

[Draft] 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 the 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.

Proposed disclosure requirements for business combinations

EFRAG welcomes the IASB's efforts to develop improved disclosure requirements in IFRS 3 that will provide users with more useful information about business combinations. Overall, EFRAG considers that the IASB is trying to achieve the right balance to improve the disclosure requirements, at a reasonable cost to preparers, 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 although further input from our constituents is needed to reach a final decision. 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.

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 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'.

Proposed amendments 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.

IASB ED Business combinations – Disclosures, Goodwill and Impairment

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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Introduction

EFRAG welcomes the IASB's effort in trying to achieve the right balance to improve the disclosure requirements in IFRS 3 and goodwill impairment test in IAS 36 at a reasonable cost to preparers. However, there are still significant concerns on which EFRAG is seeking additional feedback and includes questions to constituents. The input from constituents would support EFRAG in reaching a position in its final comment letter to the IASB. In this regard, EFRAG is seeking:

- **additional input from constituents on specific aspects of the package of new disclosures, including application of the exemption, and proposed threshold approach to identify a strategic business combination;**
- **additional feedback from constituents on the proposal to provide quantitative information on expected synergies; and**
- **additional feedback from constituents on whether, in addition to the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use, the IASB should deal with existing tax issues, including the treatment of deferred taxes.**

The Discussion Paper

- 1 *In March 2020 the IASB published the Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment. The Discussion Paper (DP) sets out the IASB's preliminary views on how to respond to the areas of focus identified in the PIR of IFRS 3 Business Combinations conducted in 2013-2014.*
- 2 *The ED responds to feedback received by the IASB on the DP. The Basis for Conclusions on the ED (paragraph BC9) summarises the overall stakeholder feedback:*
 - (a) *Users highlighted that they need better information about business combinations.*
 - (b) *However, many non-user respondents highlighted practical challenges with most preparers noting that some of the information would be so commercially sensitive that its disclosure in financial statements should not be required and would be suited for the management commentary.*
 - (c) *Respondents also highlighted that some of the information was of a forward-looking nature and disclosing it could increase the entity's risk of litigation with some noting concerns on auditability of the information (costly and difficult to audit).*

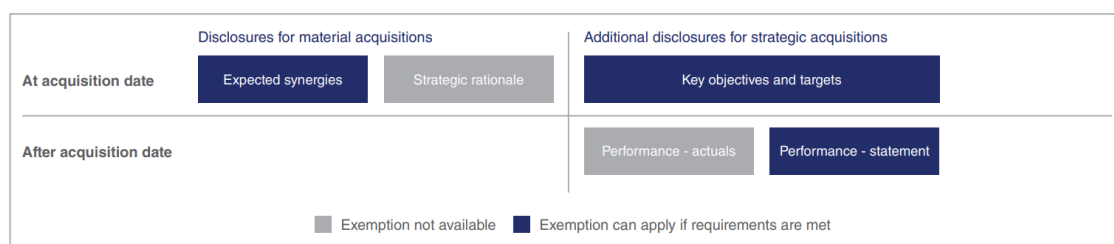
- (d) Respondents generally agreed that it is not feasible to design a different impairment test that would be significantly more effective than the impairment test in IAS 36 Impairment of Assets at a reasonable cost. On ways to reduce the cost and complexity of the impairment test, there was general agreement with developing proposals to simplify and improve how entities calculate value in use.

Project Objectives

- 3 The IASB’s project objective is to improve the information under IFRS 3 entities provide to users of financial statements (users), at a reasonable cost, about business combinations.
- 4 To meet the project objective the IASB is proposing to require entities to provide users with better information about the objectives and performance of a business combination. This would enable users to better understand whether the acquisition price for a business combination was reasonable and whether the subsequent performance of the business combination has been successful, while balancing that with the cost to preparers of disclosing this information.
- 5 The IASB is proposing new disclosures to help users evaluate:
- (a) the benefits an entity expects from a business combination when agreeing on the price to acquire a business; and
- (b) for a strategic business combination, the extent to which the benefits an entity expects from the business combination are being obtained.
- 6 The Basis of Conclusions on the ED (paragraph BC21) explains that improving the disclosure requirements in IFRS 3 would also partly respond to concerns about impairment losses on goodwill sometimes being recognised too late. The proposed disclosure requirements would provide more direct information on the success of a business combination than the impairment test. With this information, users would be better able to assess management’s decision to acquire a business.

Main proposals in the ED

- 7 The main proposed disclosures under IFRS 3 are summarised as follows: [extract from IASB Snapshot]



- 8 *The IASB is also proposing targeted amendments to the requirements in IAS 36 relating to the calculation of value in use, the allocation of goodwill to cash-generating units and the disclosure requirements. These amendments aim at improving the effectiveness of the impairment test, without significantly increasing the cost and complexity of the test and in some cases reducing the cost of the impairment test without reducing its effectiveness.*

Question 1 - Disclosures: Performance of a business combination

Notes to constituents – Summary of proposals in the ED

- 9 *For strategic business combinations (a subset of material business combinations under IFRS 3), the IASB is proposing (paragraph B67A of the ED) to require an entity to disclose the following information (reviewed and monitored by key management personnel):*
- (a) *in the year of acquisition, information about the acquisition-date key objectives and the related targets for the business combination; and*
 - (b) *in the year of acquisition and in subsequent reporting periods, information about the extent to which the acquisition-date key objectives and the related targets are being met.*
- 10 *In the IASB's view, the absence of direct information about the success of a business combination, investors relying on information from the impairment test as a signal of an acquisition being unsuccessful contributes to concerns that impairment losses on goodwill are sometimes recognised too late.*

Acquisition date key objectives and related targets for a business combination (paragraphs BC31 – BC39 of the Basis of Conclusions on the ED)

- 11 *The IASB is proposing to require an entity to disclose in the **year of acquisition its key objectives and related targets for strategic business combinations**. That information would be based on the entity's acquisition-date assumptions for the business combination.*
- 12 *If a company plans to integrate an acquired business, the company's objectives and targets for an acquisition might be based on the combined business rather than the acquired business in isolation.*
- 13 *Appendix A of the ED provides the following definitions of key objectives and targets:*
- (a) **Key objective** – *An objective (that is, a specific aim) for a business combination that is critical to the success of the business combination. A key objective is more specific than the strategic rationale for a business combination.*

(b) **Target** - A target describes the level of performance that will demonstrate whether a key objective for a business combination has been met. A target shall be specific enough for it to be possible to verify whether the related key objective is being met. A target is measured using a metric that could be denominated in currency units or another unit of measurement.

14 In the IASB's view, information about acquisition-date key objectives and the related targets meets the proposed disclosure objectives because:

(a) it explains the expected benefits of a business combination which will help users to understand why an entity undertook that acquisition (for instance whether the acquisition price was reasonable); and

(b) it provides a base against which to compare a business combination's future performance to assess whether that business combination has been successful.

15 In response to the DP, the IASB agreed and is proposing to allow an entity to disclose targets as a range rather than as a point estimate, reflecting common practice.

Performance of a business combination after acquisition (paragraphs BC40 – BC44 of the Basis of Conclusions on the ED)

16 The IASB is proposing to require an entity to disclose in **the year of acquisition and in subsequent reporting periods for strategic business combinations**:

(a) information about actual performance being reviewed to determine whether acquisition-date key objectives and the related targets are being met; and

(b) a qualitative statement of whether actual performance is meeting or has met the acquisition-date key objectives and the related targets.

17 The IASB considers that providing information on whether the acquisition is performing as intended will help users assess the extent to which acquisition-date key objectives and the related targets are being met or have been met.

18 The IASB explains in paragraphs BC42-BC44 of the Basis for Conclusions on the ED that the intention of the qualitative statement would be for an entity to disclose only whether it is meeting or has met its key objectives and targets. The IASB's proposals would not require an entity to disclose an explanation of differences between the actual performance and the key objective.

19 Some IASB members did not agree with the proposal to disclose a qualitative information about actual performance and question the usefulness of this proposal. In their view:

- (a) an entity would find it difficult to disclose only a statement of whether actual performance is meeting or has met the acquisition-date key objectives and the related targets*
- (b) users will ask the entity to provide further analysis or explanations of how far the actual performance was from meeting the key objectives*
- (c) such an analysis is considered to be commercially sensitive because it could indirectly require the entity to disclose information about an acquisition-date key objectives or related targets even though that information was exempt*
- (d) an entity is likely to apply the exemption to the qualitative statement about actual performance.*

Disclosing performance information only for strategic business combinations subject to an exemption (paragraphs BC56 – BC73 of the Basis for Conclusions on the ED)

- 20 *The IASB is proposing to require the proposed information (acquisition-date objectives and targets and whether these are met in subsequent periods) only for strategic business combinations that are monitored by key management personnel. This would respond to stakeholder feedback that disclosing information about the performance of too many acquisitions could result in ‘disclosure overload’. Users of financial statements have also asked that the information on performance should focus on the major business combinations.*
- 21 *A strategic business combination would be one for which not meeting any of its key objectives would seriously put at risk the entity achieving its overall business strategy. The definition of a strategic business combination is discussed in more detail in Question 2 of the ED.*
- 22 *An entity is exempt entities from disclosing some performance information if doing so can be expected to prejudice seriously any of the company’s acquisition-date key objectives. This should address concerns around commercial sensitivity and other difficulties.*
- 23 *The exemption also applies to other proposed disclosures and is discussed in more detail in Question 3 of the ED.*

Management approach

- 24 *The proposed disclosures about the performance of a strategic acquisition would be based on **information management uses internally to review and measure** the success of a strategic business combination (a management approach).*
- 25 *The management approach is discussed in more detail in Question 4 of the ED.*

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

- 26 EFRAG welcomes the proposals for better information on the performance of strategic business combinations as this will provide users of financial statements with better information on the performance of a business combination and generally help users to evaluate the success of major acquisitions.
- 27 EFRAG appreciates the IASB's efforts in reaching a 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 the information in specific cases (when doing so could prejudice seriously the entity achieving its key objectives and targets for undertaking the business combination).
- 28 [PARAGRAPH INCLUDED IN DRAFT COMMENT LETTER ONLY - EFRAG understands that concerns still remain from preparers around commercial sensitivity of some performance information, as well as questions around usefulness of integrated information when the key objectives and targets are based on the planned integrated business. EFRAG therefore seeks constituents' views on these points before reaching a preliminary view. These matters are discussed in more detail in the paragraphs below.]

Information on the performance of strategic business combinations

- 29 EFRAG considers that the proposed information 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.
- 30 In EFRAG's view, requiring the information only for strategic business combinations will address concerns about 'disclosure overload' and at the same time minimise costs to preparers.
- 31 EFRAG also considers that 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.
- 32 EFRAG highlights 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 agrees that disclosing performance information based on the integrated business is appropriate if this is the way management reviews and monitors the acquired business. 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.

- 33 EFRAG acknowledges 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 information on key objectives and targets and subsequent follow up of these acquisition-date key objectives is already 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. [SENTENCE INCLUDED IN DRAFT COMMENT LETTER ONLY - This is addressed in Question 4 of the ED.]
- 34 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. However, EFRAG agrees that having information on actual performance is still useful for users even if an entity applies the exemption.

Commercial sensitivity

- 35 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.
- 36 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.
- 37 EFRAG understands that an entity would be able to apply the exemption only in rare cases. Therefore, EFRAG will seek constituents' views on whether commercial sensitivity remains a concern and if so, how it could be addressed.
- 38 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.

Questions to Constituents

- 39 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.
- 40 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.
- 41 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.

Question 2 - Disclosures: Strategic business combinations

Notes to constituents – Summary of proposals in the ED

- 42 *The ED describes a strategic business combination to 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.*
- 43 *The DP did not propose requiring the information for strategic business combinations. The DP proposed to require an entity to disclose information about the performance of a business combination for a subset of material business combinations monitored by the entity's Chief Operating Decision Maker (CODM). Who provides the information is discussed in more detail in Question 4 of the ED.*
- 44 *In developing the proposals to focus on major (strategic) business combinations the IASB considered stakeholders' concerns on the cost of providing the disclosures and the high volume of information for all material business combinations, while retaining the usefulness of information to users.*

Threshold approach (paragraphs BC56 – BC73 of the Basis for Conclusions on the ED)

- 45 *The IASB considered two ways to identify strategic business combinations:*

- (a) *by applying an open list of factors (open-list approach); or*
- (b) *by applying a closed list of thresholds (closed-list approach).*

46 *The IASB acknowledged that an approach based on an open list of factors for an entity to consider whether the acquisition was “strategic” would be more principle-based. However, the IASB also considered that such an approach could pose practical challenges. For example, it might be difficult to devise a list of factors that are distinguishable from factors that an entity would consider when making materiality judgements and therefore not capture acquisitions that are strategic to the acquirer. It might also lead to a high level of judgement and result in difficulties to audit and enforce and hence higher costs.*

47 *The IASB is **proposing a closed list approach** to assessing whether a business combination is strategic by setting the following specific thresholds.*

- (a) *Quantitative thresholds; and*
- (b) *Qualitative thresholds.*

Proposed thresholds

48 *The IASB proposes (paragraph B67C of the ED) that a business combination that meets **any one of these thresholds** would be a strategic business combination:*

- (a) **quantitative thresholds**—*any one of revenue, operating profit or loss in absolute terms and assets of the acquired business (including goodwill) constitutes at least 10% of the acquirer’s corresponding amounts; or*
- (b) **qualitative thresholds**—*the acquisition results in a company entering a new major line of business or geographical location.*

Quantitative thresholds

49 *The IASB noted that quantitative thresholds (ranging between 5% and 30%) are commonly used in some regulations to require an entity to provide information about business combinations.*

50 *The proposed quantitative thresholds are also based on measures defined in IFRS Accounting Standards. IFRS 8 Operating Segments uses a 10% threshold to identify the operating segments that are large enough for which an entity is required to disclose information separately, which is similar to what the IASB is proposing.*

51 *The IASB noted that it tried to avoid proposing a quantitative threshold that might not be applicable to all entities applying IFRS Accounting Standards (example.g., a threshold based on market capitalisation would not be applicable for non-listed entities).*

Qualitative thresholds

- 52 *The IASB considered that the objective in setting qualitative thresholds is to capture business combinations that would not meet the proposed quantitative thresholds but are nonetheless strategic because they would represent a strategic shift for an entity. These business combinations include those that would result in the entity entering a new major line of business or geographical area of operations.*
- 53 *The proposed qualitative thresholds (separate major line of business or geographical area of operations) are based on the thresholds in paragraph 32 of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations used to identify discontinued operations and adapted to reflect the purchase of a business instead of the discontinuance of an operation.*

Series of business combinations (paragraphs BC71 – BC73 of the Basis for Conclusions on the ED)

- 54 *Some users of financial statements said they need information about a series of business combinations entered into to achieve the same strategic objective(s), and raised concerns that these business combinations would not, individually, be captured by the proposed thresholds.*
- 55 *In the Basis for Conclusions on the ED (paragraph BC72), the IASB explains that it is unable to develop a method for identifying a series of business combinations undertaken to achieve the same strategic objective. The IASB highlights that the disclosure proposals for strategic business combinations (as well as other proposed disclosures for all/material business combinations) are based on a management approach, and any requirements set by the IASB might not group a series of business combinations in the same way that an entity's management would.*
- 56 *The IASB considers that qualitative thresholds might at least help an entity to identify the first in a series of business combinations undertaken to achieve the same strategic objective (e.g., an acquisition in a new geographical area or new line of business could signal that further acquisitions will occur in the future).*

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

57 EFRAG generally agrees that a strategic business combination (a subset of material business combinations) as 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 suggests deleting the latter part of paragraph BC54.

Threshold approach

58 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 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 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. [SENTENCE INCLUDED IN DRAFT COMMENT LETTER ONLY - In this regard, EFRAG seeks additional feedback from constituents on this point.]

Proposed thresholds

- 59 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.
- 60 However, EFRAG notes that feedback received from some preparers highlighted that a combination of both quantitative and qualitative thresholds would be more appropriate. These 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.
- 61 EFRAG also acknowledges that there could be cases where the 10% quantitative threshold measure may be easily met (e.g., for a service company), but for other cases more difficult. Thus, EFRAG questions whether 10% could be appropriate to capture the intended population of business combinations.
- 62 [PARAGRAPH INCLUDED IN DRAFT COMMENT LETTER ONLY - EFRAG therefore seeks additional feedback on whether there could be cases where meeting only one of the proposed thresholds would not be appropriate.]
- 63 Finally, 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.

Series of business combinations

- 64 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.
- 65 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 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 co-ordinated 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.
- 66 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.
- 67 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 to Constituents

- 68 Do you expect to have difficulties in applying either the proposed quantitative or the qualitative thresholds? If so, please explain why.
- 69 Have you identified cases where applying an open-list approach would be more appropriate than the proposed closed-list approach? If so, please explain.
- 70 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?

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

Question 3 - Disclosures: Exemption from disclosing information

Notes to constituents – Summary of proposals in the ED

- 72 *When developing the DP, the IASB did not propose an exemption for any of the disclosure requirements, on the basis that information should not be prevented from being disclosed solely on the basis that it is commercially sensitive.*
- 73 *Respondents to the DP (mostly preparers) expressed various concerns on the proposed disclosures, with the predominant issue being commercial sensitivity. Feedback received suggested that disclosing certain information in the financial statements (targets, cost-based targets and employee related information as per paragraph BC75 of the Basis for Conclusions on the ED) could be so commercially sensitive that its disclosure could prevent the entity from achieving its key objectives for the business combination or expose it to litigation risks.*
- 74 *Therefore, in seeking to strike a balance between preparers’ concerns and users’ information needs, the IASB proposes an exemption in the ED that would permit entities not to disclose some information in specific circumstances.*

Principle underpinning the exemption

- 75 *The IASB developed a principle underpinning the exemption that an entity can apply it if disclosing the information can be expected to prejudice seriously the achievement of any of the entity’s key objectives for the business combination.*

Which practical concerns to address

- 76 *As per paragraph BC82 of the Basis for Conclusions on the ED, the proposed exemption would address litigation risks arising from an entity failing to meet its key objectives for the business combination because it disclosed that information. However, as explained in paragraph BC84 of the Basis for Conclusions on the ED, the IASB clarifies that the exemption is not intended to address litigation risks arising from sources other than an entity failing to meet its key objectives for the acquisition (e.g., due to factors outside the entity’s control).*

What information to exempt

77 *The IASB does not consider all proposed disclosures to be so commercially sensitive that they should not be required in the financial statements; hence, the exemption is proposed only for the disclosure of:*

- (a) acquisition-date key objectives and the related targets for a strategic business combination;*
- (b) a qualitative statement of whether actual performance is meeting or has met the objectives and targets for a business combination; and*
- (c) quantitative information about expected synergies.*

78 *The IASB does not propose the exemption for the disclosure requirements about:*

- (a) the strategic rationale for the business combination; and*
- (b) the actual performance being reviewed to determine whether acquisition-date key objectives and the related targets are being met.*

Application guidance for the exemption

79 *To make the proposed exemption operational and enforceable, the IASB is providing application guidance requiring an entity, as per paragraphs BC90-BC107 of the Basis for Conclusions on the ED:*

- (a) to disclose the fact that the exemption has been applied and the reasons for doing so, for each item of information to which it has been applied;*
- (b) to consider whether, instead of applying the exemption, information can be disclosed differently without seriously prejudicing the acquisition-date key objectives (e.g., at a sufficiently aggregated level);*
- (c) to consider factors such as the effect of disclosing the information and the public availability of the information to determine the applicability of the exemption; and*
- (d) to reassess in each reporting period whether the item of information still qualifies for the exemption. If the exemption is no longer appropriate, the entity must disclose the previously exempted item of information.*

80 *The IASB decided not to specify how often it expects entities to apply the exemption (similar to paragraph 92 of IAS 37), as the application guidance would ensure that the exemption is only applied when appropriate.*

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.

EFRAG's response

81 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.

82 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

- 83 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

- 84 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 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.

Application guidance for the exemption

- 85 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

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

Disclosing information in a different way

- 87 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, 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

- 88 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).
- 89 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.
- 90 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 disclosing the previously exempted information.

Reassessment in subsequent periods

- 91 EFRAG supports the IASB’s proposal to require entities reassessing the eligibility for the exemption each reporting period, for as long as the entity would otherwise be required to disclose the information.

Question to Constituents

- 92 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?

Question 4 - Disclosures: Identifying information to be disclosed

Notes to constituents – Summary of proposals in the ED

- 93 Applying the IASB’s **disclosure proposals on the performance of a strategic business combination** (information about the acquisition-date key objectives, related targets and subsequent performance of a strategic business combination), an entity would be required to disclose the information by following a **management approach**.

94 An entity would therefore disclose information that its management uses to assess the performance of a business combination. Most respondents to the DP agreed that the management approach would be the most effective method for an entity to identify the information to be disclosed.

95 In designing the management approach, the IASB considered whether, and if so how, to define management, how long an entity would be required to disclose information and what happens if an entity updates the key objectives or targets for a business combination.

Whether and how to define management (paragraphs BC110- BC114 of the BC)

96 The IASB is proposing to specify management as an entity's **key management personnel** as defined in IAS 24 Related Party Disclosures. The DP proposed to require an entity to disclose information about the performance of a business combination reviewed by the entity's CODM.

97 Several respondents expressed concerns with the DP proposals to require the entity's Chief Operating Decision Maker (CODM) to identify information about the performance for business combinations. These respondents:

(a) noted that business combinations reviewed by the CODM could result in an entity disclosing information about too few business combinations resulting in a loss of information for users (the information should be provided for major acquisitions);

(b) entities might not always assess performance at a reportable segment level (some noted that information about the performance of a business combination would differ from the information disclosed applying IFRS 8) and referring to CODM might create confusion in practice; and

(c) there is diversity in the application of CODM in different entities.

98 Feedback from users also supported that this type of information was primarily needed for the bigger acquisitions and applying the CODM approach might not provide them with the most useful information.

99 The IASB considered the feedback to the DP and decided not to continue using an entity's CODM and instead refer to an entity's key management personnel to be used in identifying the information required. An entity's key management personnel was not linked to segment reporting and avoid the confusion noted by respondents to the ED on using CODM. The term "key management personnel" was used in IAS 24 and would not need to be defined. The overall aim was that an entity provides the most important performance information on strategic business combinations.

How long an entity should be required to disclose the information (paragraphs BC115- BC123 of the BC)

100 *The IASB is proposing (paragraph B67B of the ED) to require an entity to disclose whether the performance of a business combination (acquisition date key objectives and targets) is being met in the years post-acquisition as follows:*

- (a) **Disclose this information for as long as the entity's key management personnel review** the performance of the business combination (core disclosure period).*
- (b) If the key management personnel **have not started reviewing and do not plan to review** the required performance information, an entity shall disclose that fact.*
- (c) If an entity's key management personnel stop reviewing whether the acquisition date key objectives are met **before the end of second annual reporting period**, an entity shall disclose that fact.*
- (d) If an entity's key management personnel stopped reviewing the performance of a business combination **but continue to receive information** based on the metric originally used to measure the achievement of that key objective and the related targets during the period **up to the end of the second annual reporting period** after the year of acquisition, the acquirer shall also disclose that information.*

101 *The ED includes an illustration of how to apply paragraph B67B of the ED.*

102 *Regarding the core disclosure period, the IASB is clarifying (paragraph B67B(b) that **management is regarded as reviewing** whether the acquisition-date key objectives and the related targets of the business combination are being met if management compares actual performance in subsequent periods with the acquisition-date key objectives and the related targets for the business combination.*

103 *The Basis for Conclusions on the ED (paragraph BC121) explains that in the IASB's the proposed time frame (two-year period) is an appropriate balance between requiring an entity to disclose relevant information and the risk of imposing a time frame that is too long and onerous for preparers.*

Can an entity change the way it reviews performance (paragraphs BC124-BC130 of the Basis for Conclusions on the ED)

104 *The DP proposed that, if an entity no longer used/changed a metric used internally to review the performance of a business combination, an entity would be required to disclose that fact, the reason for the change, and information about performance using the revised metrics. Respondents had mixed views on this proposal with some respondents disagreeing*

(noting it could allow an entity to hide poor performance by disclosing information using a changed metric).

- 105 *The IASB agreed with respondents that did not support the DP proposal and decided not to proceed with it. In making this decision, the IASB noted that users would still receive information about a change in metric, if an entity made that change before the end of the second annual reporting period after the year of acquisition (as required by paragraph B67B of the ED). A user would therefore receive information that the entity has stopped reviewing against its acquisition-date objectives and targets and the reason why (that is, it has changed the basis of measurement).*

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

106 EFRAG agrees that the proposed disclosures about the performance of a strategic acquisition would be based on information management uses to review and monitor the business combination.

Who provides the information?

107 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.

108 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.

109 EFRAG 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.

- 110 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

- 111 EFRAG 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.
- 112 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.
- 113 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.
- 114 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 to Constituents

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

Question 5 - Disclosures: Other proposals

Notes to constituents – Summary of proposals in the ED

- 116 *The IASB is also proposing other amendments to the disclosure requirements in IFRS 3, including new information, clarifying some of the current requirements and deleting some of the disclosure requirements deemed to be obsolete.*
- 117 *These proposed changes are summarised in the paragraphs below.*

New disclosure objectives paragraphs BC23 – BC28 of the Basis for Conclusions on the ED)

- 118 *The IASB is proposing to add new disclosure objectives in proposed paragraph 62A of IFRS 3 to address user feedback that the information provided under the current IFRS 3 disclosure requirements is “boilerplate” and fails to provide sufficient useful information for users.*
- 119 *The IASB’s new disclosure objectives are more specific focusing on the benefits an entity expects from undertaking a business combination and the price it pays for it and whether those expected benefits are being met post-acquisition. The new disclosure objectives aim to help entities understand better why users need certain information on business combinations and help entities disclose information that meet user needs.*
- 120 *As stated in paragraph BC27 of the Basis for Conclusions on the ED, in developing the disclosure objectives, the IASB considered the Guidance for Developing and Drafting Disclosure Requirements in IFRS Accounting Standards (Guidance) published on the IASB’s website in March 2023. The IASB considers that the proposed disclosure objectives for IFRS 3 are not directly equivalent to overall or specific disclosure objectives as described in the Guidance but are designed to follow the structure of the disclosure requirements in IFRS 3 (that is, one type of disclosure objective supported by specific requirements).*

Quantitative information on expected synergies in the year of acquisition (paragraphs BC148 – BC163 of the Basis for Conclusions on the ED)

- 121 *Paragraph B64(e) of IFRS 3 **requires an entity to disclose a qualitative description** of the factors that make up the goodwill recognised, which could include expected synergies from combining the operations of the acquiree and the acquirer.*
- 122 *The **DP proposed to add to IFRS 3 quantitative information** on expected synergies which included a description of the synergies expected from combining the operations of the acquired business with the company’s business, when the synergies are expected to be realised, the estimated amount or range of amounts of the synergies, and the estimated cost or range of costs to achieve those synergies.*
- 123 *Users of financial statements have said that information on the nature, timing and amount of expected synergies is important and useful for their analysis. It would allow them to understand better the benefits a company’s management expected when agreeing the price to acquire a business. This information would help users to assess whether the price paid was reasonable. The information would also help users hold management to account for its progress in achieving those synergies.*

124 However, many respondents to the DP, including respondents that agreed that the proposed information was useful, disagreed with the DP proposals noting that the information was commercially sensitive (and should not be required in the financial statements), forward-looking in their jurisdiction, and could expose the entity to litigation risks.

125 **The IASB decided to proceed with the DP proposals on requiring information on expected synergies** about the business combination at the acquisition date, subject to some amendments. As noted by users of financial statements, it was important for their analysis. The IASB also observed that many entities already provide information on expected synergies outside of the financial statements – so the information is already available.

126 In developing the proposals, and noting the suggestions by respondents to the DP, the IASB considered the following:

- (a) **Level of aggregation** at which an entity should disclose the information. The IASB is proposing to require an entity to disclose information about the nature of expected synergies by category - for example, total revenue synergies, total cost synergies and totals for each other type of synergy (e.g., tax synergies).

In the IASB's view, disclosing information about expected synergies by category would, in most cases, respond to concerns that expected synergy information could be commercially sensitive. The IASB is also proposing to allow an entity to apply the proposed exemption (see Question 3 of the ED) described to information about expected synergies. However, before applying the exemption an entity would be required to consider whether, instead of applying the exemption, disclosing the total amount of expected synergies could resolve concerns about commercial sensitivity. The IASB expects information at a total synergies level would not be as sensitive as information specified by category.

- (b) **Duration of expected synergies** – In responding to feedback received on the DP, the IASB is proposing an entity to disclose the time from which the synergies are expected to start and how long they are expected to last. In applying this requirement, the entity would have to identify whether the synergies are expected to be finite or indefinite.
- (c) **Definition of expected synergies** - The IASB considered, and decided not to, provide a definition for synergies. The IASB observed that some respondents to the ED said a lack of definition might lead to diversity in how entities identify and quantify expected

synergies and thus reduce the information usefulness to users of financial statements.

However, the IASB noted that the term “synergies” is already understood by entities given that paragraph B64(e) of IFRS 3 requires an entity to disclose qualitative information about expected synergies. It is expected that when synergies are a material aspect of the business combination, entities should be able to quantify them.

- (d) ***Interaction on information about expected synergies and performance of a business combination – Some respondents to the DP asked for clarity on the proposals for performance information and expected synergies and noted difficulties to provide information on synergies in periods after the business combination occurs.***

The IASB explains in paragraph BC162 of the Basis for Conclusions on the ED that these two proposals are separate. The proposed requirement for an entity to disclose information about expected synergies would apply only in the year of acquisition. It would not require an entity to disclose information subsequently about whether those synergies have been achieved.

The IASB also explains that the entity’s key management personnel might assess whether expected synergies have been achieved in reviewing the performance of the business combination. If this is the case, the proposals on disclosing information about the performance of a business combination would require the entity to disclose the information about synergies being reviewed by the entity’s key management personnel.

Strategic rationale for a business combination (paragraphs BC164 – BC165 of the Basis for Conclusions on the ED)

127 *Per paragraph B64(d) of IFRS 3, an entity must disclose its primary reasons for a business combination. The DP proposed replacing this with a requirement to disclose the “strategic rationale” for a business combination. In its comment letter to the 2020 DP, EFRAG highlighted that disclosing the strategic rationale would provide investors better information for assessing the success of an acquisition.*

128 *The IASB continues to consider that the proposal would provide a clearer link between the entity’s acquisition and the entity’s overall business strategy.*

Contribution of the acquired business (paragraphs BC166 – BC177 of the Basis for Conclusions on the ED)

129 Paragraph B64(q) of IFRS 3 requires an entity to disclose pro forma information of the amounts of revenue and profit or loss of the acquiree and the combined entity. Based on the feedback received on this disclosure requirement, the IASB is proposing:

- (a) To retain the requirement in paragraph B64(q) of IFRS 3;
- (b) To replace the term ‘profit or loss’ in paragraph B64(q) of IFRS 3 with the term ‘operating profit or loss’;
- (c) Not to require an entity to disclose information about cash flows arising from operating activities; and
- (d) To explain the objective in paragraph B64(q)(ii) of disclosing combined entity information and to specify that the basis of preparation is an accounting policy.

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

130 The IASB considered the mixed views on the usefulness and cost of this disclosure requirement and concluded that this information is essential for users’ analyses, as it determines the baseline performance against which they can compare future performance.

Replacing the requirement to disclose ‘profit or loss’ with ‘operating profit or loss’

131 The IASB is proposing to use the term “operating profit or loss” as defined in its Primary Financial Statements project, rather than ‘profit or loss. The IASB considers that this provides useful information on the operating performance of the acquisition, enhances comparability, and eliminates the need for subjective allocation of certain expenses as if the business combination had been as of the beginning of the reporting period.

Whether to add a requirement disclose cash flows from operating activities

132 After considering the feedback on adding a requirement to paragraph B64(q) of IFRS 3 to disclose information about cash flows from operating activities, the IASB concluded that costs would not justify benefits.

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

133 Feedback received from respondents to the DP suggested that application guidance is needed on how to prepare combined entity information. The IASB has concluded that it is not possible to provide application guidance that would be applicable to all business combinations. Instead, the IASB proposed to describe the disclosure objective and specify that this would be an accounting policy.

Classes of assets acquired and liabilities assumed (paragraphs BC178 – BC181 of the Basis for Conclusions on the ED)

134 *Paragraph B64(i) of IFRS 3 requires an entity to disclose the amounts recognised for each major class of assets acquired and liabilities assumed in a business combination.*

135 *Users of financial statements have specifically asked to have the information on the amount of liabilities arising from financing activities and defined benefit pension liabilities assumed as part of a business combination.*

136 *Therefore, to satisfy users' needs, the IASB's preliminary view in the DP was to develop proposals to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.*

137 *However, since the development of the DP, the IASB has:*

(a) issued Disclosure of Accounting Policies, which amended IAS 1, replacing the phrase "significant accounting policies" with "material accounting policy information".

(b) developed principles of aggregation and disaggregation for the primary financial statement and the notes as part of Primary Financial Statement (PFS) project.

138 *The IASB considered these amendments sufficient to help entities to make better materiality judgements and so the IASB can propose a more principle-based approach that relies on assessments about materiality.*

139 *Therefore, the IASB is proposing:*

(a) to remove the term "major" in paragraph B64(i) of IFRS 3

(b) to amend paragraph IE72 of the Illustrative Examples accompanying IFRS 3 to illustrate an entity disclosing liabilities arising from financing activities and defined benefit pension liabilities as classes of liabilities assumed.

Deleting disclosure requirements (paragraphs BC182 – BC183 of the Basis for Conclusions on the ED)

140 *The IASB is proposing to delete some disclosure requirements from IFRS 3 that stakeholders consider costly and that could be removed without losing useful information.*

141 *The IASB proposes to delete from IFRS 3:*

(a) paragraph B64(h)—information about acquired receivables. Subsequent to issuing IFRS 3, the IASB issued IFRS 7, which includes requirements for an entity to disclose such information.

- (b) *paragraph B67(d)(iii)—requirement to disclose, in the reconciliation between opening and closing goodwill balances, adjustments resulting from the subsequent recognition of deferred tax assets.*
- (c) *paragraph B67(e)— the amount and an explanation of any material gain or loss recognised in the current reporting period that relates to the identifiable assets acquired or liabilities assumed in a business combination that was affected in the current or previous reporting period.*

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)

142 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

143 EFRAG generally supports the proposal in paragraph B64 of the ED to disclose quantitative information about expected synergies from combining operations of the acquiree and the acquirer in the year of acquisition. This proposed requirement will add to the qualitative information currently required by IFRS 3 and enhance the information users will receive on the business combination.

- 144 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.
- 145 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 informed EFRAG that they prefer to have the information in the financial statements, as this provides the same level of assurance as the information included in the primary financial statements. EFRAG's views on location of information is discussed in more detail in "Other matters" at the end of this Appendix.
- 146 EFRAG also considers that information on expected synergies should be available to the entity (management information) as part of the M&A process or other internal sources. EFRAG acknowledges that in cases 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 expected synergies when they undertake a business combination.
- 147 EFRAG also notes that an entity does not need to disclose an item of 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 draft comment letter and included a question to constituents on disclosing expected synergies in the financial statements.

Disaggregation by category of expected synergies

- 148 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.
- 149 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 stakeholders on the difficulties of estimating synergies expected from a business combination.
- 150 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.

- 151 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

- 152 EFRAG supports 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 to assess the timing and duration of the synergies.

Definition of synergies

- 153 EFRAG generally agrees with the IASB 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.
- 154 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.

Questions to Constituents

- 155 Do you expect to have difficulties in providing quantitative information on expected synergies in the year of acquisition? If so, please explain why.
- 156 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?
- 157 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.

Strategic rationale for a business combination

- 158 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

- 159 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. [PARAGRAPH INCLUDED IN DRAFT COMMENT LETTER ONLY - Therefore, EFRAG seeks additional feedback from constituents on whether this requirement should be retained].

Replacing the requirement to disclose “profit or loss” with “operating profit or loss”

- 160 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

161 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.

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

Question to Constituents

163 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.

164 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?

Classes of assets acquired and liabilities assumed

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

166 Moreover, EFRAG welcomes the IASB proposal to include pension and financing liabilities to 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.

167 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

168 EFRAG agrees with the IASB 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 become reluctant when IFRS 3 was amended in 2008 without adding useful information to stakeholders.

Question 6 - Changes to the impairment test

Notes to constituents – Summary of proposals in the ED

169 At the acquisition date goodwill is measured as the excess of the sum of:

- (a) The consideration transferred measured at fair values except for some consideration measured according to IFRS 2,
- (b) The amount of any non-controlling interests in the acquiree measured in accordance with IFRS 3, and
- (c) The fair value of the acquirer's previously held equity interest in the acquiree.

Less

The net of the amounts of the identified assets acquired and the liabilities assumed measured in accordance with IFRS 3.

170 Subsequently, IAS 36 requires an entity to test cash-generating units (CGUs) containing goodwill for impairment at least annually, even if there is no indication that the CGU might be impaired.

171 So far, in subsequent periods no model has been identified that would be able to consistently track other than in an indirect and incomplete manner the development of goodwill recognised in a business acquisition.

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.

172 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 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

173 On the proposals to reduce shielding EFRAG agrees with the 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 the business associated with the goodwill which is subsequently monitored, not the measurement labelled goodwill.

174 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.

- 175 EFRAG sees some ambiguity in the guidance proposed in the new paragraph 80A(b) of IAS 36.
- 176 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”.
- 177 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).
- 178 This implies that financial information, that management regularly uses to monitor the business associated with the goodwill, but which do not reflect how the benefits expected from the synergies of the combination are managed, will not be sufficient to identify a 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.
- 179 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 do not agree with the last requirement in paragraph 80A(b), as stated above, and recommend 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).

- 180 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.
- 181 EFRAG welcomes the clarification provided to paragraph 83.
- 182 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 is amended to include a requirement to explain changes (in the carrying amount of goodwill allocated to the unit (group of units)) and qualitatively how the change(s) is(are) expected to affect the timing of future goodwill impairments.

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

- 183 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.
- 184 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.
- 185 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.

Questions to Constituents

- 186 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?
- 187 Do you agree with the request for further disclosure requirements when goodwill is being reallocated in subsequent periods? Why, or why not?
- 188 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?

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

Notes to constituents – Summary of proposals in the ED

- 189 *Please note that the proposed changes to the calculation of value in use applies to all assets tested for impairment according to IAS 36 and not only goodwill. The proposed changes to the calculation of value in use may lead to reversals of impairments for all assets tested for impairment according to IAS 36 except goodwill.*
- 190 *In calculation value in use, IAS 36 currently require "future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflow or outflow that are expected to arise from: (a) a future restructuring to which an entity is not yet committed; or (b) improving or enhancing the asset's performance."*
- 191 *The constraints in the current requirement lack consistency in a number of dimensions.*
- (a) *The calculation of value in use is not consistent with the calculation of fair value as in the calculation of fair value the assumption of how market actors will maximise the options embedded in an asset is considered while in the calculation of value in use the assumptions of how the entity will maximise the options embedded in an asset is only regarded to the extent the entity has committed to exercise the options.*
- (b) *The intention of the holder is not a characteristic of an asset but is relevant in a value in use calculation. What is not consistent is that only parts of the intentions of the holder is considered, those for which there is a commitment, while uncommitted intentions are ignored.*

- (c) *It is required that future cash flows shall be estimated for the assets in its current condition. Its current condition includes the current expectation of future possible enhancements. To exclude the assessment of future enhancements implies only measuring future cash flows for a part of the asset in its current condition.*

192 *In paragraph BC205 of the Basis of Conclusions on the ED, the IASB cites the following reasons for removing the constraints. It would:*

- (a) *reduce cost and complexity—removing the constraint would reduce the need to amend management’s financial budgets or forecasts. Stakeholders said that it can be challenging for management to distinguish maintenance capital expenditure from expansionary capital expenditure and identify which cash flows need to be excluded because they relate to expansionary capital expenditure.*
- (b) *make the impairment test less prone to error because estimates of value in use would be based more closely on cash flow projections that are prepared, monitored and used internally for decision-making.*
- (c) *make the impairment test easier to understand, perform, audit and enforce.*

By design, the proposed amendments to remove the constraints will increase the measured value in use.

193 *IAS 36 currently requires the use of a pre-tax cash flows and pre-tax interest rate when calculating value in use.*

194 *In paragraph BC219 of the Basis for Conclusions on the ED, the IASB cites the following reasons for removing the requirement to use pre-tax cash flows and pre-tax discount rates. It “would:*

- (a) *make the impairment test easier to understand by aligning it with valuation practice.*
- (b) *Not require entities to calculate pre-tax discount rates solely to satisfy the disclosure requirements in IAS 36.*
- (c) *Provide users with more useful information.*
- (d) *Better align the value in use calculation in IAS 36 with fair value in IFRS 13 Fair Value Measurement. IFRS 13 does not specify whether an entity is required to use pre-tax or post-tax cash flows and discount rates to measure fair value using a present value technique. Instead, IFRS 13 requires an entity to use internally consistent assumptions about cash flows and discount rates.”*

- 195 *In paragraph BC221 of the Basis for Conclusions on the ED, the IASB states: “it is important ... to emphasise that the cash flow forecasts and discount rates used in impairment tests should be internally consistent.”*
- 196 *By design the proposed amendments to allow calculations based on post-tax cash flows and post-tax discount rates will not affect the measured 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

- 197 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.
- 198 EFRAG agrees with the IASB ‘s views presented in paragraph 205 of the of the Basis for Conclusions on the ED.
- 199 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 assets 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.

- 200 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 inputs to the calculation of value in use 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.
- 201 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.

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.

- 202 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.

Questions to Constituents

- 203 Do you agree with the EFRAG feedback in paragraph 197 and 202 to the questions raised by the IASB?
- 204 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?
- 205 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?
- 206 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?

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

Notes to constituents – Summary of proposals in the ED

- 207 *The IASB is expected to publish the forthcoming Standard IFRS 19 Subsidiaries without Public Accountability: Disclosures (“Subsidiaries Standard”) in May 2024. The Subsidiaries Standard will allow eligible subsidiaries¹ without public accountability² to apply the recognition, measurement and presentation requirements of IFRS Accounting Standards and the reduced disclosure requirements of the forthcoming Subsidiaries Standard. The Subsidiaries Standard will include some of the disclosure requirements in IFRS 3 Business Combinations³.*
- 208 *The IASB proposes to include in the forthcoming Subsidiaries Standard some of the disclosure requirements in the ED (as found below in question 8) that would apply to eligible subsidiaries. The basis for incorporation is the principles in paragraph BC256 of the Basis for Conclusions on the ED and cost-benefit considerations. In addition, the IASB has decided, as is usually the case, not to include disclosure objectives in the Subsidiaries Standard.*
- 209 *Accordingly, the IASB does not propose some of the disclosures that would be required for all entities applying the proposed amendments to include in the Subsidiaries Standard,*

¹ An eligible subsidiary is not publicly accountable and has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

² An entity has public accountability if (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this criterion). Please see the briefing [Subsidiaries without Public Accountability: Disclosures - Who can apply it in the EU?](#), as issued by EFRAG in 2021.

³ In paragraphs 77-79 of its comment letter on the IASB’s ED *Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures*, EFRAG raised concerns on a number of disclosures in IFRS 3 that would not be included in the Subsidiaries Standard (Primary reasons for business combinations, provisional amounts for business combinations not finalised, for business combinations achieved in stages any gains or losses in fair value remeasurement for the equity interest in the acquiree held by the acquirer prior the acquisition).

based on its assessment that costs would outweigh benefits and the principles in paragraph BC256 of the Basis for Conclusions on the ED. Thus, an eligible subsidiary would not be required to provide any of the disclosures below:

- (a) **Disclosure objectives:** As stated above, the IASB does not include disclosure objectives in the Subsidiaries Standard.*
- (b) **Information about strategic business combinations** (that is acquisition-date key objectives and related targets and whether these key objectives and related targets are being met): The IASB considers that users would be less interested in information assessing management's stewardship, and the thresholds would capture more business combinations than intended.*
- (c) **Segments to which goodwill is allocated:** The IASB does not require eligible subsidiaries to disclose any information required by IFRS 8 Operating Segments.*

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

210 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.

- 211 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.
- 212 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, EFRAG highlights the challenges for eligible subsidiaries providing this information in the stand-alone financial statements, if determined at a group level.
 - (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)).

213 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.
- (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.

214 On balance, EFRAG notes that the IASB proposals seem to achieve a fair balance between costs and benefits of disclosing relevant information.

215 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 to Constituents

216 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

Notes to constituents – Summary of proposals in the ED

Amendments to IFRS 3

217 The IASB proposes **prospective application** of the IFRS 3 proposed amendments by adding the proposed paragraph 64R of IFRS 3 that would require an entity to apply the proposed amendments prospectively to a business combination on or after the effective date, with earlier application permitted.

218 In IASB view's the **costs of applying the amendments retrospectively would outweigh the benefits** obtained from doing so because:

- (a) Some preparers said they intend to change how they review business combinations to improve the quality of information disclosed. Consequently, entities might not

have enough time to update their internal controls and processes if the application would be retrospective.

- (b) Some of the proposed amendments might be difficult to apply without hindsight, for example when assessing if the entity's objectives for a strategic business combination were key objectives at acquisition date.

219 The IASB also acknowledges that the **information about business combinations occurred before and during the comparative period could be less useful** than information on the new business combinations pursued by the entity. The reasons are:

- (a) users could already have made their valuation on the different aspects of the business combination (if the price paid was worthy, if the expected synergies are realistic...).
- (b) users might not get a complete picture of the performance of a business combination. For example, when a business combination occurs before the comparative period and management monitor some but not all key objectives in the comparative period.

220 The IASB also decided **not to propose relief for first-time adopters from any of the proposed amendments to IFRS 3** because:

- (a) first-time adopters are expected to plan their transition to IFRS Accounting Standards with enough time. For this reason, as an example, first-time adopters do not face the challenges of updating their internal procedures or the risk to apply hindsight.
- (b) this approach would be consistent with the approach the IASB has taken for other IFRS 3 disclosure requirements.
- (c) information about past business combinations is useful although less than the one about business combinations in the first IFRS reporting period.

Amendments to IAS 36

221 The IASB also proposes **prospective application** of the IAS 36 proposed amendments by adding the proposed paragraph 1400 of IAS 36 that would require an entity to apply the proposed amendments prospectively to impairment tests performed on or after the effective date, with earlier application permitted. The IASB concluded that, as for the amendments to IFRS 3, the **benefits of applying the amendments retrospectively would not justify the cost** because:

- (a) some of the **information** necessary to apply the proposed amendments retrospectively **might not be available**. For example, judgements and assumptions about future cash flows for impairment tests as at previous reporting dates.

(b) *the recoverable amount of an asset would be unaffected by some of the proposed amendments and so the measurement of that asset would also be unaffected. In these cases, retrospective application would therefore provide **no additional information**.*

222 *The IASB also decided, as for the amendments to IFRS 3, **not to propose relief for first-time adopters** from the proposed amendments to IAS 36 because a first-time adopter would be required to apply all other aspects of IAS 36 when applying IFRS 1 First-time Adoption of International Financial Reporting Standards.*

Amendments to Subsidiary Standard

223 *The IASB proposes, as for the amendments of IFRS 3 and IAS 36, to require an eligible subsidiary to apply the **proposed amendments prospectively**, without restating comparative information because, in IASB's view, the cost would outweigh the benefits. Earlier application is permitted.*

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

224 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.

225 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.

226 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

- 227 EFRAG acknowledges that entities may need time to update their internal systems because preparers might decide to change how they assess business combinations.
- 228 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

- 229 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.
- 230 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.
- 231 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

Notes to constituents – summary of IASB proposals

Location of information (paragraphs BC132 – BC147 of the Basis for Conclusions on the ED)

- 232 *In developing the proposals, the IASB acknowledged that some aspects of its proposals could contain forward-looking information. However, the IASB also considered that other information (such as information about key objectives and targets and other performance information) is not forward-looking in the context of the Conceptual Framework for Financial Reporting (Conceptual Framework). This is because the information relates to assumptions made at the time of the business combination.*
- 233 *The IASB noted that paragraph 3.6 of the Conceptual Framework states that forward-looking information can be required in financial statements if it: (a) relates to the entity's assets or liabilities (including unrecognised assets or liabilities—or equity) that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and (b) is useful to users. The IASB observed that the acquisition price is reflected in the financial statements through the recognition of assets acquired and liabilities assumed in the business combination, including goodwill.*
- 234 *The IASB concluded that 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 all entities disclose this information in a consistent manner.

Auditability of information (paragraphs BC144-BC145 of the Basis for Conclusions on the ED

235 *On the auditability of the proposed disclosures, the IASB was informed that auditors expect to be able to audit the information. The IASB notes that auditors will be able to verify whether the disclosed information is the information that is reviewed and monitored by the entity's key management personnel and whether there is sufficient evidence that supports the information.*

EFRAG's response

236 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.

237 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 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.

238 [PARAGRAPH INCLUDED IN DRAFT COMMENT LETTER ONLY - Given the noted concerns with including some of the information in the financial statements, EFRAG seeks additional feedback from constituents on whether there are aspects of the proposed disclosures that ought not to be provided in the financial statements.]

Auditability of information

239 EFRAG highlights that the IASB 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 has previously been shared with users of financial statements in investor presentations when the acquisition took place and in post-acquisition periods.

240 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.

- 241 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 to review and monitor the business combination.

Requiring the disclosure proposals for entities without public accountability

- 242 [PARAGRAPH INCLUDED IN DRAFT COMMENT LETTER ONLY - EFRAG has heard some concerns regarding requiring the full package of new disclosures for entities (other than subsidiaries) without public accountability. EFRAG therefore seeks additional feedback from constituents on this matter.]

Question to Constituents

- 243 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?
- 244 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.

Practice Statement

- 245 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”.