

## Goodwill and Impairment

### Disclosures on objectives, subsequent performance and expected synergies from a business combination

#### Objective

- 1 The IASB issued the Discussion paper [Business Combinations – Disclosures, Goodwill and Impairment](#) ('the DP') in March 2020. An exposure draft is expected in 2024.
- 2 The IASB redeliberated the proposed disclosures at several meetings in 2022 and since September 2022 made tentative decisions on the package of disclosures an entity should provide on the objective and subsequent performance of a business combination. The IASB is expected to continue discussing different aspects of these tentative decisions during the first half of 2023.
- 3 Recent discussions with the EFRAG FR TEG and EFRAG FRB highlighted mixed support for the IASB decisions. EFRAG FR TEG generally supported the way forward and the compromise the IASB has reached. However, the EFRAG FRB was less supportive. Some members considered that the information would be costly to prepare and questioned the benefits to users. Some EFRAG FRB members considered that the information should be provided outside of the financial statements.
- 4 The purpose of this session to better understand the EFRAG FRB members' concerns on the disclosure tentative decisions taken so far and to align views of EFRAG FRB and EFRAG FR TEG members in this respect.
- 5 An IASB "In Brief" article explains the IASB's tentative decisions in the context of the project and its primary objectives. The paper can be consulted [here](#).

#### Structure of this paper

- 6 This paper is structured as follows:
  - (a) DP proposed disclosures and feedback received;
  - (b) IASB tentative decisions;
  - (c) EFRAG discussions and feedback so far; and
  - (d) Next steps.

#### DP proposed disclosures and feedback received

- 7 A key objective of this project is to improve the information an entity provides on business combinations under IFRS 3 *Business Combinations* particularly the information about why an entity undertakes a business combination and whether those objectives are being met.
- 8 The IASB proposed the following disclosures in the DP<sup>1</sup>:

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<sup>1</sup> The DP contained other preliminary views about the disclosure requirements on business combinations but they are not the focus of this discussion.

- (a) **Additional disclosure objectives** – include two additional disclosure objectives to IFRS 3 *Business Combinations* that would require entities to disclose information that would help users understand:
- (i) the benefits an entity expected from a business combination when agreeing the price to acquire that business; and
  - (ii) the extent to which management’s objectives are being met.
- (b) **Disclosure about subsequent performance of business combinations**
- (i) in the year of a business combination, entities disclose the strategic rationale, objectives for that business combination, the metrics and targets management plan to use to monitor achievement of those objectives; and
  - (ii) in subsequent years post-acquisition, entities disclose management’s review of the entity’s performance against those objectives (actual performance).

*This preliminary view builds on the requirement in paragraph B64(d) of IFRS 3<sup>2</sup> and is based on the information reviewed by the Chief Operating Decision Maker (CODM) to identify the population of business combinations being monitored.*

- (c) **Disclosure about expected synergies** – require entities to disclose, in the year of a business combination, quantitative information about the synergies expected as a result of the business combination:
- (i) a description of synergies expected from combining the operations of the acquired business with the entity’s business;
  - (ii) when the synergies are expected to be realised;
  - (iii) the estimated amount or range of amounts of those synergies; and
  - (iv) the estimated cost or range of costs to achieve those synergies.

*This preliminary view is relevant only in the year of acquisition and builds on the requirement in paragraph B64(e) of IFRS 3<sup>3</sup>. The information under this preliminary view is not linked to the information reviewed by the CODM.*

#### *Feedback on the DP proposals*

##### *Users*

- 9 Users generally supported the proposals and noted that:
- (a) The information would help them assess management’s ability to realise the expected benefits from an acquisition and assess whether an acquisition’s subsequent performance indicates that management paid a reasonable price for the acquired business.
  - (b) The information about whether management’s objectives are being met would allow investors to assess performance and more effectively and could use the information to assess management’s stewardship of the company’s economic resources.

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<sup>2</sup> Paragraph B64(d) of IFRS 3 requires an entity to provide the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.

<sup>3</sup> Paragraph B64(e) of IFRS 3 requires a qualitative description of the factors that make up goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

- (c) Would like to have all this information at one place, preferably in the financial statements. It can be less detailed than in the prospectus, but preferably standardised.

*Preparers*

- 10 Preparers were less supportive of the proposed disclosures and noted the following concerns:
- (a) **commercial sensitivity** – that disclosure could contain sensitive information that, if disclosed, could harm the entity;
  - (b) **forward-looking information** – that disclosure could contain information about the future that, if disclosed, could increase litigation risk;
  - (c) **integration** – an entity may not be able to disclose information that is representative of the performance of a business combination if the acquired business is integrated into the entity’s existing operations; and
  - (d) **auditability** – some information that would be required by the preliminary views may be costly, or difficult, to audit.

**IASB tentative decisions**

- 11 When redeliberating the proposals in the DP, the IASB acknowledged the concerns of preparers in paragraph 10; and the request from users for better information provided under IFRS 3. Therefore, the IASB tried to find a compromised solution that would be acceptable for both preparers and users.
- 12 In September 2022 the IASB tentatively decided to proceed with an amended version of the proposals in the DP and:
- (a) require some of the information for only a **subset of business combinations** considered to be ‘strategically important’; and
  - (b) providing entities with an **exemption** from disclosing some of the information required in specific circumstances.
- 13 The IASB tentative decisions can be summarised as follows:

	All material business combinations	Only ‘strategically important’ business combinations
Proposed exemption applies	In year of acquisition, quantitative information about expected synergies (expands requirement to disclose qualitative information about factors making up goodwill)	In year of acquisition, information about management’s: <ul style="list-style-type: none"> <li>• objectives;</li> <li>• metrics; and</li> <li>• targets</li> </ul>
No proposed exemption	In year of acquisition, strategic rationale for undertaking the business combination (replaces requirement to disclose ‘primary reasons for the business combination’ in IFRS 3)	In subsequent periods, information about the extent to which management’s objectives are being met, using those metrics

- 14 The table below (taken from IASB [agenda paper 18B](#) in September 2022) provides an overview of how the subset and the exemption will affect the disclosure requirements proposed in the DP.

Information	Continue with proposals in DP	Apply only to a subset	Include an exemption
<i>Additional disclosure objectives</i>	Yes	N/A	N/A
<i>Subsequent performance information</i>			
❖ Strategic rationale	Yes	No	No
❖ Objective	Yes	Yes	Yes
❖ Metric	Yes	Yes	Yes
❖ Target	Yes	Yes	Yes
❖ Actual performance	Yes	Yes	No
<i>Quantitative information about expected synergies in year of acquisition</i>	Yes	No	Yes

15 The paragraphs below discuss each tentative decisions in more detail.

#### Additional disclosure objectives

16 The IASB tentatively decided to **continue** with its preliminary views in the DP and propose to add the following **two new disclosure objectives** to IFRS 3:

- (a) the benefits an entity expected from a business combination when agreeing the price to acquire that business; and
- (b) the extent to which management’s objectives are being met.

17 The IASB noted that paragraphs 59 and 61 of IFRS 3 already contain disclosure objectives for IFRS 3.

- (a) Paragraph 59 of IFRS 3 states that the acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:
  - (i) during the current reporting period; or
  - (ii) after the end of the reporting period but before the financial statements are authorised for issue.
- (b) Paragraph 61 of IFRS 3 states that the acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

18 The additional disclosure objectives are intended to improve the information provided to users to help users better understand a business combination and whether management’s expected objectives from the business combination are being met.

## Quantitative information about expected synergies in the year of acquisition

- 19 The IASB tentatively decided to:
- (a) require an entity to disclose in the year of a business combination quantitative information about expected synergies; and
  - (b) provide an exemption in specific circumstances that would permit an entity not to disclose quantitative information about expected synergies.
- 20 In the view of the IASB, having quantitative information (as opposed to qualitative) would help users to:
- (a) assess whether the price management paid for a business combination was reasonable, which is one of the disclosure objectives; and
  - (b) understand the context for the disclosure of actual performance in subsequent periods.
- 21 In January 2023, the IASB discussed further how an entity would disclose information about expected synergies. The DP did not define synergies. At this meeting, the **IASB tentatively decided** to:
- (a) Require an entity to disclose quantitative information about expected synergies disaggregated by nature; for example, total revenue synergies, total cost synergies and totals for other types of synergies.
  - (b) Link the level of aggregation in which synergies are required to be disclosed with the application guidance accompanying the exemption - the application guidance would require an entity, that concludes disclosing expected synergies by nature would qualify for the exemption, to consider whether disclosing that information at a total level (that is, not disaggregated by nature) could resolve concerns about commercial sensitivity.
  - (c) Specify that a description of the expected synergies (from combining the acquired business with the entity's business) is a description of the nature of the synergies, and not a description of where the synergies are expected to arise.
  - (d) Require an entity to disclose when the benefits expected from the synergies are expected to start and how long they will last (which would require an entity to identify whether those synergies are expected to be finite or indefinite).
- 22 The IASB noted that based on feedback received, information that is most useful to users is quantitative information about synergies disaggregated by nature. However, in cases entities argue that this level of disaggregation could be potentially commercially sensitive, then information at a higher level could still be useful.

## Subsequent performance information

### *Strategic rationale*

- 23 The IASB has tentatively decided to propose replacing the requirement for an entity to disclose the 'primary reasons for the business combination' in paragraph B64(d) of IFRS 3 with a requirement to disclose the '**strategic rationale for undertaking the business combination**'. This information would be required for all business combinations (and no exemption would be provided) because:
- (a) Most preparers said that they often already provide this information in other published materials, for example, press releases at the time of the business combination.
  - (b) Currently IFRS 3 does not exempt an entity from disclosing the 'primary reasons for the business combination'. An entity's primary reason for a business combination is likely to be similar to its strategic rationale for

undertaking the business combination. However, the latter would provide a closer link to the entity's overall business strategy and management's objectives for the business combination.

- (c) Feedback received from users agreed that an entity should disclose some level of qualitative information for all business combinations and that an entity should disclose the strategic rationale for all business combinations.

*Objective, metric, targets and actual performance*

- 24 The IASB has tentatively decided to amend its initial proposals and require an entity to disclose, for **a subset** (rather than all business combinations) which is considered **'strategically important' business combinations**, information about:
  - (a) management's objectives for the business combination;
  - (b) the metrics and targets management will use to monitor whether those objectives are being met; and
  - (c) in subsequent periods, the extent to which management's objectives are being met, using those metrics, for as long as management monitors the business combination against its objectives (actual performance).
- 25 The IASB has also tentatively decided that an **entity will be exempt** from providing the information in paragraphs 24(a) and 24(b) in certain circumstances.

**"Strategically important" business combinations**

- 26 A 'strategically important' business combination would be a business combination for which not meeting the objectives would seriously put at risk the entity achieving its overall business strategy.
- 27 Requiring the information for only a subset of material business combinations would help reduce companies' costs and address concerns in paragraph 10, and balance the costs with the benefits of providing the information. Some users had informed the IASB that they needed this information only for 'major' or 'fundamental' business combinations.
- 28 To identify such business combinations, the IASB proposed using a **closed list of thresholds** - a business combination that meets **any one of the following thresholds** would be 'strategically important':
  - (a) Quantitative—that is, a business combination in which:
    - (i) the acquiree's operating profit (to be defined by the IASB's *Primary Financial Statements* (PFS) project) exceeds 10% of the acquirer's operating profit, for the acquirer's most recent annual reporting period ending before the business combination was completed;
    - (ii) the acquiree's revenue exceeds 10% of the acquirer's revenue for the acquirer's most recent annual reporting period ending before the business combination was completed; or
    - (iii) the amounts recognised as of the acquisition date for all assets acquired (including goodwill) exceed 10% of the carrying value of the assets recognised on the acquirer's balance sheet as at the acquirer's most recent reporting period date before the business combination.
  - (b) Qualitative—that is a business combination that results in an entity entering a new geographical area of operations or a new major line of business.
- 29 The IASB considered that an open list of factors would be difficult to develop given the level of judgement involved and may also be difficult to enforce. It concluded that using a closed list would be more effective and the IASB could build on the thresholds and percentages used by regulators in determining when a business

combination is ‘strategically important’. Such thresholds are typically on primary financial statement measures such as gross assets and profit. To those measures regulators use percentages ranging from 5% to 30%.

- 30 Based on the feedback received the IASB concluded that 10% would be a reasonable compromise. At this stage, the IASB staff have not tested the thresholds and the outcome of applying them in practice. The IASB staff explained that field testing would be considered once the PFS project is more advanced and a definition of “operating profit” is known.

#### ***Exemption from disclosing information***

- 31 In September 2022, IASB tentatively decided to **propose an exemption** in specific circumstances that would permit an entity not to disclose information about:
- (a) the entity’s objectives for a business combination;
  - (b) the metrics and targets management will use to monitor whether the objectives for the business combination are being met; and
  - (c) quantitative information about synergies expected to arise from the business combination.
- 32 The IASB also tentatively decided **not to propose an exemption** from disclosing information about:
- (a) Strategic rationale for the business combinations (see paragraph 23); and
  - (b) The actual performance in subsequent periods measured using the metrics the entity’s management uses to monitor whether the objectives of the business combination are being met.

#### ***Designing the exemption***

- 33 In September 2022, the IASB tentatively agreed to include a principle that allows an entity not to disclose a particular item of information if disclosing that item of information can be expected to prejudice seriously any of management’s objectives for the business combination.
- 34 The IASB generally agreed that the exemption should focus on factors an entity would be required to meet and be supported by application guidance. The factors could include requiring an entity to:
- (a) consider whether it is possible to disclose information at a sufficiently aggregated level that would resolve concerns while still meeting the objectives of the disclosure requirements;
  - (b) disclose the reason for applying the exemption separately for each item of information - for example, if an entity has 3 key objectives for a business combination, with separate corresponding metrics and targets, the entity will need to disclose the reason for applying the exemption separately for each key objective, metric and target it applies the exemption to; and
  - (c) assess in future periods whether the circumstances leading to the application of the exemption still exist.

#### ***Application guidance***

- 35 The IASB discussed the IASB recommendation on application guidance in more detail at its meeting in January 2023 and **tentatively agreed** that the application guidance should require an entity to consider, as a minimum, the following factors:
- (a) the effect disclosing the information would have—an entity should be able to identify a specific reason for not disclosing the information. A general risk of a potential weakening of competitiveness due to disclosure is not, on its own,

sufficient reason to apply the exemption. An entity should not use the exemption simply to avoid disclosing information only because that information may not be considered favourably by the market.

- (b) the availability of the information—for example, if an entity has made the information available in a public communication, it would not be appropriate to apply the exemption to that information. Examples of public communication include press releases, investor presentations and regulatory filings made by the entity that are available to the public.
  - (c) the ability of competitors to act on the information—an entity should consider whether it is feasible for its competitors to act on the information. An entity's competitor might not be able to act on the information because, for example, it does not operate with enough scale in a particular jurisdiction.
- 36 The IASB suggested to broaden the concept of “public communication” in paragraph 35(b) to focus on the entity's intended communication, and draft the wording in paragraph 34(b) to focus more on the entity's expectations rather than its competitors.

*Information to which the exemption applies*

- 37 The IASB staff recommendation was to require an entity to **disclose a qualitative statement as to whether the actual performance of the business combination met the entity's target**. Such a statement would be particularly relevant in situations in which an entity applies the exemption in paragraph 31 (does not disclose its objective and/or target for a particular business combination).

*For example, if an entity's key objective for a business combination is to increase revenue by CU100 million each reporting period and the entity applies the exemption not to disclose that objective. In subsequent periods, the entity will disclose the actual increase in revenue achieved for that period (say CU98 million) and whether that increase of CU98 million met the entity's objective.*

- 38 The majority of IASB members did not support the IASB staff recommendation because in their view the information could be commercially sensitive and would not be meaningful if the entity did not disclose how the actual performance of the business combination compared to the entity's target.
- 39 At its meeting in January 2023, the IASB tentative decided (nine of eleven members) that an entity should be **required to disclose a qualitative statement** as to whether actual performance in subsequent periods met the target and be exempted from disclosing that statement in specific circumstances.

*Time period for which the exemption should apply*

- 40 An entity will be required to:
- (a) reassess in each reporting period whether the situation that gave rise to the exemption still exists.
  - (b) if the situation no longer exists, the entity should be required to disclose the item of information previously exempted.
  - (c) perform that reassessment for as long as the entity would otherwise be required to disclose information about the subsequent performance of the business combination.



## EFRAG discussions and feedback so far

### EFRAG FRB

- 41 EFRAG FRB discussed the proposed new disclosure requirements at their meeting in December 2022.
- 42 Several EFRAG FRB members expressed concerns with the disclosures and questioned whether they would meet their intended objectives.
- 43 There was a general concern with the cost-benefit aspects and robustness of the proposed disclosure requirements. Some members were concerned with the volume of information being required and whether the information would be useful for users. For example, one member said that users wanted to understand whether an acquisition was creating value for the entity. The disclosures did not seem to target this objective.
- 44 Some members cited concerns with the stewardship approach of the IASB had taken on the disclosures. The disclosure required information about why money had been spent in the way it had been. This was not required to other types of investments. It would be difficult to objectively define what information was being requested. It would be important to consider how the disclosures would interact with management reports but cautioned that this information may not be appropriate for the financial statements.
- 45 Other concerns can be summarised as follows:
  - (a) The proposed disclosures seemed to focus on a single business combination. However, this did not reflect reality and that often there were multiple business combinations which would be integrated into the group's operations. That integration meant that the ability to monitor the performance of individual acquisitions was lost.
  - (b) Some questioned the usefulness of the "qualitative" threshold which seemed similar to what is included in IFRS 5 *Non-current Assets Held for sale and Discontinued Operations* when disposing a business. There were different ways how companies applied this principle in practice under IFRS 5. On the "quantitative" thresholds, it was noted that some business combinations were more prominent than others. It would be useful to know how many business combinations exceeded 5%, 10%, 20% of the thresholds the IASB had chosen.
  - (c) The metrics and targets management will use to monitor whether those objectives are being met could change over time.
  - (d) An entity would need to disclose the information in subsequent periods for as long as management monitored the business combination. However, if management did not monitor the individual business combinations this would allow the entity not to disclose.
  - (e) Negative deviations between the reported targets and actual targets might raise questions about goodwill impairment and place additional pressure on entities to explain such deviations. This would be difficult because of integration and if an entity did not follow individual business combinations.
  - (f) One member noted that the exemption was not permitted if a competitor had access to information. It would not be possible to know this if the information was non-public. Companies should not be anticipating what information competitors had access to.

*EFRAG FR TEG*

- 46 EFRAG FR TEG members generally welcomed the direction of the IASB project and believed that the decisions taken by the IASB strike a good balance between the preparers' concerns and users' needs. Members appreciated the extensive work performed by the IASB to achieve this result.
- 47 It was noted that the proposed disclosures were extensively discussed and that the IASB had made significant concessions compared to initial proposals by reducing the population of business combinations to which the proposals would apply and introducing a subset and an exception when certain conditions are met. It was suggested that care should be taken in using the commercial sensitivity argument too generously.
- 48 It was also noted that extended disclosures about business combinations and their performance are heavily supported by the investor community and that the IASB is trying to balance the costs for preparers and the needs of investors. These disclosures are an example of stewardship concept in the Conceptual Framework.
- 49 Members highlighted the significant impact the proposed disclosures will have on preparers and highlighted the importance to have the final application guidance and illustrative examples in place in order to evaluate the usefulness of the proposed disclosure requirements and the extent of the application of the exception.
- 50 Members provided mixed views on the 10% thresholds to determine a 'strategically important' business combination, some considered it too high, while others appropriate as is. While some believed it was a reasonable approach, others expressed concerns that they are rule based and hence are too rigid. Some members wanted to see how the thresholds would work in practice.
- 51 Some EFRAG FR TEG members highlighted that the IASB should better clarify "expected synergies" and develop a clear definition as entities are required to provide quantitative information on this aspect. They also expressed concerns that the disclosures are forward-looking and hence about their reliability.
- 52 EFRAG FR TEG members noted that the IASB decision on the subsequent accounting for goodwill was an important point because, in their view, the proposed disclosures by itself will not solve the goodwill issue.
- 53 Members suggested that there are some quick wins to make the impairment test more robust and efficient given it remains important now that the impairment-only approach is most probably retained.
- 54 Members noted that there will be an opportunity to comment on the IASB proposals when the exposure draft will be published.

## **Next steps**

- 55 In December 2022, the IASB decided to move the project to its standard-setting work plan and will progress towards an exposure draft.
- 56 In future meetings, the IASB is expected to:
- (a) finalise its proposals for improving the disclosures about business combinations.
  - (b) consider whether improvements can be made to the impairment test of cash-generating units containing goodwill (for example, by considering ways to ensure goodwill is tested for impairment at an appropriate level). The IASB will also consider whether the test can be simplified.

- 57 Once all decisions on all the topics in the scope of the project are made, the IASB will consider the package of tentative decisions and decide whether they meet the project's objective and whether to publish an exposure draft.
- 58 The EFRAG Secretariat is planning to undertake preparer outreach through a survey to test the application of the thresholds to determine a "strategically important" business combination and assess whether the outcome meets stakeholder expectations. The EFRAG Secretariat will also test the application of the exemption. At a later stage, the EFRAG Secretariat plan to reach out to users to get additional feedback on the package of disclosures.

**Questions to the EFRAG FRB members**

- 59 Do you have significant concerns about the proposed disclosure requirements, given the IASB has reduced the originally proposed disclosures and included an exemption? Please elaborate.
- 60 Do you consider that the proposed disclosure will meet their objectives? Do you consider that the two additional disclosure objectives in paragraph 16 will help to better understand a business combination and whether management's expected objectives from the business combination are being met? Are there other disclosure objectives that IFRS 3 should include?
- 61 Overall, in your view, will the proposed disclosure strike the cost-benefit balance of providing the information the users need about business combinations at a reasonable cost for preparers? If not, why? What other suggestions would you propose to meet the user needs in paragraph 9?

**Questions to the EFRAG FRB and FR TEG members**

- 62 Do you think that the information an entity will be required to provide on the synergies it expects from a business combination as described in paragraph 19 will be useful and feasible to provide?
- 63 The exemption in paragraph 31 from providing information is intended to be applied only when disclosing that item of information can be expected to prejudice seriously any of management's objectives for the business combination.  
An entity will therefore be required to explain why it is applying the exemption and consider the factors in paragraph 34. Do you consider that these factors are sufficient to ensure that the exemption is applied as intended?
- 64 Do you consider the qualitative statement about whether the actual performance of a business combination in subsequent periods meets the initial targets set by the entity (see example in paragraph 37) will be useful and feasible to provide?
- 65 Do you have any comments/observations on the timeframe for which the exemption should apply as described in paragraph 40?
- 66 Do you have any comments on the IASB tentative decisions on disclosures an entity will provide on subsequent performance and expected synergies from a business combination?
- 67 Do you have any suggestions on how the proposed disclosure requirements can be further improved?