

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in 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.

Business Combinations—Disclosures, Goodwill and Impairment

Cover Note

Objective

- 1 The objectives of the session are to:
 - (a) discuss input collected during the outreaches, comment letters on EFRAG's draft comment letter, and EFRAG FR TEG; and
 - (b) ask for the approval of EFRAG's final comment letter by the EFRAG FRB members.

Background on the project

- 2 The IASB issued its Exposure Draft [Business Combinations – Disclosures, Goodwill and Impairment](#) (the ED) in March 2024, proposing amendments to IFRS 3 *Business Combinations* and targeted changes to IAS 36 *Impairment of Assets*.
- 3 EFRAG issued its draft comment letter on the ED ([DCL](#)) on 30 April 2024 and requested comments **by 28 June 2024**.

Outreach activities and comment letters received

Outreach activities

- 4 The EFRAG Secretariat reached out to 17 European constituents (11 preparers, 3 user groups, 2 auditors/auditor organisations and 1 NSS).
- 5 An EFRAG representative participated in an ASCG (Germany) outreach on 30 June 2024.
- 6 The project team had informal calls with the AcSB (Canada) and the AASB (Australia) to understand the preliminary views on the ED proposals of non-EU stakeholders.
- 7 Background paper 06-03 provides a summary of the outreach results.

Comment letters received

- 8 As at the date of writing this paper EFRAG has received 10 final comment letters and 4 draft comment letters (provided on a confidential basis) from European constituents. Appendix 1 provides a list of respondents. Comment Letters received after this date will be mentioned verbally at the EFRAG FRB meeting on 17 July 2024.
- 9 Background paper 06-04 provides a comment letter analysis.

EFRAG proposed draft FCL

- 10 The proposed draft FCL was developed by the EFRAG Secretariat based on the feedback received during the outreaches, comment letters, as well as feedback received from EFRAG FR TEG during its meeting on 10 July 2024.
- 11 Given the significant concerns highlighted by preparers and to a less extent the concerns raised by auditors on the disclosure proposals, the EFRAG Secretariat **proposes some significant changes to EFRAG’s preliminary views** on the proposed disclosures. The EFRAG Secretariat **will also recommend further improvements to the proposed amendments on the impairment test and value-in-use**. The session will be structured to focus on these significant changes.

Summary of EFRAG FR TEG discussions on 10 July 2024

- 12 EFRAG FR TEG discussed the draft FCL as proposed by the EFRAG Secretariat at its 10 July 2024 meeting. The draft FCL presented to EFRAG FR TEG can be accessed through this [link](#):
- 13 The comments of EFRAG FR TEG on draft FCL are provided in Appendix 2. The EFRAG Secretariat reflected these comments in the revised version of the proposed FCL (agenda paper 06-02).
- 14 The majority of EFRAG FR TEG did not consider the financial statements to be the right location for key objectives and targets and follow up information post-acquisition, agreeing with the concerns of non/user constituents, in particular preparers.
- 15 *However, a significant minority [5 FR TEG members] considered that the proposed disclosures should be included in the financial statements for the following reasons:*
 - (a) *Concerns on requiring the information in the management report, as it is not mandatory and disagreement with the arguments presented for not placing the information in the financial statements (forward-looking nature, challenges related to audit), and noted that information subject to judgement and uncertainty is already provided in the financial statements.*
 - (b) *Only the items that provide a direct link to other items (e.g., goodwill) or GAAP measures should be provided in the financial statements.*
- 16 *However, some of these minority EFRAG FR TEG members noted that some of the proposed disclosures relate to non-financial KPIs/non-IFRS measures – such as certain synergies (when these are considered a key objective or related target), market share or achieving a competitive position (such as acquiring a competitor). In their view, 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.*

Agenda Papers

- 17 The following papers are provided for the session:
 - (a) 06-02 – BCDGI - EFRAG Proposed FCL - FRB 24-07-17
 - (b) 06-03 – BCDGI - Background paper - Outreach summary report - EFRAG FRB 24-07-17
 - (c) 06-04 – BCGDI - Background paper - Comment Letter Analysis - EFRAG FRB 24-07-17

Next steps

18 EFRAG will publish the final comment letter soon after this meeting.

Appendix 1: Comment Letters received

Comment Letters received

- 2 EFRAG received the following Comment Letters on the [EFRAG website page](#):
 - (a) [CL101 - The Danish Funding Mechanism for EFRAG - EFRAG DCL on IASB ED 2024-1](#)
 - (b) [CL102 - European Savings and Retail Banks Group \(WSBI-ESBG\) - EFRAG DCL on IASB ED 2024-1](#)
 - (c) [CL103 - German Insurance Association \(GDV\) - EFRAG DCL on IASB ED 2024-1](#)
 - (d) [CL104 - Dutch Accounting Standards Board \(DASB\) - EFRAG DCL on IASB ED 2024-1](#)
 - (e) [CL105 - Accountancy Europe - EFRAG DCL on IASB ED 2024-1](#)
 - (f) [CL106 - ICAC - EFRAG DCL on IASB ED 2024-1](#)
 - (g) [CL107 - AFRAC - EFRAG DCL on IASB ED 2024-1](#)
 - (h) [CL108 - EFFAS CFR - EFRAG DCL on IASB ED 2024-1](#)
 - (i) [CL109 - Eumedion - EFRAG DCL on IASB ED 2024-1](#)
 - (j) [CL110 - ANC- EFRAG DCL on IASB ED 2024-1](#)

- 3 We have also received the following draft Comment Letters on a confidential basis:
 - (a) DRAFT1 - Regulator
 - (a) DRAFT2 - National Standard Setter
 - (b) DRAFT3 - Association
 - (c) DRAFT4 - Association

Appendix 2: Summary of EFRAG FR TEG discussions on 10 July 2024

General comments

- 19 Suggestion to soften the tone in some of the questions, while acknowledging the feedback received from constituents during the outreaches and the comments received to EFRAG's DCL. On the other hand, it was considered that stakeholder feedback should be signalled, if it does not appear to be convincing. It was also noted that if EFRAG TEG disagrees with stakeholder feedback, it could be taken in the comment letter as an observation instead of an EFRAG view.
- 20 Suggestion to ensure consistency in the letter.

Question 1: Performance of a business combination

- 21 Concerns about the arguments presented, which may represent a specific stakeholder group (preparers). In particular, there was disagreement on points such as auditability challenges, competitive disadvantage, and disincentivising inorganic growth.
- 22 Disagreement on the suggestion in paragraph 12 of the draft FCL to explore an approach similar to IFRS 8 and IAS 33, where only listed entities would need to apply the disclosure requirements.
- 23 Mixed views on the location of information (management commentary vs. financial statements). The majority of EFRAG FR TEG did not consider the financial statements to be the right location for key objectives and targets and follow up information post-acquisition, agreeing with the concerns of non/user constituents, in particular preparers.
- 24 A significant minority [5 FR TEG members] considered that the proposed disclosures should be included in the financial statements, for the following reasons:
 - (a) Concerns on requiring the information in the management report, as it is not mandatory and disagreement with the arguments presented for not placing the information in the financial statements (forward-looking nature, challenges related to audit), and noted that information subject to judgement and uncertainty is already provided in the financial statements.
 - (b) Only the items that provide a direct link to other items (e.g., goodwill) or GAAP measures should be provided in the financial statements.

Question 2: Strategic business combinations

- 25 Disagreement with the suggestion in paragraph 18 of the draft FCL to delete the second part of the definition of strategic business combination in paragraph BC54 of the Basis for Conclusions on the ED, as it has resulted from an IASB debate.
- 26 General agreement with the suggestion to introduce a rebuttable presumption (paragraph 25 of the draft FCL), so that the intended population is captured. However, the alternative suggestion in paragraph 26 of the draft FCL to consider thresholds as indicators, was very similar.
- 27 Disagreement with the suggestion in paragraph 30 of the draft FCL to use market capitalisation as a threshold due to its volatility, similar to operating profit.

Question 3: Exemption

- 28 General agreement with the answer to question 3, including the suggestion to broaden the scope and not require entities to disclose the reason for applying the exemption.

Question 4: Identifying information to be disclosed

- 29 No comments were provided.

Question 5: Other proposals

- 30 Mixed views on the location of information, as outline above in question 1.
- 31 Emphasised the importance on the relevance of the quantitative information about expected synergies to understand the premium paid by the acquirer and the goodwill measurement.
- 32 Concerns that the quantitative information about expected synergies could create inconsistency and would have a significant impact on costs.

Question 6: Changes to the impairment test

- 33 No comments were provided.

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

- 34 Concerns on alignment of fair value measurement with the value in use calculation, suggesting the deletion of paragraph 95 of the draft FCL.
- 35 Suggestion to clarify whether using pre-tax versus post-tax rate leads to the same estimate.

Question 8: Proposed amendments to IFRS 19

- 36 Suggestion to delete paragraph 101 of the draft FCL related to *Business Combination under Common Control* project, as it is not relevant.

Question 9: Transition

- 37 Noted the challenges on whether the difference in recoverable amount it relates to the P&L post-transition and the significant impact of the proposals on how impairment tests and recoverable amounts are determined, including allocation of goodwill to CGUs and cash flows included in the value in use.