 Subject to our comments regarding the proposed disclosure requirements, EFRAG agrees considers that the proposed disclosures about the performance of a strategic acquisition would should be based on information management uses to review and monitor the business combination.

53 However, EFRAG questions whether it is necessary for the IASB to specify the level of management at which the acquisition-date key objectives and related targets of a strategic business combination are reviewed.

Who provides the information?

34 EFRAG also agrees with the IASB's proposal to define a level of management and that the appropriate level of management should be the entity's key management personnel (KMP) as defined in IAS 24 *Related Party Disclosures*, instead of using the Chief Operating Decision Maker (CODM) as defined in IFRS 8 *Operating Segments* (as proposed in the DP). EFRAG notes that the term 'key management personnel' is also used in IFRS 10 *Consolidated Financial Statements* when assessing control, and thus entities will be familiar with the application of the term.

35 While considering that the two definitions are quite similar, EFRAG highlights that reference to the KMP provides a general and more principle-based definition and allows to disconnect the level of the review from the reportable segment level under IFRS 8. In EFRAG's view, since the information on subsequent performance is requested only for strategic business combinations, the KMP represents the appropriate level of monitoring.

54 EFRAG received mixed views from its constituents on defining the level of management as Key Management Personnel (KMP), with some respondents preferring to refer to the Chief Operating Decision Maker (CODM) and others preferring not to define the level of management noting that the "decision maker" can vary across entities.

- (a) Those supporting the CODM generally argued that the performance of acquisition is commonly reviewed at the operating segment level and were in favour of aligning the level of management with IFRS 8 Operating Segments; and
- (b) Others highlighted that there is no added value in specifying a level of management once the “strategic” business combinations are identified.

55 EFRAG acknowledges that the management structure of entities can differ and therefore questions whether it is necessary to define a specific level of management.

3656 EFRAG also highlights the importance of an alignment between roles and definitions in different IFRS Accounting Standards, including existing IFRS 3. In this respect, EFRAG welcomes the IASB’s clarification in paragraph 83(b) of the Amendments to IAS 36 that the level of management monitoring for the purposes of subsequent performance may not be the same as the level of management monitoring the business associated with goodwill for the purposes of impairment testing.

3757 As explained in paragraph BC201 of the Basis for Conclusions on the ED, the use of key management personnel for the proposed disclosure requirements in IFRS 3 is intended to identify the most important information by focusing on a senior level of management. However, the purpose of the impairment test is to allocate goodwill at the lowest level within an entity at which its management is monitoring the business associated with the goodwill.

How long an entity should be required to disclose the information

58 EFRAG Subject to our comments regarding the proposed disclosure requirements, EFRAG shares the following views on this proposal:

- (a) EFRAG generally supports the IASB’s proposal in paragraph B67B of the ED to disclose information about the performance of a business combination for as long as the entity’s KMP continues to monitor it against its acquisition-date key objectives and targets. EFRAG notes that a few of our constituents did not agree with this proposal and considered that the proposed core period was sufficient.
- (b) In cases when an entity’s KMP has not started reviewing and do not plan to review the required information (whether the key objectives and related targets of strategic business combinations are being met), EFRAG also supports the proposal for an entity to disclose that fact and the reasons for not reviewing the information as it will be useful for users to understand why an entity does not monitor a strategic business combination.

- (c) EFRAG considers that the proposed timeframe set out in paragraph B67B(b) of the ED (two full years after the year of acquisition of a business combination) to be a reasonable minimum period for the information to be disclosed.
- (d) EFRAG considers that the flowchart provided after paragraph B67B of the ED illustrating of how to apply could apply the proposals to be particularly useful.

Question 5 - Disclosures: Other proposals

Question 5 - Disclosures: Other proposals

The IASB is proposing other amendments to the disclosure requirements in IFRS 3. These proposals relate to:

New disclosure objectives (proposed paragraph 62A of IFRS 3)

The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28).

*Requirements to disclose quantitative information about **expected synergies** in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)*

The IASB proposes:

- to require an entity to describe expected synergies by category (for example, revenue synergies, cost synergies and each other type of synergy);
- to require an entity to disclose for **each category** of synergies:
 - the estimated amounts or range of amounts of the expected synergies;
 - the estimated costs or range of costs to achieve these synergies; and
 - the time from which the benefits expected from the synergies are expected to start and how long they will last; and
- to exempt an entity from disclosing that information in specific circumstances. See paragraphs BC148–BC163.

*The **strategic rationale** for a business combination (paragraph B64(d) of IFRS 3)*

The IASB proposes to replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination (see paragraphs BC164–BC165).

***Contribution of the acquired business** (paragraph B64(q) of IFRS 3)*

The IASB proposes to amend paragraph B64(q) of IFRS 3 to improve the information users receive about the contribution of the acquired business (see paragraphs BC166–BC177). In particular, the IASB proposes:

- to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB’s Primary Financial Statements project);
- to explain the purpose of the requirement but add no specific application guidance; and
- to specify that the basis for preparing this information is an accounting policy.

Classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3)

The IASB proposes to improve the information entities disclose about the pension and financing liabilities assumed in a business combination by deleting the word ‘major’ from paragraph B64(i) of IFRS 3 and adding pension and financing liabilities to the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 (see paragraphs BC178–BC181).

Deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3)

The IASB proposes to delete some disclosure requirements from IFRS 3 (see paragraphs BC182–BC183).

Do you agree with the proposals? Why or why not?

EFRAG’s response

New disclosure objectives (proposed paragraph 62A of IFRS 3)

3859 EFRAG supports the IASB’s proposal to add two new disclosure objectives, for better reflecting users’ needs. The new disclosure objectives also complement the proposed disclosure requirements as a response to users’ feedback that they do not think that sufficient information about business combinations is currently provided for assessing the success, or lack thereof, of the acquisitions made.

Expected synergies

60 ~~EFRAG generally supports the proposal in paragraph B64 of the ED to disclose EFRAG acknowledges that disclosures on quantitative information about expected synergies from combining operations of the acquiree and the acquirer in the year of acquisition. This proposed requirement will add for all material business combinations should enable entities to provide contextual and relevant information, rather than the often “boilerplate” qualitative disclosures currently provided on expected synergies.~~

~~3961~~ **However, EFRAG does not support the proposal to** ~~the qualitative information currently required by IFRS 3 and enhance the information users will receive on the business combination.~~ **provide quantitative information on expected synergies.** We consider that such information could contain forward-looking information (potentially unreliable information) and sensitive in nature which may create litigation risk and weaken the negotiation position of the reporting entity, and therefore carry a cost to users. One potential solution to mitigate some of the concerns would be to require the information only for strategic business combinations for entities that are listed (similar scope to IFRS 8 and IAS 33 as noted in our response to Question 1).

~~40~~ EFRAG notes that users of financial statements use quantitative information on expected synergies to forecast profits and cash flows over future years (e.g., the next three to five years), and to assess the future evolution of an entity's risk profile and assess the success of a business combination.

~~41~~ EFRAG, however, highlights the view of many stakeholders that given the difficulties to quantify expected synergies and subjectivity of the information (forward looking), the management report would be the best place to include it. However, users have Many preparers informed EFRAG that they prefer to have the information in the financial statements, as this provides the same level of assurance as quantification of synergies is subject to a high level of judgement and uncertainty and will not only be costly to produce but also to audit. This level of judgement is likely to affect the reliability of the information included in the primary financial statements. EFRAG's views on location of information are discussed in more detail in 'Other matters' at the end of this Appendix.

~~4262~~ EFRAG also considers that, and thus decrease its usefulness to users. Furthermore, it remains unclear whether the information on expected synergies should be available to the entity (management information) as part of the M&A process is intended to include only those that the acquirer paid for (that reconcile to the paid price and thus justify the goodwill resulting from the acquisition) or other internal sources. EFRAG acknowledges that in cases that an entity does not have the information available the costs of providing the information could outweigh the benefits. However, EFRAG considers such cases to be rare, as entities typically inform investors/users of financial statements about the total expected synergies when they undertake a business combination. for the group as whole which be higher.

~~63~~ Furthermore, EFRAG also notes that an entity unless an expected synergy is considered a key objective or related target, the information is only required in the year of acquisition.

Therefore, EFRAG questions the usefulness of the information for users if any follow up in subsequent periods of the reported expected synergy is not disclosed.

64 Finally, EFRAG highlights that some preparers emphasised that other accounting frameworks, notably US GAAP, does not need to disclose an item of require comparable disclosures. Considering the intended ‘level playing field’, the requirement to disclose potentially sensitive information could mean a competitive disadvantage for companies reporting under IFRS (e.g., compared to US GAAP reporters as similar information is not required).

4365 In the paragraphs below, and in case the IASB proceeds with the proposals, EFRAG responds to the remaining aspects of the proposals on expected synergies subject to our general disagreement with requiring information on expected synergies if doing so can be expected to prejudice seriously the achievement of any of the acquirer’s key objectives for the business combination. EFRAG has provided its views on location of all proposed information in ‘Other matters’ at the end of this comment letter.

Disaggregation by category of expected synergies

44 EFRAG generally supports the proposal to require entities to provide a description of each category of expected synergies, as this is useful information to users. EFRAG considers that disclosing information about expected synergies by category would help to respond to concerns that expected synergy information could be commercially sensitive.

45 EFRAG also considers that the proposal to disclose the estimated amounts or range of amounts on expected synergies should address some of the practical concerns noted by ~~some~~many stakeholders on the difficulties of estimating synergies expected from a business combination.

(a) EFRAG highlights that business combinations can include cost synergies or revenue synergies or both or other synergies which could comprise a significant part of the price paid for a business combination, and therefore constitute a material part of goodwill. EFRAG therefore considers that the proposed level of disaggregation between different categories of expected synergies will help users of financial statements as they use the information on synergy categories differently. However, as discussed below under ‘definition of synergies’ EFRAG considers that it would be helpful to have further guidance on the types and categories of expected synergies for which the IASB is requiring quantitative information. Disaggregation of information could also potentially help preparers with addressing concerns on commercially sensitivity in which case an entity could apply the proposed exemption.

~~46~~ EFRAG generally considers that requiring disclosure to be disaggregated by category of synergy could help entities identify which categories can be quantified (considering the high level of uncertainty of information about synergies), and which are considered commercially sensitive in which case an entity could potentially apply the proposed exemption.

Timing of expected synergies

~~(a)(b)~~ - EFRAG ~~supports~~does not support the proposal to require an entity to disclose when the benefits expected from the synergies are expected to start and how long they will last. In EFRAG's view, this information will ~~help users~~be too difficult to assess the timing provide and ~~durations~~subject to a high level of the synergies judgement and thus would not meet cost-benefit considerations.

Definition of synergies

~~47~~ EFRAG generally agrees with the IASB in not defining synergies. The term is already used in IFRS 3 for disclosing qualitative information and entities are used to applying this requirement in practice. EFRAG also acknowledges that each business combination will have its unique set of expected synergies, making it difficult to have a defined term that would apply to all business combinations.

~~(a)(c)~~ However, EFRAG notes that entities might be less familiar with the term 'synergies' in the context of having to quantify expected synergies and recommends the IASB to provide guidance and more specific examples of expected synergies and how entities should address situations when expected synergies are non-quantitative in nature (e.g., a timing synergy that cannot be quantified). EFRAG considers that additional guidance would be helpful, especially considering the proposal to provide quantitative information on each category of expected synergies.

Strategic rationale for a business combination

~~4866~~ EFRAG supports the IASB's proposal to replace the requirement to disclose the primary reasons with the strategic rationale for the business combination. EFRAG considers the proposal to provide clarity on how the business combination fits into the entity's overall strategy and is linked to the nature of synergies. Additionally, EFRAG notes that the proposal is not expected to lead to significant changes compared to the current requirements under IFRS 3.

Contribution of the acquired business

Retaining the requirement in paragraph B64(q) of IFRS 3

4967 EFRAG agrees with the IASB's proposal to retain the disclosure information in paragraph B64(q) of IFRS 3, as it is important for users to perform year-on-year comparisons of an entity's performance and understand how the two businesses are combined. However, EFRAG has heard from some preparers that there are some difficulties in preparing this information in some cases.

Replacing the requirement to disclose 'profit or loss' with 'operating profit or loss'

5068 EFRAG also agrees with replacing the term 'profit and loss' with 'operating profit and loss' as defined in IFRS 18 *Presentation and Disclosure in Financial Statements*, as it would limit divergence in practice of what is included in operating profit and loss and increase comparability of information. EFRAG understands that users use information up to operating profit of acquired business for their analyses, as the operating performance is independent of how the acquisition is structured and how the entity has allocated finance costs and tax expenses between the integrated acquired business and the existing business. In addition, EFRAG acknowledges users' preference to exclude from operating profit or loss contributed by the acquired business the share of equity accounted for investments in associates and joint ventures, as this may create noise.

Application guidance for the requirement in paragraph B64(q)(ii) of IFRS 3

5169 **EFRAG disagrees with the IASB's proposal** to specify that the basis of the information required by paragraph B64(q)(ii) of IFRS 3 is an accounting policy.

5270 Instead, EFRAG recommends the IASB to require entities to provide an explanation of the basis used to prepare the information.

Classes of assets acquired and liabilities assumed

5371 EFRAG agrees with the IASB's proposal to delete the word 'major' from paragraph B64(i) of IFRS 3. The IASB's approach is coherent with the materiality principle.

5472 Moreover, EFRAG welcomes the IASB's proposal to include pension and financing liabilities in the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3. The amendments in the illustrative example are helpful for stakeholders to consider pension and debt liabilities as material classes of liabilities assumed.

5573 EFRAG acknowledges the importance of this information as it addresses the users' requests. However, EFRAG's concern is that stakeholders might misunderstand what assets and liabilities acquired in a business combinations need to be described. By removing the

word 'major', it could be misunderstood that entities need to provide detailed descriptions of each asset and liability acquired in a business combination.

Deleting disclosure requirements

5674 EFRAG agrees with the IASB's proposal to delete from IFRS 3 paragraph 64(h), 67 (d)(iii) and 67(e) because they provide requirements already present in other IFRS Accounting Standards or became redundant when IFRS 3 was amended in 2008 without adding useful information to stakeholders.

Question 6 - Changes to the impairment test

Question 6 - Changes to the impairment test (paragraphs 80–81, 83, 85 and 134(a) of IAS 36)

During the PIR of IFRS 3, the IASB heard concerns that the impairment test of cash generating units containing goodwill results in impairment losses sometimes being recognised too late.

Two of the reasons the IASB identified (see paragraphs BC188–BC189) for these concerns were:

- shielding; and
- management over-optimism.

The IASB is proposing amendments to IAS 36 that could mitigate these reasons (see paragraphs BC192–BC193).

Proposals to reduce shielding

The IASB considered developing a different impairment test that would be significantly more effective at a reasonable cost but concluded that doing so would not be feasible (see paragraphs BC190–BC191).

Instead, the IASB is proposing changes to the impairment test (see paragraphs 80–81, 83 and 85 of IAS 36) to reduce shielding by clarifying how to allocate goodwill to cash generating units (see paragraphs BC194–BC201).

Proposal to reduce management over-optimism

The IASB's view is that management over-optimism is, in part, better dealt with by enforcers and auditors than by amending IAS 36. Nonetheless, the IASB is proposing to amend IAS 36 to require an entity to disclose in which reportable segment a cash generating unit or group of cash-generating units containing goodwill is included (see paragraph 134(a) of IAS 36). The IASB expects this information to provide users with better information about the assumptions used in the impairment test and therefore allow users to better assess whether an entity's assumptions are over-optimistic (see paragraph BC202).

(a) Do you agree with the proposals to reduce shielding? Why or why not?

(b) Do you agree with the proposal to reduce management over-optimism? Why or why not?

EFRAG's response to the proposals not to develop an impairment test that would be significantly more effective at a reasonable cost

~~5775~~ EFRAG recognises the conclusion of the IASB that it is currently not feasible to develop an impairment model that would significantly reduce or eliminate the shielding effect without being very complex and costly. EFRAG does not rule out that developments, including further research, may make this possible in the future. However, EFRAG supports the decision of the IASB at this point in time not to pursue further the search for and development of such a model.

EFRAG's response to the proposals to reduce shielding

~~5876~~ On the proposals to reduce shielding EFRAG agrees with the directional change in focus in paragraph 80(a) from the level at which **goodwill** is monitored for internal purposes to the level at which **business associated with the goodwill** is monitored for internal purposes. As goodwill is a measurement of a residual, it is more the business associated with the goodwill which is subsequently monitored, not rather than the measurement labelled goodwill.

77 EFRAG further agrees with the direction of considering the lowest level where subsequently there will be regularly available information when determining the level for allocation of goodwill.

~~5978~~ EFRAG notes that the proposals do not change any fundamentals of the impairment test but may be expected to help to enforce the goodwill allocation to a level lower than operating segment which is currently considered by many entities as a default.

~~6079~~ EFRAG sees some ambiguity in the guidance proposed in the new paragraph 80A(b) of IAS 36.

~~6180~~ In the amended IAS 36 paragraph 80(a), entities have to identify 'the lowest level within the entity at which the business associated with the goodwill is managed for internal purposes'. In paragraph 80A(b), entities need to 'determine the lowest level for which there is financial information ... that management regularly uses to monitor the business associated with the goodwill.' Thus, paragraph 80A(b) adds the requirement of 'financial information' and transforms the requirement 'is managed for internal purposes' in paragraph 80(a) so that it becomes in paragraph 80A(b) 'for which there is financial information ... that management regularly uses to monitor the business'.

6281 But paragraph 80A(b) further requests that ‘that financial information reflects how the benefits expected from the synergies of the combination are managed.’ So, while ‘synergies of the combination’ is used as an identifier of cash-generating units or groups of cash-generating units to which goodwill is to be allocated in paragraph 80 (those expected to benefit), it becomes a requirement for the content in the monitoring or the financial information used to monitor the business in paragraph 80A(b).

6382 This implies that financial information that management regularly uses to monitor the business associated with the goodwill, but which does not reflect how the benefits expected from the synergies of the combination are managed, will not be sufficient to identify cash-generating units or groups of cash-generating units to which goodwill is to be allocated. EFRAG notes that financial reporting is generally not focused on how benefits expected from synergies of a business combination is managed. As a result, EFRAG believes that the intended reduction of goodwill shielding may not be fully achieved, because lower levels for which there is financial information may fail the new requirement, leaving goodwill to be allocated at a higher level.

6483 EFRAG agrees with the initial clarification in paragraph 80A(b) requiring there to be ‘financial information ... that management regularly uses to monitor the business associated with the goodwill’ but does not agree with the last requirement in paragraph 80A(b), as stated above, and recommends the last sentence in that (sub)paragraph to be removed. The removal of the last sentence ‘That financial information reflects how the benefits expected from the synergies of the combination are managed’ will further enhance the connection between the requirement in paragraph 80A(b) and the last sentence of paragraph 83(b).

6584 Considering the initial part of paragraph 80A, paragraph 80A(a) and paragraph 80B, EFRAG sees no new guidance there that is not already clearly present in paragraph 80. To avoid unnecessary expansion of the IFRS literature, EFRAG recommends not to add the initial part of paragraph 80A, paragraph 80A(a) and paragraph 80B to IAS 36. If the proposed wording in the initial part of paragraph 80A, paragraph 80A(a) and paragraph 80B is kept, it may create ambiguity relating to the status of other requirements that are not repeated.

6685 EFRAG welcomes the clarification provided to paragraph 83.

6786 For the purposes of reducing shielding effect, EFRAG suggests considering providing more disclosure requirements when goodwill is being reallocated in subsequent periods. EFRAG recommends that the requirement in paragraph 134(a) of IAS 36 be amended to include a requirement to explain changes (in the carrying amount of goodwill allocated to the unit

(group of units)) ~~and qualitatively how~~ including the change(s) is(are) expected to affect the timing reasons for any reallocation of future goodwill impairments during the reporting period.

EFRAG's response to the proposals to reduce management over-optimism

~~6887~~ EFRAG acknowledges that management over-optimism is a basic present feature that is present in any accounting model and that is best solved through clear principles (rather than anti-abuse rules), transparent disclosures, hands on audit, and strong enforcement. Audit and enforcement are outside the remit of the IASB.

~~6988~~ EFRAG supports the requirement for entities reporting segment information to report for each reportable segment which cash-generating unit or groups of cash-generating units are containing goodwill and the carrying amount of the goodwill in each unit.

~~7089~~ It is the expectation of EFRAG that the cost of providing this information will be limited compared to the benefit achieved by the increased transparency for users.

Question 7 - Changes to the impairment test: Value in use

Question 7 - Changes to the impairment test: Value in use (paragraphs 33, 44–51, 55, 130(g), 134(d)(v) and A20 of IAS 36)

The IASB is proposing to amend how an entity calculates an asset's value in use. In particular, the IASB proposes:

- to remove a constraint on cash flows used to calculate value in use. An entity would no longer be prohibited from including cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance (see paragraphs BC204–BC214).
- to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates (see paragraphs BC215–BC222).

(a) Do you agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance? Why or why not?

(b) Do you agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use? Why or why not?

EFRAG's response to the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance

~~7190~~ EFRAG agrees with the proposal to no longer prohibit the inclusions of cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance. However, EFRAG notes concerns on enforceability and auditability when establishing the new boundaries.

~~7291~~ EFRAG agrees with the IASB's views presented in paragraph 205 of the Basis for Conclusions on the ED.

~~7392~~ EFRAG notes that the first sentence in paragraph 44A(a) of IAS 36 may be read to require an entity to include in the cash flows of an asset any outflows necessary to maintain the level of economic benefits expected to arise from the assets in its current condition even if the entity is planning not to maintain the current level. EFRAG recommends considering an alternative wording. A value in use calculation should not include assumptions for use not aligned with the assumptions of the entity.

~~7493~~ As stated, EFRAG agrees with the proposal to no longer prohibit the inclusions of cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance, as this brings the cash flows input to the calculation of value in use and are much better aligned with the internal forecasting. However, EFRAG notes that removing these prohibitions leads to a need for guidance on what is, and what is not, within the boundaries of restructuring and enhancing an existing asset. Guidance will be needed on the boundary of investing in/enhancing a current asset versus investing in/enhancing a future asset.

~~7594~~ Where a significant amount of the value in use is derived from the inclusion of uncommitted future restructuring or enhancement of an asset's performance, users would like to know the extent to which the calculated value in use is influenced by expected uncommitted future restructuring and enhancements. Therefore, EFRAG believes that further guidance in this regard would be helpful.

95 EFRAG notes that the proposed amendments to the calculation of value in use brings value in use closer to fair value. EFRAG encourages the IASB to consider if using fair value less costs of disposal as the sole measurement approach in the impairment calculation may be a viable solution to significantly simplify the impairment requirements in IAS 36. EFRAG notes that the IASB literature (in particular, IFRS 13 Fair Value Measurement) on measurement of fair value is richer and more up to date than the corresponding literature on measurement of value in use. The same is observed when it comes to non-IFRS literature

on measurement of fair value where there is a steady development on techniques and best practices for measuring fair values.

EFRAG's response to the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use

~~7696~~ For the reasons cited in paragraph BC219 and the condition specified in paragraph BC221 of the Basis for Conclusions on the ED, EFRAG supports the proposed amendments to paragraph 50, 51 and 55 of IAS 36. EFRAG suggests the IASB to clarify that applying pre-tax or post-tax inputs and assumptions is not an accounting policy election so that IAS 36 will not prohibit some value-in-use calculations to be conducted based on pre-tax inputs and assumptions while other value-in-use calculations are based on post-tax inputs and assumptions in the same reporting period by the same entity.

Question 8 - Proposed amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

Question 8 - Proposed amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

The IASB proposes to amend the forthcoming IFRS 19 Subsidiaries without Public Accountability: Disclosures (Subsidiaries Standard) to require eligible subsidiaries applying the Subsidiaries Standard to disclose:

- information about the strategic rationale for a business combination (proposed paragraph 36(ca) of the Subsidiaries Standard);
- quantitative information about expected synergies, subject to an exemption in specific circumstances (proposed paragraphs 36(da) and 36A of the Subsidiaries Standard);
- information about the contribution of the acquired business (proposed paragraph 36(j) of the Subsidiaries Standard); and
- information about whether the discount rate used in calculating value in use is pretax or post-tax (paragraph 193 of the Subsidiaries Standard).

See paragraphs BC252–BC256.

Do you agree with the proposals? Why or why not?

EFRAG's response

~~7797~~ EFRAG welcomes the IASB's efforts to propose disclosure requirements for eligible subsidiaries that would be reducing the costs for preparers, while maintaining the usefulness of information by only requiring disclosures that are designed for users of eligible subsidiaries' financial statements.

7898 However, EFRAG highlights that the forthcoming *IFRS 19 Subsidiaries without Public Accountability: Disclosures* has not yet been issued or endorsed in the EU. Therefore, the endorsement of the amendments resulting from this ED is conditional on the outcomes of the EU endorsement process of the forthcoming IFRS Accounting Standard.

7999 EFRAG generally agrees that the proposals are consistent with the IASB's key principles and cost-benefit considerations when identifying relevant disclosure requirements for eligible subsidiaries, while noting that it also involves exercising judgment. More specifically, on the proposed disclosure requirements EFRAG notes:

- (a) **Strategic rationale:** EFRAG considers that this disclosure would provide users with some context to understand the quantitative information about expected synergies, and therefore information on short-term cash flows (consistent with the principle in Basis for Conclusions on the ED paragraph BC253(a)). As per paragraph 77 of EFRAG's [comment letter](#) on the IASB's ED *Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures*, the disclosure requirement for providing the primary reasons for the business combination (paragraph B64(d) of IFRS 3) was deemed cost-effective for preparers and relevant to users. Thus, EFRAG is pleased that the IASB's ED aligns with its suggestion in the comment letter to incorporate this disclosure requirement in the Subsidiaries Standard.
- (b) **Quantitative information about expected synergies:** EFRAG acknowledges that this disclosure would provide users with information on an entity's short-term cash flows (consistent with the principle in Basis for Conclusions on the ED paragraph BC253(a)). However, as noted in question 5, EFRAG highlights/disagrees with the challenges for eligible subsidiaries providing this proposal to require the disclosure of quantitative information in the stand-alone financial statements, if determined at a group level about expected synergies, and therefore our reservations are also valid for the amendments to IFRS 19.
- (c) **Contribution of the acquired business:** Similar to the above, EFRAG considers that this information would help users in forecasting an entity's short-term cash flows (consistent with the principle in Basis for Conclusions on the ED paragraph BC253(a)), and it would not be costly to provide since the information is already prepared for consolidation purposes.
- (d) **Discount rate used in calculating value in use:** EFRAG agrees that when the entity is allowed to use pre-tax or post-tax discount rates, it should disclose this information. This disclosure would inform users about measurement uncertainty in the

impairment test (consistent with the principle in Basis for Conclusions on the ED paragraph BC253(c)).

~~80 EFRAG emphasises that assessing users' needs for disclosures is challenging and subjective. In addition, EFRAG acknowledges the IASB's approach for identifying that users of eligible subsidiaries' financial statements are primarily focused on short-term cash flow information, while highlighting that information helpful for assessing management stewardship could be important. For this reason, EFRAG will consult with its stakeholders on the appropriateness of excluding some of the disclosures applicable to all entities and determine if any of this information is essential, since:~~

~~(a) while users of eligible subsidiaries' financial statements may primarily focus on cash flow information, information helpful in assessing management stewardship, such as information on strategic business combinations, could also be significant; and~~

~~(b) if the business combination is not material at a group level, there could be potential loss of information for strategic business combinations at a subsidiary level.~~

~~81100~~ On balance, EFRAG notes that the IASB's proposals seem to achieve a fair balance between costs and benefits of disclosing relevant information, given that the requirement to disclose quantitative information about expected synergies is removed.

~~82101~~ Finally, as per paragraph B1 of IFRS 3, EFRAG notes that IFRS 3 does not apply to business combinations of entities or business under common control. Therefore, EFRAG recommends the IASB to restart its project *Business Combination under Common Control*.

Question 9 - Transition

Question 9 – Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 1400 of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)

The IASB is proposing to require an entity to apply the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative information. The IASB is proposing no specific relief for first-time adopters. See paragraphs BC257–BC263.

Do you agree with the proposals? Why or why not? If you disagree with the proposals, please explain what you would suggest instead and why.

EFRAG's response

~~83102~~ EFRAG welcomes the IASB's proposal to require application of the proposed amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively with early application

permitted. EFRAG agrees that applying the amendments retrospectively would outweigh the benefits from doing so.

84103 EFRAG considers that with early application permitted, users should be able to benefit from the resulting information if entities elect to apply the requirements earlier than the effective date.

85104 EFRAG generally agrees with the proposal not to propose relief from the proposed amendments to IFRS 3 and IAS 36 for first-time adopters for the reasons provided by the IASB in paragraphs BC258 and BC262 of the Basis for Conclusions on the ED.

Amendment to IFRS 3

86105 EFRAG acknowledges that entities may need time to update their internal systems because preparers might decide to change how they assess business combinations.

87106 EFRAG agrees with the IASB that some of the proposed requirements may be difficult to implement retrospectively without the use of hindsight.

Amendments to IAS 36

88107 EFRAG agrees with the IASB that, with retrospective application, some information may not be available without the use of hindsight as judgements about future cash flows for the impairment test in previous periods.

89108 EFRAG also acknowledges that the recoverable amount of an asset would be unaffected by some of the proposed amendments. Therefore, retrospective application would provide no additional information in this circumstance. For clarification EFRAG proposes that the second sentence in paragraph 1400 is amended as follows “An entity shall apply these amendments to allocations of goodwill and impairment tests performed on or after [Day, Month, Year].” (Proposed new text is underlined.)

90109 EFRAG notes that the amendments to paragraph 33(b), 44, 45 and 48 of IAS 36 will not affect the measurement of Goodwill before a new impairment is recognised.

Other matters

Location and auditability of information

EFRAG’s response

~~91 Some stakeholders have informed EFRAG that some of the proposed performance information could be forward looking and argue that the information should be provided in the management commentary. This would help reduce the risk of litigation and the concerns on the auditability of the information.~~

92— However, as noted by EFRAG in its comment letter on the DP, EFRAG would have reservations about providing the information in the management commentary instead of the financial statements. As noted by the IASB (paragraph BC143 of the Basis for Conclusions on the ED) not all entities produce a management commentary, and when an entity does so, this commentary might not be as readily available as financial statements. Requiring the information to be disclosed in financial statements would ensure that all entities disclose this information in a consistent manner, making the information more useful to users of financial statements and more accessible if provided in a single place.

Auditability of information

93— EFRAG highlights that the IASB's proposals require an entity to disclose information that is internally available and monitored by the entity's key management. This could be information that is publicly available and that has previously been shared with users of financial statements in investor presentations when the acquisition took place and in post-acquisition periods.

94— EFRAG acknowledges that there could be cases where the level of assurance and documentation supporting the information shared with users in investor presentations and similar events could be different if disclosed in the financial statements. However, EFRAG considers that the auditors will be scrutinising whether management has identified that business combinations are strategic and that the disclosed information has been monitored and used by key management.

95— Overall, EFRAG generally agrees with the IASB's assessment (see paragraphs BC144-BC145 of the Basis for Conclusions on the ED) that auditors are expected to be able to verify that the information disclosed is the information an entity's management receives in order to review and monitor the business combination.

Practice Statement

96110 EFRAG supports the amendments to example F in IFRS Practice Statement 2 *Making Materiality Judgements* which have replaced the term 'primary reasons' with 'strategic rationale'.