EFRAG FR TEG meeting
10 July 2024
Paper 01-03
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Business Combinations—Disclosures, Goodwill and Impairment

Summary and analysis of the comment letters received

Objective

1 The objective of this agenda paper is to present a summary of the comments received in response to EFRAG's request for comments on its draft comment letter (DCL).

2 Based on the comments received together with the EFRAG outreach (see paper 01-02), the EFRAG Secretariat has developed a revised draft EFRAG final comment letter that is presented as agenda paper 01-04 (for the clean version) and 01-05 (for the marked-up version).

Structure of the paper

3 This comment letter analysis contains:

(a) Definition of terms;

(b) Summary of comment letters received from respondents;

(c) Executive summary of respondents' views;

(d) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter; and

(e) Appendix 2 - list of respondents.

Definition of terms

4 The % in this document refers to the total number of respondents to the relevant question, unless indicated differently.

Term	No. of respondents as a %
Majority	51% - 100%
Several	25% - 50%
Some, few	15% - 24%

Summary of comment letters received from respondents

5 At the time of writing, 13 comment letters have been received – five of which are confidential drafts and therefore not publicly available. The comments from all comment letters are summarised below.

Executive summary of respondents' views

Amendments to IFRS 3

Performance information for strategic business combinations

6 The majority of respondents supported that the IASB's proposed performance disclosures objectives, as it would provide useful information for users and would be required only for a subset of acquisitions, subject to the exemption under certain circumstances.

7 However, the majority of respondents expressed concerns about the costs, complexity, availability, commercial sensitivity, and limited usefulness of the proposed disclosures, as well as the risk of disclosure overload.

8 Several respondents expressed concerns about providing integrated business performance information, noting the limited usefulness, potential disclosure overload, the potential disincentive for companies to grow inorganically, and impaired comparability.

9 Regarding the location of information, the majority of respondents preferred placing most of the proposed disclosures in the management report rather than financial statements, due to its forward-looking nature and potential audit challenges.

Thresholds to identify strategic business combinations

10 The majority of respondents supported a closed-list approach as a practical solution to identify "strategic business combinations". Several respondents suggested the introduction of a rebuttable presumption based on the definition of strategic business combination, as the proposed thresholds may not capture the intended population.

11 Regarding the quantitative thresholds, the majority of respondents disagreed with using the operating profit threshold due to its volatility.

12 There were also concerns from several respondents about a series of business combinations with a common strategic objective, who suggested a more principles-based approach in assessing whether they are strategic on an aggregated basis.

Quantifying expected synergies

13 The majority of respondents disagreed with the IASB's proposal to provide quantitative information about expected synergies in the year of acquisition. They considered that this information would be complex, difficult to audit and enforce, costly, inconsistent and would disadvantage IFRS adopters (e.g., comparable information is not provided under US GAAP).

Exemption

14 The majority of respondents supported the exemption, as it addresses some concerns about commercial sensitivity, while noting several concerns.

15 There were mixed views on whether the scope was sufficient, with some suggesting expanding it (e.g., to cover litigation risks akin to IAS 37's exemption). Respondents were divided on the need for more guidance or examples to clarify "sensitive information" and appropriate circumstances where the exemption would be applicable.

Level of management:

16 The majority of respondents supported basing disclosures on information reviewed by the entity's Key Management Personnel (KMP), while several respondents questioning the need to specify the level of management as the organisational structure may vary across entities.

Amendments to IAS 36

Effect of the proposed amendments

17 The majority of respondents are not convinced that the proposed amendments will lead to significant reduction in the shielding effect or other behavioural changes, which was the IASB's objective when proposing the amendments. A majority suggest that the IASB should continue to work on achieving further improvements in allocating goodwill to individual CGUs or lower level of groups of CGUs, which was identified as a root cause for shielding.

18 A majority support, or do not disagree, with the EFRAG recommendation to delete the last sentence in paragraph 80A(b).

19 A majority supports the proposed disclosure requirement on which segment goodwill belongs to, but a majority also questions the effect this will have on countering management over-optimism.

Amendments to value in use calculation

20 All respondents supported the amendment allowing an entity to use post-tax inputs in a value in use calculation.

21 The majority of respondents supports the removal of the prohibition to include future restructurings and enhancements in the cash flows in a value in use calculation. Among those supporting the amendment there was a majority supporting a request for further guidance on the border of a current asset versus a future asset. Some constituents also wanted further clarification on the remaining differences between value in use and fair value. This could imply that some question whether there is a need to have both fair value (less costs to sell) and value in use when determining recoverable amount.

22 The majority of respondents constituting preparers disagreed with the EFRAG's suggestion to require 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 significant, mainly because it would result in undue costs for preparers. Users supported EFRAG's request in the draft comment letter for additional disclosures. Users were generally sceptical in supporting the proposed change to the value in use calculation, as this could increase the effect of management optimism on the impairment test.

Questions for EFRAG FR TEG

23 Does EFRAG FR TEG have any comments on the Summary of Comments received?

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat recommendations and questions to EFRAG FR TEG

Question 1 – Disclosures: Performance of a business combination

24 **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?

Summary of respondents' comments

25 The majority of respondents supported that the IASB's proposed performance disclosures objectives, as it would provide useful information for users and would be required only for a subset of acquisitions, subject to the exemption under certain circumstances. Several respondents noted that enhanced disclosures would not resolve the underlying "goodwill problem".

26 However, the majority of respondents noted several concerns with providing this information, especially related to costs, complexity, availability of information, commercial sensitivity, limited usefulness of information ("boilerplate") and risk of disclosure overload. To address these concerns, a few respondents recommended to require the disclosures only for entities with public accountability (similar to IFRS 8 and IAS 33). Some others noted that users receive information about the performance of business combinations from other sources of information (e.g., press releases, investor presentations). Finally, a few respondents encouraged the IASB to conduct field-testing activities on the proposed disclosures.

27 Concerning the performance information on an integrated business basis, several respondents expressed concerns related to:

(a) The usefulness of integrated business performance information;

(b) Disclosure overload, as the information is already provided;

(c) It may disincentivise companies to grow inorganically;

(d) The disclosures based on an integrated business basis would impair comparability.

Location of information

28 The majority of respondents disagreed requiring with requiring disclosure in the financial statements, while considering that most of the proposed requirements would better be located in the management report/commentary. The main reasons are provided below:

(a) The information is forward looking, it involves judgement, estimation uncertainty and are based on management's assumptions;

(b) It involves unnecessary costs, due to the complexity to audit and increase in litigation risks;

(c) It does not support the measurement of financial statements' items, and therefore is inconsistent with the Conceptual Framework;

29 One respondent acknowledged the diversity across jurisdictions when it comes to management report/commentary requirements.

30 Those respondents supporting that the information should be placed in the financial statements, considered that this approach would achieve comparability, consistency, reasonable assurance and reliability of information. One of these respondents stated that the key objectives and targets related to the strategic rationale of the acquisition should be always disclosed in the financial statements.

31 One of these respondents noted that the key objectives and targets associated with the strategic rationale should only be disclosed in the financial statements to the extent that they justify all or part of the goodwill recognised in the financial statements.

Question 2 – Disclosures: Strategic business combinations

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?

Summary of respondents' comments

Threshold approach

32 The majority of respondents generally supported a closed-list approach, as it is a practical solution (auditable, enforceable and easy to apply) to identify "strategic business combinations" and would increase comparability of information. Several respondents noted that an open-list or a principles-based approach would be more appropriate and consistent with the "management approach" and suggested to base it on the definition of strategic acquisition provided in paragraph BC54 in the Basis for Conclusions.

33 However, in order to capture the intended population, several respondents suggested to introduce a rebuttable presumption, or suggested an approach where the thresholds would be indicative, but not binding. Several respondents suggested a combination of thresholds approach (e.g., two out of three quantitative thresholds, qualitative **and** quantitative thresholds).

34 The majority of respondents noted that the thresholds are contradicting the definition of a "strategic" business combination in paragraph BC54 in the Basis for Conclusions, as meeting any of the proposed thresholds would not necessarily mean "putting the entire business at risk of failing to achieve its overall business strategy".

Quantitative thresholds

35 The majority of respondents disagreed with the operating profit quantitative threshold, as it is a volatile measure, and would be problematic especially in years where profitability is close to zero. Therefore, they requested to remove this metric from the quantitative thresholds.

36 The following alternative approaches have been suggested:

(a) Introduce a quantitative threshold based on market capitalisation;

(b) The quantitative thresholds to be based on an average from a specified number of years;

(c) Allow entities to use other indicators if they are subject to abnormal results or the thresholds are inappropriate for the entity.

37 Some respondents requested clarifications or additional guidance on how to apply the quantitative thresholds:

(a) When the acquiree did not previously report under IFRS;

(b) Whether the total assets threshold includes adjustments from the Purchase Price Allocation;

(c) How entities should consider the two options to calculate goodwill for business combinations containing non-controlling interests (NCI) (recognise goodwill in full including the amount attributable to NCI, or in part only considering the share of the acquirer).

Qualitative thresholds

38 Some of the respondents considered that the qualitative thresholds would not capture the intended population (e.g., entering a new geographical area does not necessarily mean that the acquisition would be strategic). However, if a rebuttable presumption would be introduced this issue would be resolved.

39 A few respondents requested additional guidance on how to apply the qualitative thresholds, as it involves judgement (e.g., the meaning of "major").

Series of business combinations

40 Regarding a series of business combinations that could be strategic at an aggregated level, several respondents noted concerns on how to treat these transactions. The majority of these respondents considered that a management/more principles-based approach would resolve their concerns.

Question 3 – Disclosures: Exemption from disclosing information

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 when 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.

Summary of respondents' comments

41 The majority of respondents (almost all) were generally supportive of the exemption, as it would help address some of the preparers' concerns (but not all) on commercial sensitivity.

42 Respondents were divided on whether the scope of the exemption would be satisfactory in addressing all cases where its application would be necessary, and several respondents suggested to enlarge its scope (e.g., to cover litigation risks similar to the exemption under IAS 37). Some respondents noted that the majority of entities would not be eligible in applying the exemption, while some others noted that the exemption would be used frequently. On the other hand, some respondents emphasised that the exemption should only be applied when necessary and entities should explain why the exemption is applicable.

43 There were mixed views on whether there is a need for additional guidance (e.g., provide the definition of "sensitive information") and/or illustrative examples of situations where the application of the exemption would be appropriate.

44 Some respondents noted some concerns on the proposed exemption, as listed below:

(a) disclosing the reason for applying the exemption could be prejudicial;

(b) difficulties in applying the exemption (e.g., pinpointing the disadvantageous effects of a disclosure);

(c) enforceability and risk of broad application;

(d) concerns that the aggregation of information would obscure the information provided; and

(e) the requirement for continuous assessment for applying the exemption may be costly and burdensome.

Question 4 – Identifying information to be disclosed

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?

Summary of respondents' comments

Who provides the information

45 The majority of respondents supported / did not disagree that the proposed disclosures on the performance of strategic business combinations should be based on the information reviewed by the entity's "Key Management Personnel" (KMP). However, several respondents expressed that the IASB should not specify the level of management, and instead suggested to leave it up to the entity to determine what is the appropriate level of management that reviews the information, based on its organisational structure.

46 One respondent asked for clarifications related to:

(a) Whether the KMP corresponds to the highest level of supervision in the senior management;

(b) What would happen in cases where the KMP delegates the review of post-acquisition performance to lower management levels.

47 A few respondents disagreed with the IASB's proposal and considered that the "Chief Operating Decision Maker" (CODM) would be the right level, since the performance of acquisitions is commonly reviewed at the operating segment level.

How long an entity should be required to disclose the information

48 The majority of respondents agreed that the actual performance of a business combination should be disclosed for as long as it is reviewed by the KMP.

49 However, a few respondents proposed to set an explicit backstop after some years, even if the disclosure is still reviewed by the KMP. One of these respondents that in practice the acquired business is often integrated within a short period into the acquirer's operations and therefore considered that prolonged disclosures on the follow-up of key objectives and related targets would provide only limited benefits to users.

50 A few respondents disagreed that the information should be disclosed for as long as the KMP reviews it and instead proposed to require disclosures only for the core period only (e.g., period up to end of the second annual reporting period after the year of acquisition). In their view, the core period was a reasonable time and requiring entities to continue disclosures beyond the core period would disadvantage them, as those that stop after the second year wouldn't bear the related costs.

51 One respondent suggested to withdraw the proposal to disclose non-reviewed information under the new paragraph B67B(b). If the IASB intends to maintain the requirement, further clarifications should be provided on whether the obligation to disclose the information that is no longer reviewed, ends at the end of the second financial year following the year of acquisition, or when the information is no longer prepared.

Question 5 – Disclosures: Other proposals

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?

Summary of respondents' comments

New disclosure objectives

52 All of the respondents who provided a view on this question agreed with the IASB's proposed disclosure objectives, as it would enhance the information on business combinations that users receive.

Expected synergies

53 The majority of respondents disagreed with the IASB's proposal to provide quantitative information about expected synergies from combining operations of the acquiree and the acquirer in the year of acquisition.

54 The main reasons that were highlighted include:

(a) The information should be disclosed in the management report/commentary rather than the financial statements, for the reasons provided in paragraph 28;

(b) The information should only be required for a subset of strategic business combinations;

(c) It would cause discussions with auditors and enforcers, as a clear definition of synergies in the context of providing quantitative information is not provided;

(d) Costs exceeds benefits, as this information may not be automatically produced;

(e) There is lack of clarity on how to identify and quantify synergies, which may result in inconsistent application and diversity in practice; and

(f) It would create a competitive disadvantage for IFRS-adopters (e.g., US GAAP does not require comparable disclosures).

55 Those respondents that were supportive of the IASB's proposal to require the disclosure of quantitative information about expected synergies, considered that it would provide valuable information to users, helping them project mid-term profits and cash flows, assess the entity's risk profile and evaluate the success of a strategic business combination. However, they suggested some alternatives to the IASB's proposal:

(a) Disclosure requirement should only apply to synergies that:

(i) qualify as a key objective of a strategic business combination; or

(ii) justify a material part of the goodwill resulting from the acquisition

(b) An entity should provide follow-up information on whether expected synergies are being achieved or are expected to be achieved in the future, or alternatively explain why this information is not monitored by management; and

(c) Additional guidance should be provided on how to identify and measure the synergies.

<u>Strategic rationale</u>

56 All of the respondents who provided a view on this question agreed with the IASB's proposal to replace the requirement to disclose the primary reasons for the business combination with the strategic rationale. Respondents noted that the proposal would not result in significant changes compared to the current requirements under IFRS 3.

Contribution of the acquired business

57 All of the respondents who provided a view on this question agreed 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 is the operating performance of the acquiree/the combined entity which is of particular interest to users of financial statements.

58 A few respondents disagreed with the IASB’s proposal to retain the requirement in paragraph B64(q)(ii) for the following reasons:

(a) The availability of relevant accounting data is questionable;

(b) When the information is not available, entities may need to apply judgement when preparing the information; and

(c) The requirements are too complex and burdensome.

59 The majority of respondents disagreed 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. Respondents considered that each business combination is different, and data availability across entities vary. Therefore, they suggested instead to require entities to provide disclosure about the basis of preparation.

Classes of assets acquired and liabilities assumed

60 Only a few respondents provided an answer to this topic and agreed with the IASB's proposal to delete the word “major” from paragraph B64(i) of IFRS 3, as it would reduce diversity in practice and would prevent the disclosure of aggregate assets acquired and liabilities assumed at a higher level than those on the acquirer's balance sheet. In addition, these respondents agreed to include pension and financing liabilities to the illustrative example in paragraph IE72 of IFRS 3 as these are key items in reconciling enterprise value to equity value and, thus, essential for determining the consideration transferred.

Deleting disclosure requirements

61 All of the respondents who provided a view on this question agreed with the IASB’s proposal to remove paragraphs 64(h), 67(d)(iii), and 67(e) from IFRS 3, as these requirements are either addressed by other Standards, are redundant, or do not provide useful information.

Question 6 – Changes to the impairment test

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?

Summary of respondents' comments

62 The majority of respondents noted that the proposals do not change fundamentally the impairment test, as the amendments are very limited. Hence, there were doubts whether the proposals will meet the IASB's objectives.

63 However, the majority of the respondents agreed with the IASB's clarifications related to the allocation of goodwill to cash generating units (CGUs) or group of CGUs, which should enhance the effectiveness of the impairment test and address the shielding problem to a limited extent.

64 One respondent disagreed with paragraph 80A, because the definition of a goodwill-carrying unit should not be changed.

65 Some of the respondents disagreed with the proposals because they would not be the right solution to recognise impairment losses on goodwill on a timely basis. In their view, IFRS 3 is ambiguous, confusing and unclear, application guidance and illustrative example are needed to explain several terms in the proposals. Moreover, the requirement to perform the test at a lower lever would significantly increase the cost. Effectively responding to these ongoing issues would require more profound changes.

66 One respondent noted that the proposal changes are amendments rather than clarification, the IASB should clarify this aspect. This could be particularly relevant for the transition requirements.

67 The majority of the respondents who provided an answer to this question agreed to require an entity to disclose in which reportable segment a CGU or group of CGUs carrying goodwill is included.

68 One respondent disagreed with IASB's assessment that management over-optimism is better dealt with by enforcers and auditors, those charged with governance are the first group responsible for the correctness of financial information.

Question 7 – Changes to the impairment test: 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?

Summary of respondents' comments

69 The majority of respondents (almost all) were supportive of the IASB's proposal to remove the constraint on including cash flows arising from uncommitted future restructuring or asset enhancements, as it would reduce costs and complexity of the impairment test and it achieves alignment with practice and fair value. However, several respondents questioned how and whether the proposals would contribute to address the 'too little too late' issue and the robustness of the impairment-only method. One respondent (user) noted that the assumptions made in the calculation of value in use are often too optimistic (e.g., discount rate higher than market level), emphasising the need to proceed to amendments that would eliminate management over-optimism.

70 The majority of respondents stressed the importance of additional guidance and examples to explain the types of cash flows and conditions for including future restructuring and asset enhancements in the calculation of value in use. The additional guidance would support preparers in understanding the situations where it would be appropriate to include these cash flows in the value in use calculation and would help auditors and enforcers in verifying the assessment and enforcing compliance respectively.

71 The majority of respondents disagreed with the EFRAG's suggestion to require 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 significant, mainly because it would result in undue costs for preparers.

72 All respondents that provided a view agreed with the IASB's proposal to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use, mainly because it achieves alignment with practice, results in useful information and reduces the cost and complexity involved in the value in use calculation. Several respondents called for additional guidance in relation to income and deferred taxes.

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

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?**

Summary of respondents' comments

73 The majority of respondents who provided a view on this question, agreed with the proposed amendments to IFRS 19. However, several respondents questioned whether the requirement to disclose quantitative information about expected synergies should be included in IFRS 19.

74 However, one respondent disagreed with the IASB proposals and considered that eligible subsidiaries should **only** be required to disclose the information about the discount rate.

Question 9 – Transition

Question 9 – Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard) The IASB is proposing to require an entity to apply the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative information. The IASB is proposing no specific relief for first-time adopters. See paragraphs BC257–BC263. **Do you agree with the proposals? Why or why not? If you disagree with the proposals, please explain what you would suggest instead and why.**

Summary of respondents' comments

Amendments to IFRS 3

75 All respondents agreed to require prospective application of the proposed amendments to IFRS 3, because some of the information would be difficult to provide retrospectively without the use of hindsight.

Amendments to IAS 36

76 The majority of respondents agreed with the proposal to require prospective application of the amendments to IAS 36.

77 A few respondents disagreed with the application of the impairment test amendments on or after the effective date (prospective application). In their view, the amendments proposed in the ED are not a clarification but a change in accounting policies. One respondent suggested to introduce a modified retrospective application triggered by the goodwill reallocation to a lower level of CGUs or groups of CGUs upon the first-time application of the amendments to IAS 36.

78 Another respondent expressed a preference for the recognition of any impact on the outcomes of impairment tests retrospectively in equity at the beginning of the initial application period, rather than prospectively in profit or loss after the initial application date.

79 One respondent suggested that the IASB should provide additional clarifications about whether the amendments to IAS 36 should be considered as "clarifications" or "substantive changes".

80 Regarding the cases where impairment would be reversed as a consequence of the changes to the value in use calculation, a respondent suggested that the impact should be recognised against the equity in the beginning of the period of the initial application.

Appendix 2 - List of respondents

	Name of organisation	Jurisdiction	Type of respondent
CL01	The Danish Funding Mechanism for EFRAG	Denmark	Association
CL02	WSBI - ESBG	Europe	Association
CL03	German Insurance Association (GDV)	Germany	Association
CL04	DASB	The Netherlands	Accounting Standards Board
CL05	Accountancy Europe	Europe	Professional Organisation
CL06	ICAC	Spain	National Standard Setter
CL07	AFRAC	Austria	National Standard Setter
CL08	EFFAS CFR	Europe	Business Association
DRAFT1	Confidential	Confidential	Regulator
DRAFT2	Confidential	Confidential	National Standard Setter
DRAFT3	Confidential	Confidential	Association
DRAFT4	Confidential	Confidential	Association
DRAFT5	Confidential	Confidential	National Standard Setter