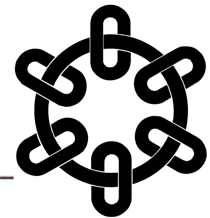
Norsk RegnskapsStiftelse



15 July 2024

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft – Business Combinations – Disclosures, Goodwill and Impairment

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to comment on the proposals in the Exposure Draft (ED) *Business Combinations – Disclosures, Goodwill and Impairment.*

We agree that investors need better information about business combinations, and that different levels of information based on the strategic importance is a reasonable way forward. However, with the thresholds proposed we believe too many business combinations may be identified as strategic. We disagree with the proposal to use operating profit as a threshold.

We are concerned about the requirement to provide quantitative information about expected synergies in the year of acquisition. The disclosure requirements are comprehensive and may be challenging to provide, especially for smaller and less sophisticated entities. We suggest that an entity may be exempted from specifying synergies by category if it does not estimate synergies by category for internal management purposes, combined with a requirement to disclose that fact.

Not all expected synergies may be reflected in the acquisition price, and an entity can expect synergies from a business combination even if no goodwill is recognized. We encourage the IASB to further consider the appropriateness of disclosure of synergies that is not reflected in the acquisition price.

We agree that IAS 36 should be amended to clarify that goodwill cannot be allocated to the operating segment level by default, and welcome amendments that would reduce the shielding effect. However, in our view, some aspects of the proposed amendment should be clarified.

While paragraph 80(a) of IAS 36 currently requires goodwill to be allocated to the lowest level where goodwill is monitored, the ED propose to use the level at which the business associated with the goodwill is monitored for internal management purposes. As businesses are monitored at many levels with different degrees of aggregation, we encourage the IASB to

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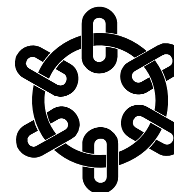

clarify what is meant by 'internal management'. Paragraphs 83 (b) and BC 201 indicate that this is a level below senior management/key management personnel, but do not clarify what level of management this is. If it refers to any level of management, the wording seems to imply that goodwill in most cases would end up being allocated to individual CGUs (and not group of CGUs) as in most cases there will be financial information available for an individual CGU that are reviewed/monitored by some lower level of management. Without clarification we believe there is a risk for diversity in practice, and that the objective of avoiding shielding will not be met.

We agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which an entity is yet not committed or from improving an asset's performance. According to the proposal such cash flows are included when they are considered part of the asset's 'current potential' to be restructured, improved or enhanced. As we see it, further guidance should be included on what is meant by 'current potential' and it should be clarified if this means that such cash flows should only be included if they would be included when determining fair value under IFRS 13.

Our detailed comments to the questions in the ED are provided in the Appendix.

Should you wish to further discuss our comments, please do not hesitate to contact Bjørn Einar Strandberg, chair of the Technical Committee on IFRS.

Yours faithfully,

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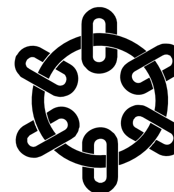


Appendix 1 – our comments

Below we provide our responses to the questions in the ED.

Response to question 1 – Performance of a business combination

We agree with the proposal to disclose information about the performance of a strategic business combination, subject to an exemption for information that can be expected to seriously prejudice the acquisition date key objectives.

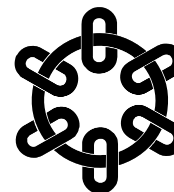
The proposed disclosures will provide relevant information to the users of financial statements regarding the performance of the acquisition. The information is relevant to understand the price paid, and the value of goodwill and other assets acquired. The information is also highly relevant for users when assessing managements stewardship. We agree that the information should only be required for strategic business combinations, and not all (material) business combinations, and that the information to be provided is entity specific and based on information reported internally. We think this is necessary to balance the benefits to the users with the entities' cost of providing the information.

We agree that the information belongs in the financial statements. We do not find the information to be forward looking, as it is information that underpins the consideration transferred. Even if the information would be considered forward-looking, we believe the information relates to assets and liabilities that at the acquisition date are measured by estimating future cash-flows and as such meets the conditions for inclusion in the financial statements according to the Conceptual Framework paragraph 3.6.

Response to question 2 – Disclosures: Strategic business combinations

We agree that 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), should only be required for strategic business combinations which is a subset of material business combinations. However, we do not agree with all the proposed thresholds.

The ED proposes both qualitative and quantitative thresholds, and a business combination meeting any one of the proposed thresholds would be considered a strategic business combination. As explained in BC54, the thresholds are meant to capture 'strategic business combinations' which are those 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. Overall, we consider the proposed thresholds for identifying a strategic business combination too broad, and hence not capturing only strategic business combinations.



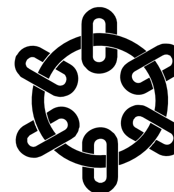
Especially, we do not think ‘operating profit’ should be a required threshold. If the acquirer has an operating profit near zero, almost every business combination will exceed the 10% threshold. For example, this could result in a business combination being identified as strategic due to an impairment recognised in the financial statements of the acquirer in the most recent annual period, even though the operating profit of the acquiree is well below the normalised operating profit of the acquirer.

Further, for many businesses operating profit may be volatile, especially businesses with significant use of derivatives used for economic hedging of operating items, but where hedge accounting is not applied, and for business with material assets measured at fair value (i.e. investment properties and biological assets). Whether an acquisition is above the 10% threshold will thus depend on the acquirer’s and acquiree’s fair value gains and losses in the most recent annual period before the acquisition date. Such fair value gains and losses are often not representative for the size or underlying performance of the business.

There may be many situations where the suggested operating profit threshold will lead to business combinations being above the threshold even though the business combination in substance is not strategic. We therefore suggest that ‘operating profit’ is removed as a threshold.

The IASB also proposes a quantitative threshold based on total assets. The suggested threshold is based on the amount recognised as of the acquisition date for all assets acquired (including goodwill) in per cent of the carrying amount of the total assets recognised in the acquirer’s consolidated statement of financial position as at the acquirer’s most recent reporting period date before the acquisition date. We challenge the comparison of fair values in the acquiree with the book values of the acquirer. We believe comparing fair values with book values may lead to too many acquisitions being considered strategic business combinations.

We acknowledge that a closed set of thresholds has benefits compared to a non-exhaustive list of criteria to identify strategic business combination. It reduces the risk of failure to identify strategic business combinations and it requires limited use of judgement. However, we are not convinced that it is appropriate to identify a business combination as strategic simply based on exceeding a quantitative threshold. We believe the IASB should consider whether the quantitative threshold should be combined with some form of qualitative criteria, or if the quantitative thresholds should be “rebuttable presumptions” for strategic acquisition rather than a strict rule. On the other hand, we acknowledge that a closed list may be appropriate when considered in connection with paragraph B67B (a) of IFRS 3. If key management personnel of an entity are not reviewing the performance of a business combination exceeding a quantitative threshold as it does not consider it strategically important the entity will disclose this fact and the reason why and will not be required to disclose the actual performance in subsequent periods.



From the qualitative criteria a business combination would be considered strategic if the business combination resulted in the “acquirer entering into a new major line of business or geographical area of operations”. We believe it should be clarified whether this means

(i) ‘Major line of business’ or ‘major geographical area of operations’, or
(ii) ‘Major line of business’ or ‘geographical area of operations’

If it means the latter, we are not convinced that the qualitative criteria of entering into a new geographical area of operations is appropriate, as quite small and possibly even immaterial business combinations may result in an entity entering into a new geographical area.

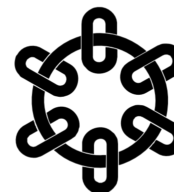
Response to question 3 – Disclosures: Exemption from disclosing information

We agree that there should be an exemption for commercially sensitive information. Disclosing commercial sensitive information may result in significant costs for entities. As we see it, this warrants an exemption for commercially sensitive information, even if information is useful for investors. The challenge is to find the right balance, so that information is exempted only when it is appropriate. The exemption should neither be too narrow nor too wide.

The ED proposes that information may be exempted if disclosing the information can be expected to prejudice seriously the achievement of any of the entity’s acquisition date key objectives for the business combination. The wording is based upon similar wording in IAS 37 paragraph 92. It follows from BC80 that feedback the IASB has received suggest that the exemption in IAS 37 works well in practice.

We welcome the inclusion of a list of non-exhaustive factors an acquirer considers when assessing whether the information would prejudice seriously the achievement of the acquisition date key objective. We agree that an entity should be able to describe a specific reason why this is the case. We also welcome that the IASB has not specified how often or rare it expects entities to apply the exemption, but rather focus on the situations in which an entity could apply the exemption.

The exemption is limited to information that can prevent the entity from achieving the key objectives for the business combination in question. In some circumstance, disclosing the key objective and targets for a business combination, may give other parties information that can be used to infer information about the possible price the entity would be willing to pay to acquire other businesses in the future. In our opinion, the exemption should also apply to information that could seriously prejudice the entity’s position in relation to possible future business combinations.



Response to question 4 – Disclosures: Identifying information to be disclosed

Question 4 (a) – Disclosure of information reviewed by key management personnel

We do not agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel. We believe the information to disclose should be the information reviewed by the entities chief operating decision maker (CODM), which was also the proposed solution in the discussion paper.

CODM describes a function, not a person, and that function is to allocate resources to and to assess the performance of the operating segments of an entity (cf IFRS 8.7). Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity (cf. IAS 24.9). In our view, the role of the CODM is more closely aligned with the task of reviewing whether a business combination meets acquisition date key-objective and targets, (or put more simply; whether a business combination is successful, and the price paid reasonable), than the role of key management personnel.

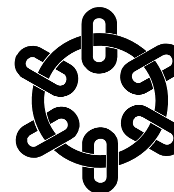
In our experience, CODM is also a term well understood by preparers, and a term that works well in practice. For the sake of good order, this is mainly based upon entities applying IFRS 8, and the situation may be different for non-listed entities not required to apply IFRS 8. We question whether the term key management personnel is as well understood and thoroughly assessed as CODM, as the identification of key management personnel affects disclosures of related parties' transactions and key management personnel compensation, which may not be considered as significant as segment information.

Further, it is not clear to us whether information reviewed by the acquirer's key management personnel refers to key management personnel as a group or as individual persons within the group. To illustrate: An entity has an executive management team which includes segment managers of the entity's different operating segments. All members of the executive management team are defined as key management personnel. A business combination takes place in one of the segments, and the performance of this business combination is reviewed by the segment manager of this segment, but not by the executive management team. In our opinion, if the final standard retains the requirement to disclose information reviewed by the key management personnel, this should be key management personnel as a group, and not any individual defined as key management personnel. If the term *key management personnel* is kept in the final standard, we find it crucial that it is clarified whether the term refers to key management personnel as a group or as individual persons.

Question 4 b – period of providing information of performance

We agree that an entity should be required to disclose information about the performance of a business combination for as long as the entity reviews the information internally.

How long business combinations are reviewed internally may vary between entities, and also vary between different business combinations within the same entity as it varies when the acquisition-date key objective and targets are expected to be met. In some business



combinations this can be shortly after the acquisition date, while in other business combinations this can be several years after acquisition. As such, it is reasonable to require information to be disclosed as long as the entity reviews performance internally, rather than requiring disclosure for a fixed period.

Our understanding is that information of acquisition-date key objective and targets will be required in interim reports under IAS 34.16A (i). Further our understanding is that disclosure of actual performance will only be required in annual financial statements, as IAS 34.16 (i) seems to require disclosure relating to business combination in the interim period, however the wording is not entirely clear. We suggest that this is clarified, either by amending the wording of IAS 34.16A (i) or in the basis for conclusion in the amendment to IFRS 3.

We agree with the proposal that if an entity is not reviewing or does not plan to review a business combination, it shall disclose that fact and the reason for not doing so. This disclosure requirement has some element of a negative confirmation ("Performance of the business combination is not disclosed, as key management personnel are not reviewing if acquisition date key objective and targets are met"), which we generally think should be avoided. However, we believe the reason for not disclosing this information is relevant information for investors, especially in assessing managements stewardship. Thus, we believe this information should be disclosed.

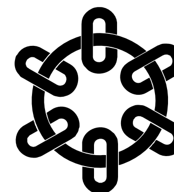
Question 5 – Disclosures: Other proposals

Disclosures of expected synergies in the year of acquisition

We have several concerns relating to the proposed requirement to provide quantitative information about expected synergies in the year of acquisition.

Currently, paragraph B64 (e) of IFRS 3 requires an entity to disclose a qualitative description of the factors that make up the goodwill recognised, and this could include synergies. However, the proposed new disclosure requirement is much more extensive and requires additional information about expected synergies from combining operations of the acquiree and the acquirer, quantified by category and disclosing the time from which the benefits are expected to start and how long they will last. In addition, the estimated cost to achieve these synergies should be disclosed. This is comprehensive disclosures that may be challenging to provide for producers.

In our jurisdiction, listed entities required to use IFRS vary in size and sophistication. We are concerned that smaller, less sophisticated entities don't estimate expected synergies from business combinations by category. In our experience, even more sophisticated entities, may not estimate synergies in such detail for all business combinations. We suggest that an entity should be exempted from providing disclosures of synergies by category if it does not estimate synergies based on categories for internal management purposes, combined with a requirement to disclose this fact. In addition, we ask the IASB to consider whether the disclosure of synergies should only be required for strategic business combinations.



Another concern is that the disclosure requirement seems to apply whether goodwill is recognised or not, or when goodwill only captures part of the expected synergies. An entity can expect synergies from a business combination even if no goodwill is recognised. If an entity (the acquirer) has a good bargaining position and/or there are no other entities that can achieve similar synergies, the purchase price may reflect only the fair value of the assets acquired and liabilities assumed, and not the expected synergies which are specific for the acquirer. BC139 argues that information about synergies is not forward looking as it relates to assumptions for a historic transaction and where these assumptions are "reflected in the acquisition price". However, all expected synergies may not be reflected in the acquisition price. If an entity estimates the value of a potential acquiree to be 110 million including buyer specific synergies, but due to a good bargaining position ends up paying 100 million CU, we are not convinced that disclosing the expected synergies is appropriate.

In our opinion, information about synergies that are not reflected in the acquisition price and recognised/subsumed in goodwill, is forward looking information that seems more appropriate to disclose outside the financial statements for example in a management report. On the other hand, we acknowledge that separating between synergies reflected in the acquisition price and synergies not reflected in the acquisition price, may not be possible or appropriate. We encourage the IASB to further consider the appropriateness of disclosure of synergies not reflected in the acquisition price.

This proposed disclosure requirement for synergies applies to all individually material business combinations. In addition, the disclosure requirement seems to apply to business combinations that are individually immaterial, if they are material collectively in the reporting period in accordance with IFRS 3 paragraph B65. In our experience, most entities do not quantify expected synergies for individual immaterial business combinations, and if it is quantified it is typically at a lower management level than CODM or key management personnel. If required, an estimate is likely to be prepared for disclosure purposes only. We do not believe that estimates that are prepared for disclosure purposes only, and that are not used for business purposes, will be considered useful by investors. We are of the opinion that this disclosure requirement should not apply for business combinations individually immaterial, even if they are collectively material for the reporting period.

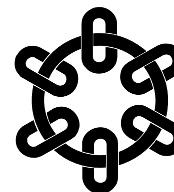
The strategic rationale for a business combination

The ED proposes to replace the requirement to disclose the primary reason for a business combination, with a proposal to disclose the strategic rationale for the business combination.

We do not have strong views regarding this proposal as we think that the information provided will be similar in both cases.

Contribution of the acquired business

We agree with the proposal to require disclosure of operating profit from the acquired business. This avoids issues related to how to adjust for financing cost when disclosing profit from the combined entity as if all business combinations in the period occurred in the beginning of the annual reporting period ("proforma operating profit").



We agree with the decision not to add specific application guidance relating to the preparation of the proforma information. There is diversity in practice in preparing proforma information, and additional guidance would be helpful. However, providing such guidance would be a complex and resource demanding project for the IASB. We believe the IASB resources could be better used on other projects.

The IASB has proposed to specify that the basis for preparing the proforma information is an accounting policy choice, as this will result in entities disclosing information about the basis of preparation in accordance with paragraph 117 of IAS 1 (cf. BC 177). Given the lack of guidance and diversity in practice, we agree that entities should disclose the basis of the preparation of the information. However, we suggest that is regulated as a requirement to provide an explanation of the basis used to prepare the information, and not by considering the basis for preparation an accounting policy.

In our opinion, specifying that this is an accounting policy, does not only imply that the basis of preparation has to be disclosed (if considered a material accounting policy), but also that IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* applies. This implies that accounting policy has to be developed following the requirements in paragraph 10, 11 and 12 of IAS 8, that the accounting policy should be applied consistently and that any changes in the accounting policy would need to meet the criteria in paragraph 14 of IAS 8. In our opinion, considering the basis for preparation an accounting policy would imply additional costs for producers while adding limited benefits for users, which we believe mainly need information about the basis for preparation of the information.

Classes of assets acquired and liabilities assumed

We agree with the proposal. We do not see any specific need to strengthen the disclosure requirement further than the proposed amendment to IFRS3.IE72 where pension and financing liabilities are added.

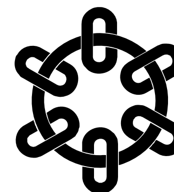
Deleting disclosure requirements

We agree with the proposal to delete some of the disclosure requirements from IFRS 3.

Question 6 – Changes to the impairment test

Question 6a) – proposals to reduce shielding:

While paragraph 80(a) of IFRS 3 currently requires goodwill to be allocated to the lowest level goodwill is monitored, the ED propose to change this to the level at which the business associated with the goodwill is monitored for internal management purposes. Thus, the current requirement focuses on monitoring goodwill, while the proposed requirement focuses on monitoring business. This is reasonable, as in our experience entities are not monitoring



goodwill, but are monitoring the related business. However, we think further clarification is needed to ensure consistent application of the amendment.

Following paragraph 80A (b) of the ED, goodwill shall be allocated to the lowest level for which there is financial information about cash generating units ("CGUs") that internal management uses to monitor the business associated with the goodwill. It follows from paragraph 83 (b) in the ED that this may not be the same level at which key management personnel monitors the business. BC 200 and BC 201 indicates that internal management refers to a level lower than senior management. However, it is not clarified what level of management 'internal management' refers to.

In our experience an entity is monitoring the business at several levels: senior management's monitoring is likely to be at operating segment level, whereas middle management may monitor divisions within an operating segment, and lower management, like a production plant manager or a store manager, monitors an individual production plant or an individual store. In most cases, there will be financial information available for a CGU that is reviewed by some level of management. If 'internal management' is referring to any level of management, the proposed wording of the amendment would seem to imply that goodwill should be allocated to individual CGUs, and that it will no longer be possible to allocate goodwill to a group of CGUs. We do not think this is the intention of the amendment. If internal management is referring to senior management (ie: CODM or key management personnel), goodwill is likely to be allocated to operating segments, and the proposed amendment will not have any effect on reducing shielding. To avoid diversity in practice, we find it imperative that it is clarified what level of management 'internal management' refers to.

Question 6b – Proposal to reduce management over-optimism

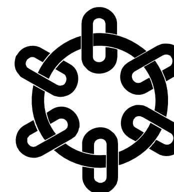
We agree with the proposal to require entities to disclose in which reportable segment a CGU that contains goodwill has been included. In our experience many entities already provide such disclosures under the current requirements as it is relevant for an understanding of the financial statements and the connection between the primary financial statements and the notes. Making this an explicit requirement may help ensure that all entities provide such information which we find to be useful for an understanding of the financial statements. However, we do not believe it will reduce management over-optimism.

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

Question 7a – Proposal to remove constraint from including cash flows from future restructurings and future enhancement of an asset's performance

We agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which an entity is yet not committed or from improving an asset's performance, but we call for more guidance on when such cash flow should be included.

According to the proposed amendment cash flows should be included when they are associated with the 'current potential' of the asset to be restructured, improved or enhanced,



but it is unclear what is meant by the term 'current potential'. According to BC 213 the reason/purpose of the proposal is that value in use should be more consistent with how fair value is determined under IFRS 13 *Fair Value Measurement*. Under IFRS 13 cash flows to restructure, improve or enhance an asset is taken into consideration if a market participant would take it into account, and fair value is based on the concept of "highest and best use". In our opinion, it should be clarified whether the requirements in IFRS 13 should be considered when assessing an asset's current potential.

Questing 7b) – Proposal to remove requirement to use pre-tax cash flows and pre-tax discount rates when calculating value in use

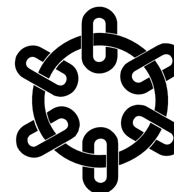
We agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rate. Correct treatment of tax in an impairment test is challenging whether the test is performed pre-tax or post tax. Performed correctly, the impairment test will lead to the same impairment loss whether performed pre-tax or post tax. Entities should thus be allowed to perform the test in the way they find most efficient.

Question 8 – Proposed amendments for IFRS X *Subsidiaries without Public Accountability: Disclosures*

We do not have any comments or views regarding this.

Question 9 - Transition

We agree with the proposed transition requirements.



Appendix 2 – questions for respondents

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).

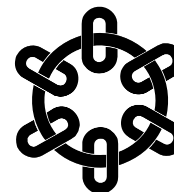
Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users 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:

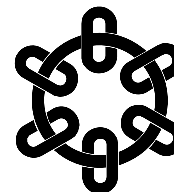
- to require this information for only a subset of an entity's business combinations – strategic business combinations (see question 2); and
- to exempt entities from disclosing some items of this information in specific circumstances (see question 3).

(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.

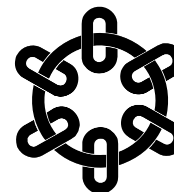
(b) If you disagree with the proposal, what specific changes would you suggest to provide users with more useful information about the performance of a business combination at a reasonable cost?



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?



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 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.



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:

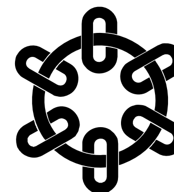
- do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so;
- stop reviewing whether an acquisition-date key objective and 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?



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).

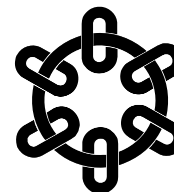
Contribution of the acquired business (paragraph B64(q) of IFRS 3)

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?

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).

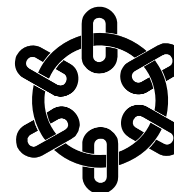
Instead, the IASB is proposing changes to the impairment test (see paragraphs 80–81, 83 and 85 of IAS 36) to reduce shielding by clarifying how to allocate goodwill to cash-generating units (see paragraphs BC194–BC201).

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).

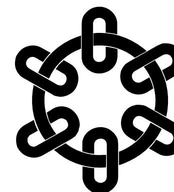
(a) Do you agree with the proposals to reduce shielding? Why or why not?

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



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?

Question 8—Proposed amendments to IFRS X *Subsidiaries without Public Accountability: Disclosures*
The IASB proposes to amend the forthcoming IFRS X *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 pre-tax or post-tax (paragraph 193 of the Subsidiaries Standard). See paragraphs BC252–BC256. Do you agree with the proposals? Why or why not?



Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O 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.