EFRAG FRB meeting
29 February 2024
Paper 06-01
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Business Combinations – Disclosure, Goodwill and Impairment

Key messages for EFRAG's DCL and summary of responses to EFRAG survey
Cover Note

Objective of this session

1 The objectives of this session are to:

(a) Present the key messages for EFRAG's draft comment letter and seek EFRAG FRB members views; and

(b) Present the feedback received on the EFRAG survey regarding the IASB's tentative decisions on the proposed disclosures.

2 The key messages reflect the views of EFRAG FR TEG provided during the February 2024 EFRAG FR TEG meeting. The views from the EFRAG IAWG and FIWG discussed on 26 and 27 February 2024 respectively will be presented verbally during this meeting.

3 The IASB Exposure Draft ('the ED') is expected in March 2024 with a comment period of 120 days.

Background

Project Background

4 The IASB issued the Discussion paper *Business Combinations – Disclosures, Goodwill and Impairment* ('the DP') in March 2020 and started redeliberating the proposals in 2021.

5 Specifically, the IASB has considered:

(a) How to improve the disclosures about business combinations;

(b) Whether to change the accounting for goodwill.

6 EFRAG published its final comment letter in January 2021.

7 The appendix to this paper provides a summary of IASB tentative decisions and EFRAG discussions so far.

EFRAG survey

8 In October 2023, the EFRAG project team has launched a survey aimed at preparers of financial statements to collect input on the IASB's proposed disclosure requirements for business combinations. In particular, the survey's objective was to collect information on whether the proposed disclosure requirements can be applied in practice and whether they meet the intended objectives at a reasonable cost.

9 The survey addressed three main topics: the thresholds for determining a 'strategically important' business combination, the exemption from disclosing some information under certain circumstances, and the quantitative information about expected synergies.

Next steps

10 The EFRAG project team will start to develop the EFRAG draft comment letter as soon as the ED is published and thereafter plan discussions with the EFRAG FR TEG, EFRAG WG's and the EFRAG FRB for approval of the EFRAG draft comment letter sometime in April/May 2024.

Agenda Papers

11 In addition to this cover note, agenda papers for this session are:

(a) Agenda paper 06-02 – Summary of responses – EFRAG Survey on BCDGI Disclosures;

(b) Agenda paper 06-03 – Background paper – EFRAG Survey on BCDGI Disclosures;

(c) Agenda paper 06-04 – Presentation – Key messages – EFRAG DCL on BCDGI; and

(d) Agenda paper 06-05 – Background paper – Key messages – EFRAG DCL on BCDGI.

Appendix

Topic	IASB's tentative decisions	EFRAG's Final Comment Letter	EFRAG Discussions on the IASB tentative decisions
Objective and scope	In June 2021, The IASB tentatively decided to leave the objective of the project unchanged from that described in the Discussion Paper and to make no changes to the project's scope at this stage. In December 2022, the IASB decided not to consider additional topics suggested by respondents in this project, except for two topics related to possible improvements to the effectiveness of the impairment test of cash generating units containing goodwill.	EFRAG supported the overall objective of the DP and considered that the DP did not aim at addressing shortcomings in goodwill accounting. EFRAG did not agree that the DP introduced a package of proposals, but rather considered it a series of proposals that could be considered independently.	This topic has been discussed during the meetings listed below: • FR TEG 2-3 December 2020 • FR TEG & FRB joint meeting 8 February 2023 **Summary of views provided** Some noted that the proposals would not meet the objective of providing relevant information to users as they will be difficult to implement in practice and would potentially result in boiler plate information.
Disclosure on the initial acquisition and subsequent performance of business combinations	In October 2021, the IASB tentatively decided that, based on the Conceptual Framework for Financial Reporting, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met—such as information about the subsequent performance of a business combination, and quantitative information about expected synergies. In September 2022, the IASB tentatively decided to propose: a. replacing the requirement in IFRS 3 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'. b. adding to IFRS 3 a requirement for an entity to disclose, for **'strategically important'** business combinations, (i) information about management's	EFRAG considered that disclosure requirements proposed in the DP could result in useful information to assess business acquisitions and supported the introduction of disclosure objectives. However, EFRAG expressed concerns about commercial sensitivity, location of information and cost-benefit issues. EFRAG suggested the IASB to further examine whether some information might be better provided in the management commentary instead of in the financial statements.	This topic has been discussed during the meetings listed below: • FIWG meeting 5 October 2020 • Advisory Panel on Intangibles meeting 7 October 2020 • FR TEG meeting 10 November 2020 • FR TEG meeting 2-3 December 2020 • FRB meeting 14 January 2021 • User Panel meeting 7 December 2021 • FIWG meeting 8 December 2021 • FR TEG meeting 18-19 January 2022 • FR TEG meeting 18-19 May 2022 • FIWG meeting 21 June 2022 • FRB meeting 6 July 2022 • User Panel meeting 7 July 2022 • FRB meeting 21 December 2022 • FR TEG 18-19 January 2023 • FR TEG & FRB joint meeting 8 February 2023

	objectives for a business combination and the metrics and targets management will use to monitor whether the objectives for the business combination are being met and (ii) actual performance in subsequent periods. c. **providing an exemption** in specific circumstances that would permit an entity not to disclose information about management's objectives for a business combination and the metrics and targets management will use to monitor whether the objectives for the business combination are being met. 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 **Strategically important' business combinations** In September 2022 the IASB tentatively decided that 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. To identify such business combinations, the IASB tentatively decided to propose using a closed list of thresholds—a business combination that meets any one of those thresholds would be 'strategically important'. The thresholds would be: Quantitative—that is, a business combination in which: the acquiree's operating profit (to be defined by the IASB's Primary Financial Statements project) exceeds 10% of the acquirer's operating profit, for the acquirer's most recent		• FR TEG meeting 16 March 2023 • 10 May FR TEG & User Panel joint meeting 10 May 2023 **Summary of views provided** The proposals on information about subsequent performance of a business combination have raised concerns from some stakeholders, especially preparers about the costs and commercial sensitivity of providing the information in the financial statements. However, the focus for some information on a ''sub-set'' of business combinations will address this concern at least to some extent. EFRAG User Panel members have been generally supportive of the disclosure proposals and the aim of the IASB to improve the information on the performance of significant business combinations.

	annual reporting period ending before the business combination was completed; 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 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. 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. In January 2023, the IASB tentatively decided on the design of the exemption. In February 2023, the IASB tentatively decided to: a. identify the information the entity is required to disclose about the subsequent performance of business combinations using the **key management** personnel of the reporting entity, as defined in IAS *24 Related Party Disclosures*; b. maintain its preliminary view that an entity be required to disclose information about the subsequent performance of a business combination for as long as the entity's management continues to monitor whether the objectives of the business combination are being met (subject to additional disclosure requirements when an entity's management is not or stops monitoring the performance of a business combination); and c. clarify some details of the disclosure requirements, for example that an entity would be permitted to disclose information about its targets for a business combination as a range or a point estimate.		

Improvements to existing IFRS 3 disclosure requirements	***Disclosure objectives*** In October 2021, the IASB tentatively decided that, based on the Conceptual Framework for Financial Reporting, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met—such as information about the subsequent performance of a business combination, and quantitative information about expected synergies. In September 2022, the IASB tentatively decided to propose adding the disclosure objectives described in the Discussion Paper to IFRS 3. ***Expected synergies arising from a business combination*** 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 the purpose of testing staff examples the IASB decided that the examples should illustrate disclosure of 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 one-off or recurring). In September 2022, the IASB tentatively decided to propose adding the disclosure objectives described in the Discussion Paper to IFRS 3.	EFRAG considered that disclosure requirements proposed in the DP could result in useful information to assess business acquisitions and supported the introduction of disclosure objectives. However, EFRAG expressed concerns about commercial sensitivity, placement of information and cost benefit issues. EFRAG suggested the IASB to further examine whether some information might be better provided in the management commentary instead of in the financial statements. EFRAG supported separate disclosure of liabilities arising from financing activities and defined benefit pension liabilities acquired as part of an acquired business. EFRAG agreed with the IASB proposals to replace 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs' for both the pro forma information and information about the acquired business after the acquisition date. EFRAG disagreed with providing pro forma information for cash flows from operating activities.	This topic has been discussed during the meetings listed below: • Advisory Panel on Intangibles meeting 7 October 2020 • FR TEG meeting 2-3 December 2020 • FR Board 17 December 2020 • FRB meeting 14 January 2021 • FR TEG-CFSS meeting 24 November 2021 • FR TEG meeting 18-19 January 2022 • FR TEG 18-19 May 2022 • FIWG meeting 21 June 2022 • FRB meeting 6 July 2022 • FR TEG 6 June 2023 **Summary of views provided** Some members considered that information related to subsequent performance of an acquisition and forward-looking information should be included in the management commentary, while others thought that the information is better placed in the financial statements. Some members suggested the IASB to define ''synergies''.

	a. adding to IFRS 3 a requirement for an entity to disclose in the year of a business combination quantitative **information about expected synergies**; and b. providing an exemption from disclosing that information in specific circumstances. In January 2023, the IASB tentatively decided on the design of the exemption. The IASB also tentatively decided to require an entity: a. to disclose quantitative information about **expected synergies** by category (for example, total revenue synergies, total cost synergies and the total for each other type of synergy). b. to consider, for any case in which a disclosure of totals by category would qualify for an exemption, whether disclosure as a total for all categories could remove the reason for applying the exemption to the total by category. c. to describe the synergies by specifying each category of expected synergy. d. to disclose when the benefits expected from the synergies are expected to start and how long they will last. This disclosure would require an entity to identify whether the synergies are expected to be finite or indefinite. ***Liabilities arising from financing activities and defined benefit pension liabilities*** In November 2021, the IASB tentatively decided to achieve the objective of its preliminary view by not specifying that these liabilities are major classes of liabilities but instead by proposing to amend: a. paragraph B64(i) of IFRS 3 to remove the term 'major'; and b. paragraph IE72 of the Illustrative Examples accompanying IFRS 3 to illustrate liabilities arising from		

	financing activities and defined benefit pension liabilities as classes of liabilities assumed. ***Contribution of the acquired business*** In November 2021, the IASB tentatively decided: a. to retain the requirement in paragraph B64(q) of IFRS 3. b. to explain the objective of the requirement in paragraph B64(q)(ii) of IFRS 3 but not to provide guidance on how the information required by paragraph B64(q)(ii) should be prepared. c. to specify in paragraph B64(q)(ii) of IFRS 3 that the basis that an entity applies in preparing the information required by that paragraph is an accounting policy. d. to replace the term 'profit or loss' in paragraph B64(q) of IFRS 3 with 'operating profit or loss'. 'Operating profit or loss' will be as defined in the IASB's Primary Financial Statements project. e. not to add a requirement to disclose information about cash flows arising from operating activities. In March 2023, the IASB tentatively decided to remove from IFRS 3 requirements to disclose: a. information about acquired receivables (paragraph B64(h)); b. in the reconciliation between opening and closing goodwill balances, adjustments resulting from the subsequent recognition of deferred tax assets (paragraph B67(d)(iii)); and c. 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 effected in the current or previous reporting period (paragraph B67(e)).		
Effectiveness of the impairment test	In May 2023, the IASB tentatively decided that it is not feasible to design a different impairment test that would, at a reasonable cost, be significantly more effective than the	EFRAG agreed with the main reasons identified (management overoptimism and the 'shielding effect') and shared the IASB's reservations on the possibility to develop a	This topic has been discussed during the meetings listed below: • FIWG meeting 5 October 2020

	current requirements in IAS 36 for testing cash-generating units containing goodwill for impairment. **Pre-tax versus post-tax** The IASB tentatively decided to remove from IAS 36 the requirement to **use pre-tax cash flows and pre-tax discount rates in estimating value in use**. In addition, in May 2023 the IASB discussed the suggestions provided by respondents to the DP, criteria to consider those suggestions and feedback on those suggestions to improve the effectiveness of the impairment test, including: • Suggestions to reduce management over-optimism - by clarifying requirements, providing accountability and improving enforceability of the impairment test • Suggestions to reduce shielding - targeted improvements to prevent the allocation of goodwill to CGUs at a higher level than necessary and aligning the level at which goodwill is tested with the level at which management monitors operations. In July 2023, the IASB tentatively decided: replace 'goodwill is monitored for internal management purposes' in paragraph 80(a) of IAS 36 with 'business associated with the goodwill is monitored for internal management purposes'; a. to clarify the meaning of the proposed new wording for paragraph 80(a) by providing limited clarifications of what is meant by 'monitoring' a business associated with goodwill; b. to clarify that 'operating segment' in paragraph 80(b) of IAS 36 is intended to show the highest level that can be used by an entity in the impairment test when applying paragraph 80(a); c. to clarify why IAS 36 requires an entity to allocate goodwill to a cash-generating unit or a group of cash-generating units; and	different and more effective impairment approach. EFRAG suggested the following improvements: • Improve the guidance on how goodwill is allocated to cash generating units, in general and in case of disposals. • Better disclosures in relation to the impairment test can be provided, which can potentially reduce the shortcomings of the impairment test.	• FR TEG 6 June 2023 • FR TEG will discuss the IASB tentative decisions taken in July 2023, at the September meeting. **Summary of views provided** Members agreed with the IASB tentative decision to remove from IAS 36 the requirement to use pre-tax cash flows and pre-tax discount rates in estimating value in use. However, members requested application guidance and illustrative examples to prescribe which methods of calculating post-tax cash flows are permitted, to achieve consistency.

	d. to take no further action on any of the other suggestions from respondents to the Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment for improving the effectiveness of the impairment test. The IASB tentatively decided to require an entity to disclose the reportable segments in which cash-generating units containing goodwill are included. The IASB also tentatively decided to explain the difference between management monitoring 'strategically important' business combinations for the purpose of subsequent performance disclosure and management monitoring a business associated with the goodwill for the purpose of impairment testing.		
Subsequent accounting for goodwill	In November 2022, the IASB tentatively decided to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill.	EFRAG acknowledged the conceptual and practical arguments for both the impairment-only model and reintroduction of amortisation and noted that more and more voices were raised in favour of the latter mainly for practical reasons. However, considering that an accounting policy should only be changed if it would provide reliable and more relevant information, EFRAG suggested the IASB to further explore improvements to existing impairment test and any cost and consequences of reintroducing amortisation (including how to determine the useful life, amortisation method, the impairment test to be applied under the amortisation model and transitional provisions which should be regarded as a package).	This topic has been discussed during the meetings listed below: • FR TEG-CFSS meeting 23 September 2020 • FIWG meeting 5 October 2020 • Advisory Panel on Intangibles meeting 7 October 2020 • FR TEG 10 November 2020 • FR TEG meeting 2-3 December 2020 • EFRAG Board 17 December 2020 • FRB meeting 14 January 2021 • User Panel meeting 7 December 2021 • FRB meeting 21 December 2022 • FR TEG-CFSS meeting 28 June 2022 • User Panel meeting 7 July 2022 **Summary of views provided** Members were split on whether to keep the impairment-only model or reintroduce amortisation. Some members wanted to see

			amortisation to be reintroduced and keeping the annual impairment test. Members of the EFRAG User Panel highlighted the limited usefulness of reintroducing the amortisation of goodwill.
Simplifying the impairment test	In March 2023, the IASB tentatively decided to maintain its preliminary view to reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use. In May 2023, the IASB tentatively decided: a. to retain the requirement to perform a quantitative impairment test annually; and b. not to pursue any of the alternatives to it that were suggested by respondents.	EFRAG expressed reservations regarding introduction of an indicator-only approach as it had the potential to further delay the recognition of goodwill impairment losses and put more pressure on the qualitative assessment. EFRAG did not support the approach in connection with the impairment-only model. EFRAG agreed with the IASB proposals in the ED but asked for clarification whether cash flows from capacity investments were included in the asset enhancements and on the alignment with IAS 12 *Income Taxes*. EFRAG agreed with the IASB proposals except for not developing further guidance on allocating goodwill to cash-generating units.	This topic has been discussed during the meetings listed below: • FR TEG-CFSS 6 September 2020 • FR TEG 6 June 2023 **Summary of views provided** EFRAG FR TEG members agreed with the IASB's tentative decisions to retain the annual impairment testing requirement and highlighted the importance of pursuing the suggestions to address shielding. Members considered that additional guidance is needed on how to deal with right of use assets, the interaction with other IFRS Standards and the meaning of 'largely independent inflows'.
Presenting total equity excluding goodwill	In December 2022, the IASB tentatively decided against proceeding with its preliminary view and therefore tentatively decided not to require an entity to present the amount of total equity excluding goodwill as a separate line item on its statement of financial position.	EFRAG did not support the IASB's proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill.	This topic has been discussed during the meetings listed below: • Advisory Panel on Intangibles meeting 7 October 2020 • FR TEG meeting 18-19 January 2023 **Summary of views provided**

			Members agreed with IASB tentative decision in December 2022 not to require an entity to present the amount of total equity excluding goodwill as a separate line item on its statement of financial position.
Intangible assets acquired in a business combination	In December 2022, the IASB tentatively decided to maintain its preliminary view and therefore to make no changes to the recognition criteria in IFRS 3 for identifiable intangible assets acquired in a business combination.	EFRAG recommended that the issue on whether some intangible assets could be included in goodwill should be considered in a second phase of the project together with a revision of IAS 38. This is to ensure comparability between entities that grow by acquisitions with those that grow organically.	This topic has been discussed during the meetings listed below: • FR TEG meeting 18-19 January 2023 **Summary of views provided** Members agreed with IASB tentative decision in December 2022 to not change the recognition criteria in IFRS 3 Business Combinations for identifiable intangible assets acquired in a business combination.
Disclosure requirements for specific types of entities	The IASB tentatively decided to provide unlisted entities that apply full IFRS Accounting Standards with no exemptions from disclosing information about the subsequent performance of business combinations.	In its FCL, EFRAG did not comment on the disclosure requirements for specific types of entities.	EFRAG has not discussed this IASB tentative decision.
Transition and first-time adopters	In September 2023, the IASB tentatively decided: • to require an entity to apply the proposed amendments to the disclosure requirements in IFRS 3 to business combinations for which the acquisition date is on or after the effective date of the amendments, with earlier application permitted; • to require an entity to apply the proposed amendments to IAS 36 to impairment tests on or after the effective date of the proposed amendments, with earlier application permitted; and • not to provide first-time adopters with a specific exemption from applying the proposed amendments to IFRS 3 and to the proposed amendments to IAS 36.	In its FCL, EFRAG did not comment on transition and first-time adopters.	This topic has been discussed during the meetings listed below: • FR TEG meeting 19 October 2023 **Summary of views provided** EFRAG FR TEG agreed with the IASB tentative decisions on transition requirements and first-time adopters.
Amendments to other Standards	In July 2023, the IASB tentatively decided to propose the prospective IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* be amended after its issue	In its FCL, EFRAG did not comment on the *Subsidiaries without Public Accountability: Disclosures* project.	EFRAG has not discussed these IASB tentative decisions.

	to require an eligible subsidiary to disclose quantitative information about expected synergies, subject to the same exemption proposed for an entity applying IFRS 3 in the project on Business Combinations—Disclosures, Goodwill and Impairment. In September 2023, the IASB tentatively decided to propose amending the new IFRS Accounting *Standard Subsidiaries without Public Accountability: Disclosures* to require an eligible subsidiary to disclose: a. the strategic rationale for undertaking a business combination; and b. whether the discount rate used in calculating value in use is pre-tax or post-tax. In addition, the IASB tentatively decided to ensure the wording of the disclosure requirement in the new Standard in relation to paragraph B64(i) of IFRS 3 aligns with the proposals made by the IASB in the project on *Business Combinations—Disclosures, Goodwill and Impairment*. The IASB also tentatively decided to require eligible subsidiaries to apply the proposed amendments to the prospective IFRS Accounting *Standard Subsidiaries without Public Accountability: Disclosures*, without restating comparative information, from the effective date of those proposed amendments, with earlier application permitted.		