

# POSITION PAPER



## **ESBG Position Paper to the EFRAG's draft comment letter on Business Combinations—Disclosures, Goodwill and Impairment**

ESBG (European Savings and Retail Banking Group)  
Rue Marie-Thérèse, 11 - B-1000 Brussels

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ESBG welcomes the opportunity to comment on the EFRAG's Draft Comment Letter in response to IASB's Exposure Draft Business Combinations – Disclosures, Goodwill and Impairment issued on 14 March 2024 (the "ED").

Below you will find our answers as well as comments to some of the questions raised in both the Draft Comment Letter and in the ED itself, however we would like to draw EFRAG attention first to the following key messages:

- ESBG supports the objective of the project to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. However, we question whether the IASB's proposals can make a significant improvement to highly regulated sectors, such as the banking sector, precisely from a cost/benefit perspective and, therefore, if a modification of the approach would be needed.
- As it is evidenced by the acquisitions made over the last years within the banking industry, companies involved are punctually disclosing to the market information about the strategic rationale, management's objectives, benefits, synergies (description, timing and amount), etc. That information is easily available by the public and is also submitted to regulators and supervisors.
- Based on the above, it could be argued that the vast majority of banks are already compliant with the disclosure requirements included in the ED and are fulfilling investors' expectations. Placing this information in the notes of the financial statements would add complexity and unnecessary costs (e.g. audit reviews).
- Therefore, ESBG would expect greater flexibility in this matter not agreeing with the idea that for those entities which produce a management commentary, this commentary might not be as readily available as financial statements.

## Questions to Constituents

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

**Do you consider there are cases that do not fall within the scope of the exemption where providing the proposed performance information can be so commercially sensitive that would pose a serious concern if disclosed in the financial statements? If so, please provide examples of these cases and explain why you would be unable to use the exemption.**

**Do you consider there could be business combinations for which providing integrated performance information will be useful to users of financial statements? If not, please provide examples of such cases and what specific changes to the proposed disclosures you suggest.**

**Do you consider that providing information on actual performance per paragraphs B67A (b) (i) and (ii) will be useful in all cases? If not, please provide examples when either of these proposed disclosures would not be useful and why.**

ESBG welcomes the proposals for better information on the performance of strategic business combinations which could resolve the concerns by investors in relation to their information needs on acquisitions. ESBG agrees with the IASB's proposal to require disclosures for only strategic business combinations from a cost-benefit perspective.

In this regard, ESBG notes that regulated sectors (such as the banking sector) are subject to a high level of scrutiny and several information tools and channels are at investor's disposal to effectively assess the performance of banks after corporate operations of this kind. ESBG's concern is that the implementation of these changes adds complexity and unnecessary costs while benefits would be very limited. Certain degree of discretion or flexibility should be given.

ESBG has some reservations about how some issues are addressed in the ED, specifically:

- i. ESBG confirms that some of its members remain reluctant to provide performance information, considered commercially sensitive as per the own nature of the concepts addressed (cost savings, revenue attrition, employee related information, number of combined clients, etc.).
- ii. Based on ESBG member's experience in recent acquisitions, the usefulness of integrated information may be limited, and we question whether it is sufficient by itself to confirm if the price of an acquisition was reasonable or the acquisition has been successful. Significant challenges may impact the integrated business as it has been the case for the financial sector over the past decades (2008 crisis, frequent litigation, covid-19, negative interest rates, inflation).

Finally, ESBG considers that information on actual performance is still useful for users even if an entity applies the exemption. As mentioned before, it must be stressed that it is already the common practice within the banking sector to inform the market about entities meeting key objectives and targets of acquisitions.

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

**Do you expect to have difficulties in applying either the proposed quantitative or the qualitative thresholds? If so, please explain why.**

**Have you identified cases where applying an open-list approach would be more appropriate than the proposed closed-list approach? If so, please explain.**

**Do you consider there could be cases where the 10% measure proposed for the quantitative thresholds (based on the acquirer’s consolidated operating profit, revenue and total assets) would not be appropriate, as it would still capture small business combinations (if 10% is too low) or omit to capture “strategic” acquisitions (if 10% is too high)?, If so, in which cases and which other measure would you propose?**

**Do you consider it useful to have guidance on assessing whether a series of business combinations could in aggregate be strategic?**

ESBG generally supports the proposed thresholds (closed-list approach) to identify a strategic business combination being based on meeting one of the proposed quantitative or qualitative thresholds.

However, as noted by other preparers, ESBG acknowledges that entering a new geographical area does not necessarily mean that the business combination has strategic importance. Therefore, ESBG supports EFRAG’s recommendation to include a caveat when meeting the qualitative thresholds for immaterial business combinations.

Finally, ESBG 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.

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

**Do you consider that the IASB should suggest further application guidance and/or include illustrative examples to clarify the meaning of the “specific circumstances” that the exemption would be applied? If so, what application guidance or illustrative examples would you suggest?**

In its response to the Discussion Paper (DP), ESBG expressed concerns on the requirements to disclose certain information as it could be commercially sensitive and would expose entities to litigation risks. ESBG welcomes the exemption that would permit entities not to disclose some information in specific circumstances.

However, ESBG does not consider that the proposed exemption would be satisfactory in order to address concerns on commercial sensitivity and would expect to include additional factors other than an entity failing to meet its key objectives for the acquisition to address litigation risks (e.g., due to factors outside the entity’s control). Based on the IASB’s current proposal, ESBG believes that a majority of companies would not have been eligible to apply the exemption to any business combinations.



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

**Do you consider the proposed level of KMP to be appropriate? If not, which level would you consider to be appropriate and why?**

ESBG 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 (senior level of management) as defined in IAS 24 Related Party Disclosures.

#### **Question 5—Disclosures: Other proposals**

**Do you expect to have difficulties in providing quantitative information on expected synergies in the year of acquisition? If so, please explain why.**

**Do you consider the IASB should define “synergies” or provide additional guidance on the types of synergies for which entities are expected to provide quantitative information?**

**Do you consider that the financial statements to be the right location to provide quantitative information on expected synergies? If not, please explain why and where the information should be provided.**

**Do you agree with the IASB’s proposal to specify that the basis of preparation of the information on the contribution of the acquired business is an accounting policy? Please explain.**

**Have you identified any difficulties with providing/auditing the information in the current requirement in paragraph B64(q) of IFRS 3? If so, please explain and provide alternatives that the IASB should consider?**

ESBG acknowledges that it is a common practice within the banking sector to provide quantitative information on expected synergies in the year of acquisition (description, timing, amounts, etc.).

ESBG understands that currently there is diversity in practice on what entities consider as “synergy”. A description, further guidance or a list of what synergies could be and what information would be relevant to meet the disclosures objectives could be beneficial. If not, the comparability between companies will therefore be more complex to achieve.

The nature and the process to identify and calculate synergies, may include forward-looking statements, projections, objectives, estimates and forecasts which involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements of a company to be materially different from those expressed or implied by these forward-looking statements.

These forward-looking statements are based on numerous assumptions regarding company’s present and future business strategies and the environment in which the company expects to operate in the future, which may not be fulfilled.

Based on the above, ESBG questions about the usefulness and appropriateness of including this information within the notes of the financial statements from a



cost/benefit perspective. We would welcome certain flexibility to maintain the current practice, especially, within high regulated sectors where this information is published to the market and easily available to the general public.

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

**Do you agree with EFRAG’s preliminary view that the last sentence of proposed paragraph 80A(b) in IAS 36 raises concerns around ambiguity and if so, do you agree with EFRAG’s recommendation to delete the last sentence of that paragraph? If you do not agree, please explain why?**

**Do you agree with the request for further disclosure requirements when goodwill is being reallocated in subsequent periods? Why, or why not?**

**In the interest of ensuring that goodwill is allocated at the lowest level possible, would you consider important for the IASB to provide guidance where the level of allocation is considered too high, and thus unacceptable, regardless of whether that level represents a business unit that has benefited from the acquisition’s synergies?**

ESBG agrees with EFRAG’s preliminary view and also sees some ambiguity in the guidance proposed in the new paragraph 80A(b) of IAS 36. Therefore, ESBG would support EFRAG’s recommendation to delete the last sentence “That financial information reflects how the benefits expected from the synergies of the combination are managed.”

**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)**

**Do you agree with the EFRAG feedback in paragraph 197 and 202 to the questions raised by the IASB?**

**Do you agree with the recommendations related to (a) the first sentence in paragraph 44A(a) of the ED, and (b) the need for additional guidance on the boundary of an asset? Why or why not?**

**Do you agree with the requested additional disclosures on the extent to which the estimated value in use is influenced by the inclusion of uncommitted future restructurings and asset enhancements, where such an inclusion represent a significant amount of the calculated value in use? Why or why not?**

**Do you see a need for additional guidance in how to treat taxes, including deferred taxes, in the calculation of value in use? If so, what kind of guidance is needed?**

As noted by ESBG in its comment letter on the DP, ESBG supports IASB’s proposal to remove the restriction that prohibits companies from including some cash flows in estimating value in use - cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset’s performance - and to allow



companies to use post-tax cash flows and post-tax discount rates in estimating value in use.

In ESBG opinion both changes do reduce the cost and complexity of the impairment test.

Overall, ESBG believes that further guidance on identified topics would be helpful, however ESBG would not support additional disclosures to the ones proposed by the IASB as it creates unnecessary costs for preparers.

**Question 8—Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures**

**Do you agree with the IASB’s proposed disclosure requirements for eligible subsidiaries applying the Subsidiaries Standard? If not, please refer to the specific disclosures and describe your concerns.**

**Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)**

**Do you consider there could be aspects of the proposed disclosures on performance information and expected synergies for business combinations (Question 1 and Question 5 of the ED) that might pose a serious concern if disclosed in the financial statements and why? If yes, please explain (i) why you would not be able to apply the proposed exemption (Question 3 of the ED) and (ii) where you suggest the information should be provided and why?**

**Do you consider that entities (other than subsidiaries) without public accountability should be granted relief from the proposed new package of disclosure requirements? If so, please explain which disclosures and why.**

We do not have comments on this question.



### **About ESBG (European Savings and Retail Banking Group)**

ESBG is an association that represents the locally focused European banking sector, helping savings and retail banks in 16 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 871 banks, which together employ 610,000 people driven to innovate at 41,000 outlets. ESBG members have total assets of €6.38 trillion, provide €3.6 trillion billion in loans to non-banks, and serve 163 million Europeans seeking retail banking services.



European Savings and Retail Banking Group - aisbl  
Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax : +32 2 211 11 99  
Info@wsbi-esbg.org ■ [www.wsbi-esbg.org](http://www.wsbi-esbg.org)

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