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## **Business Combinations – Disclosures, Goodwill and Impairment – Project Update Issues Paper**

### **Objective**

- 1 The objective of the session is to provide EFRAG FR TEG members with an update on the status of the IASB Business Combinations – Disclosures, Goodwill and Impairment project. The update focuses on the IASB tentative decisions in January 2023 on how to design the disclosure exemption and expected synergies.

### **Exemption from disclosure requirements**

- 2 In September 2022, the IASB tentatively decided to propose an exemption in specific circumstances that would permit an entity not to disclose information about:
  - (a) management’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.
- 3 The IASB tentatively decided to propose no exemption from disclosing information about the actual performance in subsequent periods using the metrics management uses to monitor whether the objectives for the business combination are being met.
- 4 During the September 2022 meeting, the IASB also had a first discussion on the IASB Staff recommendations on how to design the exemption ([AP18C](#)). The IASB did not vote on specific details regarding to the design of the exemption but provided some inputs in this regard<sup>1</sup>.
- 5 In January 2023, following these inputs, the IASB Staff presented an updated analysis and the IASB were asked to make tentative decisions about some functionalities of the exemption. The following table summarises, and compares the September 2022 IASB Staff recommendations with the January 2023 IASB tentative decisions:

<b>Exemption elements</b>	<b>IASB Staff recommendations – September 2022</b>	<b>IASB tentative decisions – January 2023</b>
<i>Overall principle</i>	The IASB Staff recommended to include a principle that would allow an entity not to disclose a <b>particular item of information</b> if disclosing that item of	No changes.

<sup>1</sup> The IASB Staff recommendations were discussed by EFRAG FR TEG at its meeting on 3 November 2022 ([paper 03-02](#), paragraphs 48 – 63).

*Business Combinations – Disclosures, Goodwill and Impairment – Project Update – Issues Paper*

	information can be expected to <b>prejudice seriously any</b> of the entity's <b>objectives</b> for the business combination.	
<i>Application guidance</i>	<p>The IASB Staff recommended supplementing the exemption with application guidance, including:</p> <ol style="list-style-type: none"> <li>1. requiring an entity: <ol style="list-style-type: none"> <li>1.1. to consider whether it is possible to disclose information at a <b>sufficiently aggregated level</b> that would resolve concerns while still meeting the objectives of the disclosure requirements;</li> <li>1.2. to disclose the reason for applying the exemption <b>separately for each item of information</b>; and</li> <li>1.3. to <b>assess in future periods</b> whether the circumstances leading to the application of the exemption still exist.</li> </ol> </li> <li>2. <b>specify situations</b> in which the <b>exemption would not be permitted</b>, including: <ol style="list-style-type: none"> <li>2.1. a <b>general risk of a potential weakening</b> of competitiveness due to disclosure is not, on its own, sufficient reason to apply the exemption;</li> <li>2.2. the exemption should not be applied to avoid disclosing information only because that information may not be considered <b>favourably by the market</b>;</li> <li>2.3. the information is disclosed in other <b>publicly available material</b>; and</li> <li>2.4. if <b>competitors are already likely to have access</b> to the information from public or non-public documents or other sources, or would be unable to act on the information in a manner that can be expected to prejudice seriously any of the entity's objectives for the business combination.</li> </ol> </li> </ol>	<p>The IASB tentatively decided to include application guidance, that would require an entity:</p> <ol style="list-style-type: none"> <li>1. to <b>consider factors</b> including the effect of disclosing the information and the availability of the information in determining whether the exemption is applicable;</li> <li>2. to consider whether it is possible to disclose information at a <b>sufficiently aggregated level</b> that would resolve concerns while still meeting the objectives of the disclosure requirements;</li> <li>3. to disclose, <b>for each item</b> of information to which an entity has applied the exemption, that it <b>has applied the exemption</b> and the <b>reason for applying</b> the exemption to that item of information; and</li> <li>4. to <b>reassess in each reporting period</b> whether the application of the exemption to an item of information is still appropriate. If it is no longer appropriate to apply the exemption, the entity would be required to disclose the item of information previously exempted. An entity would be required to perform that reassessment for as long as the entity would otherwise be required to disclose information about the subsequent performance of the business combination.</li> </ol>
<i>Information to which the exemption applies</i>	The IASB Staff recommended to require an entity to disclose a <b>qualitative statement</b> as to whether the actual performance of the business combination met the entity's target.	<p>The IASB tentatively decided:</p> <ol style="list-style-type: none"> <li>1. to require an entity to disclose a <b>qualitative statement</b> of whether <b>actual performance</b> of a business combination in subsequent periods <b>met the entity's target</b> for the business combination; and</li> <li>2. to permit an entity to <b>apply the exemption</b> agreed in this meeting to that qualitative statement.</li> </ol>

*Overall principle*

- 6 In line with the September IASB Staff recommendations, the IASB tentatively decided 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.
- 7 The assessment should be performed at the "item of information" level, which refers to each disclosed element for which the exemption could apply (objectives of a business combination, the metrics and targets used to monitor, and quantitative information about expected synergies).
- 8 The wording "can be expected to prejudice seriously" is taken from paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Asset* and local regulatory requirements (e.g., Australian Securities & Investments Commission and e European Banking Authority).

*Application guidance*

- 9 At the September 2022 meeting, IASB members generally agreed with the IASB Staff recommendations, but some IASB members expressed concerns about some of the terminology used in the recommendations. In particular, the IASB members asked to consider:
  - (a) whether a list of factors rather than situations would permit a better application of the exemption;
  - (b) the difficulties to apply some application guidance due to the lack of clarity about what constitutes "public available material" and the potential issues on assess what information an entity competitor has access and how an entity competitors may act up;
  - (c) the time period for which the exemption would be available.
- 10 In the [AP18A](#) of January 2023, taking into consideration the IASB members' comments, the IASB Staff considered that the concern about a prescriptive wording of situation in which an entity cannot apply the exemption can be overcome by specifying factors an entity would be required to consider in determining whether to apply the exemption. The prescriptive list of situations in which apply the exemption is transformed into an illustration of how an entity might conclude when assessing the applicability of the exemption.
- 11 Furthermore, the IASB Staff noted concern about the entities not knowing what information competitor have access to and suggested requiring an entity to consider only information that the entity itself has made public. The IASB Staff considered that the IASB could use the term "*public communication*" as part of the application guidance on the exemption, borrowing the meaning from the *Primary Financial Statements* project. In the context of this project, the IASB tentatively decided in [November 2021](#) to narrow the scope of public communications considered for the purposes of applying the definition of management performance measures (MPMs), by excluding oral communications, transcriptions and social media posts.
- 12 The IASB Staff provided the following illustrative example of how the application guidance could be drafted.

*To determine whether an item of information is eligible for the exemption described in paragraph X, an entity should 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 in paragraph X 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 described in paragraph X 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.*

- 13 During the January 2023 meeting, the IASB members were not asked to comment on drafting. However, the IASB members provided the following observations:
- (a) the wording proposed in paragraph (c) should focus more on the entity's expectations rather than on its competitors; and
  - (b) the concept of "public communication" should be broadened to focus on communications that an entity makes intentionally and under its control, without restricting the perimeter to the types of channels used.
- 14 Regarding the period of time for which the exemption would be available, the IASB confirmed its intention to require an entity to consider in each reporting period whether the application of the exemption remains appropriate. In addition, the IASB has tentatively decided to set a time limit on how long an entity is required to reassess which corresponds to the entity would otherwise be required to disclose information about the subsequent performance of the business compensation. This requirement was preferred over including a sunset clause<sup>2</sup>.

*Information to which the exemption applies*

- 15 At the September 2022 meeting, a majority of the IASB members did not vote in favour of the IASB Staff recommendation to require an entity to disclose a qualitative statement as to whether the actual performance of the business combination met the entity's target. The IASB members were mainly concerned that the qualitative statement could result in an entity disclosing commercially sensitive information.
- 16 As a result, the IASB Staff reworded the recommendation and suggested the IASB should require an entity to disclose a qualitative statement as to whether actual performance in subsequent periods met the target and to be exempted from disclosing that statement in specific circumstances.
- 17 In January 2023, 9 of 12 IASB members agreed with the reworded recommendation of the IASB Staff.

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<sup>2</sup> A sunset clause would require an entity to disclose, when the exemption is initially applied, the amount of time management expect to apply the exemption to the item of information.

**Questions for EFRAG FR**

- 18 Does EFRAG FR TEG agree / have any comments on the IASB tentative decisions regarding the overall principle on the application of the exemption?
- 19 Does EFRAG FR TEG agree / have any comments on the IASB tentative decisions regarding the application guidance of the exemption?
- 20 Does EFRAG FR TEG agree / have any comments on the IASB tentative decisions regarding information to which the exemption applies?

**Expected synergies**

*Background*

- 21 In the DP, the IASB proposed the following disclosures about expected synergies:
- (a) 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.
- 22 This preliminary view is relevant only in the year of acquisition and builds on the requirement in paragraph B64(e) of IFRS 3.
- 23 In November 2021, the IASB tentatively decided:
- (a) not to define 'synergies'.
  - (b) not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view (for example, clarifying whether information should be based on synergies expected at the time of agreeing the price or subsequent to closing the transaction and whether to require entities to also disclose information about other components of goodwill).
- 24 At that meeting, the IASB discussed, but did not make tentative decisions on, whether to require an entity to disclose information about:
- (a) total expected synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies; and
  - (b) 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).
- 25 In September 2022 the IASB tentatively decided to propose:
- (a) adding to IFRS 3 Business Combinations a requirement for an entity to disclose in the year of a business combination quantitative information about expected synergies; and
  - (b) an exemption in specific circumstances that would permit an entity not to disclose quantitative information about expected synergies.

*Synergies disaggregated by nature*

- 26 Considering the feedback received on the level of aggregation of expected synergies, the IASB Staff considered that the most useful information for users is

quantitative information about synergies disaggregated by nature (e.g., total revenue, total cost).

- 27 The IASB Staff also considered that this level of aggregation could address the potential commercial sensitivity issue in most of the cases (e.g., disclosing information about cost synergies in total would not require an entity to disclose the number or existence of planned redundancies).
- 28 In cases where disclosing the expected synergies by nature would remain commercially sensitive, an entity could apply the exemption (as tentatively decided by the IASB in September 2022). In these cases, the IASB Staff recommended the IASB to specify in the application guidance that if an entity concludes information about expected synergies disaggregated by nature would qualify for the exemption, the entity is required to consider whether disclosing information about expected synergies at a total level could resolve concerns about commercial sensitivity.
- 29 Finally, the IASB Staff considered that requiring an entity to disaggregate synergies by nature and including some examples of the different natures of synergies (for example total revenue synergies, total cost synergies) could be helpful in responding to feedback requesting the IASB to define synergies.
- 30 All 12 IASB members agreed with the IASB Staff recommendations.

*Definition of “realised”*

- 31 In the DP the IASB proposed to disclose when expected synergies arising from a business combination are expected to be “realised”.
- 32 As a result of the feedback received, in November 2021, the IASB tentatively decided to require an entity to disclose when the benefits expected from the synergies are expected to start and the expected duration of those benefits rather than to require an entity to disclose when expected synergies are expected to be “realised”.
- 33 During the November 2021 meeting, some IASB members expressed some concerns about the wording and utility of the requirement. Therefore, the IASB Staff sought feedback, among other things, on this requirement during the testing of IASB Staff examples illustrating what entities might disclose based on the IASB’s preliminary views ([AP18C](#), April 2022).
- 34 The IASB Staff considered that the feedback received indicates that:
- (a) information will be useful to users of financial statements;
  - (b) it is feasible for entities to disclose information about when the benefits expected from the synergies are expected to start and to indicate whether those synergies are expected to be finite or indefinite.
- 35 For these reasons, the IASB Staff recommended that an entity be required to disclose information about when the benefits expected from the synergies are expected to start and how long they will last (including requiring an entity to disclose whether such synergies are expected to be finite or indefinite).
- 36 All 12 IASB members agreed with the IASB Staff recommendations.

*Summary of the IASB decisions*

- 37 On expected synergies, considering the tentative decisions taken in November 2021, September 2022 and January 2023, the IASB has tentatively decided to propose:
- (a) requiring an entity to disclose:

- (i) a description of the synergies by specifying each category of expected synergy;
  - (ii) 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);
  - (iii) the estimated amount or range of amounts of the synergies disaggregated by category (for example, total revenue synergies, total cost synergies and the total for each other type of synergy); and
  - (iv) the estimated cost or range of costs to achieve those synergies.
- (b) an exemption in specific circumstances that would permit an entity not to disclose the information described in (a);
  - (c) linking the level of aggregation in which synergies are required to be disclosed at with the application guidance accompanying the exemption – the application guidance would require an entity that concludes disclosing expected synergies by category would qualify for the exemption to consider whether disclosure as a total for all categories could remove the reason for applying the exemption to the total by category and, if so, to disclose the total of all categories;
  - (d) not to define synergies; and
  - (e) not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view (for example, clarifying whether information should be based on synergies expected at the time of agreeing price or subsequent to closing the transaction and whether to require entities to also disclose information about other components of goodwill).

**Questions for EFRAG FR TEG**

- 38 Does EFRAG FR TEG agree / have any comments on the IASB tentative decisions on the requirement to disclose quantitative information about total expected synergies disaggregated by category?
- 39 Does EFRAG FR TEG agree / have any comments on the IASB conclusion that disclosing expected synergies at a total level could resolve concerns about commercial sensitivity?
- 40 Does EFRAG FR TEG agree / have any comments on the IASB tentative decisions on the requirement to disclose when the benefits expected from the synergies are expected to start and how long they will last?
- 41 Does EFRAG FR TEG agree / have any comments on the IASB tentative decisions on expected synergies as a whole, as described in paragraph 37?