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EFRAG Secretariat: Isabel Batista-Pirhonen,
Didrik Thrane-Nielsen, Ioanna Michailidi
and Matteo Amerio

BUSINESS COMBINATIONS – DISCLOSURE, GOODWILL, IMPAIRMENT (BCDGI)

SUMMARY OF OUTREACH RESULTS ON THE IASB'S EXPOSURE DRAFT ED/2024/1

Introduction

1 In March 2024 the International Accounting Standards Board (IASB) published for public comment its Exposure Draft (ED) *Business Combinations—Disclosures, Goodwill and Impairment*. The ED contains proposed amendments to IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets*.

2 EFRAG issued its draft comment letter on the ED (DCL) on 30 April 2024 and requested comments by 28 June 2024.

3 During May and June 2024, the EFRAG Secretariat has been conducting outreach on the key proposals and gathering further insights on EFRAG's preliminary views in its DCL.

4 The outreach activities have included one-to-one calls with preparers and one auditor, participating and observing in user outreach events as well as outreach events organised by national standard setters and accountancy and professional bodies (Accountancy Europe and Business Europe).

5 The EFRAG Secretariat **reached out to 17 European constituents** (11 preparers, 3 user groups, 2 auditors/auditor organisations and one NSS). An EFRAG representative participated in an ASCG outreach on 30 June 2024.

6 The project team have also had informal calls with the AcSB (Canada) and with the AASB (Australia) to understand the preliminary views on the ED proposals of non-EU stakeholders.

The Exposure Draft

7 IFRS 3 provides requirements for how an entity accounts for business combinations. The IASB did a post-implementation review of IFRS 3 to assess whether the standard works as intended. The IASB started the Business Combinations—Disclosures, Goodwill and Impairment (BCDGI) project to respond to some areas of focus identified in the post-implementation review.

8 The ED proposes a package of amendments designed to meet the project's objective to explore whether entities can, at a reasonable cost, provide users with more useful information about business combinations, which would help them make better decisions by allowing them to better assess the performance of an entity's business combinations; and how efficiently and effectively management has used the entity's economic resources to acquire these businesses.

9 The ED proposes the following main amendments to IFRS 3:

(a) Disclosures about the performance of a business combination;

(b) (additional) disclosures about strategic business combinations;

(c) Introduction of an exemption from disclosing information;

(d) identifying information to be disclosed; and

(e) other disclosure proposals (including quantitative information on expected synergies).

10 The ED proposes the following main amendments to IAS 36:

(a) clarification of the requirements and additional disclosures; and

(b) changes to the value-in-use calculation.

11 The ED also proposes amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* and transition requirements.

Summary of main messages from the outreach

12 This summary report reflects the messages received from constituents and notes any key themes identified. The feedback received on the outreaches was used by EFRAG in drafting its Final Comment letter to the IASB.

13 The outreach focused on the main ED proposals noted in paragraphs 9 and 10.

Proposed disclosures – amendments to IFRS 3

14 Most support the IASB's objective to provide users with more useful information at a reasonable cost about business combinations. However, overall, preparers, auditors and national standard setters do not support including most of the proposed disclosures in the financial statements and argue that many of these disclosures are better suited for the management report.

15 On the other hand, users support the proposals on the basis that the disclosures would provide them with better information on business combinations.

16 From a non-EU perspective, the AASB (Australia) indicated that they do not support the disclosure proposals. The AASB in their FCL to the IASB they note that "*Users we spoke with failed to see sufficient value in these disclosures. Further, we consider that this information does not fall within the remit of financial reporting, noting that similar information is not required for other assets*". The AcSB (Canada) has not yet submitted a FCL to the IASB at the date of writing this paper.

17 **The majority of preparers and auditors were critical / did not support the overall disclosure proposals. The main messages from respondents to the outreach were:**

(a) **Question 1 - Performance information** – Respondents generally supported the IASB's objective to provide users with better information at a reasonable cost. However, the majority of respondents did not support providing the proposed performance information in the financial statements highlighting sensitivity concerns (commercial sensitivity, legal sensitivity, etc.) noting that the proposed exemption might not be helpful and would lead to continuous discussions with the auditors. The indication was that the proposed exemption from providing disclosures might be used more frequently than the IASB might expect. One respondent highlighted that the proposed disclosures could lead to a competitive disadvantage for IFRS preparers as other GAAP (notably US GAAP) do not require such detailed disclosures.

The majority of respondents noted that many of the disclosures would be better located in the management report. Some noted that some of the proposed disclosures do not support the measurement of financial statements' items being at odds with the objective of disclosures as set out in the Conceptual Framework.

(b) **Question 2 - Threshold approach to identify a strategic acquisition** – The majority of respondents generally supported a closed-list approach as being the most practical solution. However, the majority called for a more principles-based approach noting that the IASB proposal may not capture the most important acquisitions from a user perspective. Several suggested a rebuttable presumption should be added to the proposed thresholds. This would also link the entity's "overall business strategy" when identifying a strategic acquisition.

Most (if not all) suggested that the operating profit or loss threshold be removed as it is perceived too volatile to allow for a consistent identification of "strategic business combinations". Some respondents asked to clarify the application of the quantitative thresholds. Constituents agreed that guidance on a series of business combinations would be useful but noted it would be difficult to develop (for example timeframe was a concern).

(c) **Question 3 - Exemption** – The majority of respondents supported the proposed exemption and considered it to be necessary for those cases where the information would be too sensitive to be disclosed publicly. There was also general agreement in providing additional guidance and illustrative examples to ensure the appropriate application of the exemption. However, some challenges were noted in applying the exemption. For example, several respondents disagreed with disclosing the reason for not disclosing the information as this could itself contain prejudicial information and could harm competitiveness.

(d) **Question 4 - Level of management** - There were mixed views on defining the level of management as KMP, with some respondents preferring to refer to the CODM and others preferring not to define the level of management noting that the ‘’decision maker’’ can vary from entity to entity.

(e) **Question 5 - Expected synergies** – Most respondents disagreed with the proposal to quantify expected synergies arguing that this was forward-looking information that would be very difficult to quantify and difficult to audit. These respondents considered that this type of information was not suited for the financial statements.

18 **The NSS constituent** generally supported the IASB’s efforts and the balance between the needs of users and the costs to preparers. However, this respondent shared mixed views on the location of providing the proposed information. While some members supported having the information in the financial statements, other members considered that the key objectives and targets associated with a business combination should only be disclosed in the financial statements to the extent that they justify all or part of an item recognised in the financial statements.

This respondent also identified concerns with the proposed thresholds to identify a strategic acquisition and a conflict with the definition of a business combination in paragraph B54. Furthermore, this respondent considered that quantitative information on expected synergies should only be required in certain cases (when they as a key objective or justify a significant part of acquired goodwill).

Finally, this respondent noted concerns with the proposal to define a level of management as KMP as it runs the risk of missing the identification of the relevant level of information review.

19 **ASCG outreach event** – Some participants expressed disappointment that the IASB had not taken the opportunity to make more far-reaching changes to improve the impairment test. Some participants noted that the proposed disclosures posed a competitive disadvantage compared to US GAAP. Participants expressed concerns with disclosing quantified information on expected synergies because it was forward-looking information and because it also would lead to a competitive disadvantage for IFRS reporters compared to US GAAP reporters.

Regarding the proposed thresholds, there were concerns with using the Operating Profit or Loss as a threshold and a suggestion to introduce a rebuttable presumption was being made.

On the proposed exemption, it was noted that many preparers were concerned that the proposed disclosures could require them to disclose information that is so commercially sensitive that it should not be required in the financial statements (companies could be exposed to an increased risk of litigation). Participants generally welcomed the exemption but feared lengthy discussions with the auditors and regulators on the use of the exemption. There were concerns with having to provide the reasons for using the exemption on the basis that it could contain commercially sensitive information.

20 **Users/investors** had the opposite view to preparers and auditors and argued that they need better information that explains why a major acquisition was made, justifies the price paid and holds management accountable for major acquisitions. Users also noted that the exemption should be used only when necessary and not as means to avoid disclosure of information. Users called for additional guidance to ensure appropriate application.

Other suggestions to IFRS 3 proposed amendments

21 Other suggestions made by constituents (mainly preparers and auditors) included the following:

(a) Clarify the total assets (+ goodwill) threshold as IFRS 3 permits 2 different ways to measure NCI (full or partial goodwill method)

(b) Guidance on proposed quantitative thresholds when the acquired entity does not prepare IFRS financial statements (for example when IFRS data is not available, allow an entity to use the best available information such as statutory data)

(c) Guidance on a series of acquisitions that in aggregate could be strategic (for example multiple ‘’small’’ acquisitions to enter a market) would be useful, although some noted would be difficult to develop.

(d) Adding an “OR” after paragraph B67C(a)(ii)

(e) Concerns with prospective transition requirements for IAS 36 proposals

Proposed amendments to IAS 36

Impairment test

22 **Preparers** reported that they do not expect to change behaviour, either because they already allocated goodwill to CGUs below operating segments or because they do not manage goodwill and allocate goodwill to operating segment levels for impairment testing.

23 **Auditors and national standard setters** indicated that the proposed amendments may not go far enough to trigger real changes in behaviour. Further guidance should be provided on how goodwill is to be allocated to CGUs below operating segment levels.

24 **Users** reported that they are generally not satisfied with the information on goodwill. They want goodwill to be allocated to the lowest CGU levels and they want information on the goodwill allocated to such CGU levels.

Value in Use

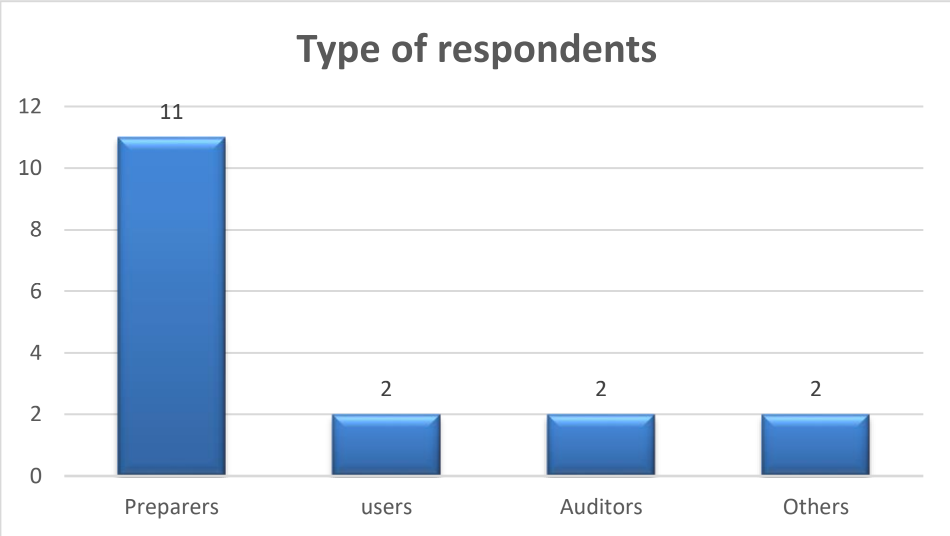
25 The proposed amendments to the calculation of value in use has not stirred a large volume of feedback. **Preparers** are generally supportive of the proposals and do not see significant problems in determining the border of the value-in-use calculation.

26 **Users** reported more scepticism or outright disagreement with the proposal stating that it will provide management with too much leeway to avoid impairments.

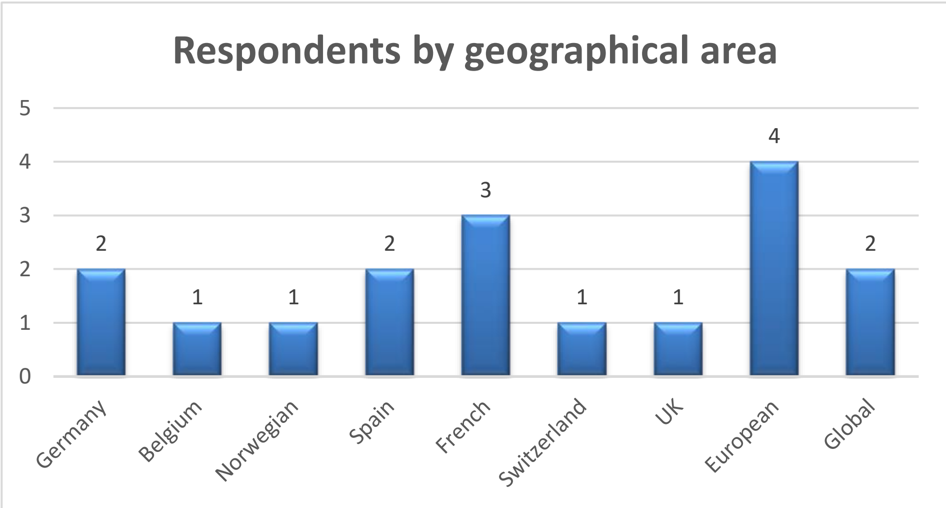
27 Several respondents noted that value in use becomes closer to fair value less cost to sell and questions if it would be sufficient only to test against fair value less cost to sell.

General information

28 11 of the respondents are preparers, and the remainder are users, auditors and others (2 for each category).



In addition, below is a graph reflecting the geographical area of the entities:



Definition of terms

29 The following terms were used to describe the extent to which particular feedback was shared by respondents (both when referring to total respondents or a subset of respondents, e.g., respondents who answered a question).

30 The percentage in this document refers to the total number of Constituents to the relevant question unless indicated differently.

Term	Number of respondents as a %
Majority	51% - 100%
Several	25% - 50%
Some, few	15% - 24%