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## Goodwill and Impairment

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

#### Objective

- 1 This paper discusses the IASB's tentative decisions taken in September 2022 on the proposed disclosure objectives, disclosure on subsequent performance and expected synergies from a business combination and asks for EFRAG FR TEG's views and comments on these decisions.
- 2 In September 2022 the IASB made tentative decisions to proceed with an amended version of its preliminary views on the package of disclosure requirements about business combinations. Specifically, the IASB tentatively decided to:
  - (a) require some of the information for only a subset of business combinations; and
  - (b) exempt entities from disclosing some information in specific circumstances.

#### Structure of this paper

- 3 This paper is structured as follows:
  - (a) Background;
  - (b) DP proposed disclosures;
  - (c) Previous discussions; and
  - (d) Summary of IASB tentative decisions in September 2022.

#### Background

##### *IASB project*

- 4 The IASB issued the Discussion paper [Business Combinations – Disclosures, Goodwill and Impairment](#) ('the DP') in March 2020 with a comment period that ended on 31 December 2020.
- 5 The DP included suggestions on improving the disclosures about business combinations by adding information about the strategic rationale and objectives for the acquisition including information about synergies as well as the metrics management plan to use to monitor achievement of those objectives; its subsequent performance; improving the accounting for goodwill by assessing whether the amortisation should be reintroduced and some other targeted improvements/simplifications to the current impairment test including the suggestion to only require a quantitative impairment test of CGUs including goodwill to be performed when there would be an indication of an impairment.

- 6 EFRAG published its [final comment letter](#) in January 2021.
- 7 A summary of the IASB tentative decisions so far on the project is provided in the Appendix. This paper focuses only on the tentative decisions taken in September 2022.

*FASB project on goodwill and Impairment removed from technical agenda*

- 8 At its meeting on 15 June 2022, the FASB reviewed the package of discussions and decisions taken so far, considered the overall effect on benefits and costs, and decided to deprioritise and remove its project from its technical agenda.

**DP proposed disclosures**

- 9 Regarding the objectives, subsequent performance and expected synergies from a business combination IASB proposed the following disclosures in the DP <sup>1</sup>:

(a) **Additional disclosure objectives** – include additional disclosure objectives to IFRS 3 *Business Combinations* that would require entities to disclose information that would help users understand:

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

(b) **Disclosure about subsequent performance of business combinations**

- (i) in the year of a business combination, entities disclose the strategic rationale, objectives for that business combination, the metrics and targets management plan to use to monitor achievement of those objectives; and
- (ii) in subsequent years post-acquisition, entities disclose management's review of the entity's performance against those objectives (actual performance).

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

(c) **Disclosure about expected synergies** – require entities to disclose in the year of a business combination quantitative information about the synergies expected as a result of the business combination.

*This preliminary view is relevant only in the year of acquisition and builds on the requirement in paragraph B64(e) of IFRS 3<sup>2</sup>. The information under this preliminary view is not linked to the information reviewed by the CODM.*

*Feedback on the IASB proposed disclosures*

*Users*

- 10 Users noted that they wanted to know whether management's objectives for an acquisition were being met. This information would help them assess management's ability to realise the expected benefits from an acquisition and assess whether an acquisition's subsequent performance indicates that

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

<sup>2</sup> Paragraph B64(e) of IFRS 3 requires a qualitative description of the factors that make up goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

management paid a reasonable price for the acquired business. Information about whether management's objectives are being met would allow investors to assess performance and more effectively hold management to account for its decision to acquire the business. Hence, investors would use the information to assess management's stewardship of the company's economic resources.

- 11 Additional outreach conducted by the EFRAG Secretariat in recent months confirmed the above. Furthermore, users informed that they would like to have all this information at one place, preferably in the financial statements. It can be less detailed than in the prospectus, but preferably standardised.

*Preparers*

- 12 The feedback (including from the additional outreach performed by the IASB staff) highlighted the following concerns from the preparers side:
- (a) **commercial sensitivity** – that disclosure could contain sensitive information that, if disclosed, could harm the entity;
  - (b) **forward-looking information** – that disclosure could contain information about the future that, if disclosed, could increase litigation risk;
  - (c) **integration** – an entity may not be able to disclose information that is representative of the performance of a business combination if the acquired business is integrated into the entity's existing operations; and
  - (d) **auditability** – some information that would be required by the preliminary views may be costly, or difficult, to audit.

**Previous discussions on disclosures on subsequent performance and expected synergies from a business combination**

- 13 In April 2022 the IASB discussed two alternatives proposed by the IASB staff aiming to reduce the preparers' concerns expressed above in paragraph 12 by either:
- (a) reducing the **population of business combinations** for which information would be disclosed, for example by applying the disclosure requirements to significant business combinations only or by introducing quantitative or qualitative threshold; or
  - (b) reducing the amount of information to be disclosed for each affected business combination by providing **an exemption** in particular circumstances.
- 14 EFRAG FR TEG discussed the above alternatives at its meeting in May 2022. These alternatives were also discussed with EFRAG FR CFSS (June 2022), EFRAG Academic panel (June 2022), EFRAG FIWG (June 2022) and EFRAG IAWG (June 2022). The following comments were made during the various discussions:
- (a) There were mixed views on the commercial sensitivity of the proposed disclosures, some considering it to be one of the main issues, while others referring to the existing similar confidential-type disclosures already required under current IFRS Standards.
  - (b) The subject of the IASB proposals was different to the issues to which IAS 37 applies and pointed out the difference in timing. For example, IAS 37 refers, to a restructuring provision, the restructuring is already announced and is known, whereas the proposed disclosure requirements in the DP relate to the expected restructuring. This information may be commercially sensitive and in conflict with certain legal regulations.
  - (c) Some supported an alternative that could reduce the population of business combinations for which the information was provided and link the required disclosure to information that is monitored by management.

- (d) Several considered that reducing the population for which information would be required based on a threshold (quantitative or qualitative) or a set of criteria would be difficult. There was also a question of how to define “significant” business combinations in view that current materiality requirements would already take that into account.
- (e) Some did not support an exemption on the basis that companies could use the exemption to avoid providing the information (and this would not be a solution). Companies might also try to apply the exemption by analogy to other situations in other IFRS Standards to avoid compliance. Furthermore, from auditors’ perspective an exemption might lead to a lot of difficult discussions. Some said that the exemption could include a sort of “rebuttable assumption” similar to the concept introduced by the sustainability reporting.
- (f) One Academic Panel member noted that research highlighted the fact that some companies are not complying with the current disclosure requirements of IFRS 3. The concern for commercial sensitivity is linked to the information already required by IFRS 3 and other IFRS Standards if it is followed correctly. So, perhaps asking for more disclosure and information is not the right way to address the issue but finding a way to guide entities to be fully compliant with the current requirements could be more effective.
- (g) There was a suggestion to integrate the subsequent disclosure requirements discussed in the DP with the current disclosure requirements on the impairment test under IAS 36 *Impairment of Assets*.

### Summary of IASB tentative decisions in September 2022

- 15 In September 2022, the IASB considered whether information (on objectives, subsequent performance and synergies) should be disclosed for only a subset of business combinations (and whether some information should be exempt from being disclosed in certain circumstances).
- 16 The table below (an extract from IASB agenda papers in September 2022) provides a summary of these IASB tentative decisions.

Item of Information	Continue with this preliminary view?	Require information for only a subset?	Exempt entities from disclosing information about?
Disclosure objectives	✓	N/A	N/A
Subsequent performance information:			
• Strategic rationale	✓	✗	✗
• Objective	✓	✓	✓
• Metric	✓	✓	✓
• Target	✓	✓	✓
• Actual performance in subsequent years	✓	✓	✗
Quantitative information about expected synergies in year of acquisition	✓	✗	✓

- 17 The paragraphs below discuss each tentative decisions in more detail and provide an IASB staff analysis of how to determine a “subset” and when information would qualify for the exemption.

### Disclosure objectives

- 18 The IASB tentatively decided to **continue** with its preliminary views in the DP and propose to add two new disclosure objectives to IFRS 3 that would require an entity to disclose information to help users of financial statements understand:
  - (a) the benefits that an entity expected from a business combination when agreeing the price to acquire a business; and
  - (b) the extent to which an entity’s objectives for a business combination are being met.

- 19 The IASB noted that paragraph 59 and 61 of IFRS 3 already contain disclosure objectives for IFRS 3. Feedback from the post-implementation review highlighted that entities often apply the disclosure requirements mostly as a checklist and that the resulting outcome can be “boilerplate” information which users find insufficient to help them understand a business combination and its subsequent performance and specifically whether management’s expected objectives from the business combination are being met. The two additional disclosure objectives in paragraph 18 are intended to respond to these user concerns.
- 20 Paragraph 59 of IFRS 3 states that the acquirer shall disclose information that enables users of its financial statements to evaluate
- (a) the nature and financial effect of a business combination that occurs either:
    - (i) during the current reporting period; or
    - (ii) after the end of the reporting period but before the financial statements are authorised for issue.
- 21 Paragraph 61 of IFRS 3 states that the acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

#### **Subsequent performance information**

- 22 The IASB tentatively decided to propose:
- (a) replacing the requirement for an entity to disclose the ‘primary reasons for the business combination’ in paragraph B64(d) of IFRS 3 with a requirement to disclose the ‘**strategic rationale for undertaking the business combination**’; and
  - (b) adding to IFRS 3 a requirement for an entity to disclose in the year of a business combination quantitative information about **expected synergies**.
- 23 The above tentative decisions are largely in line with the IASB’s initial proposals in the DP. As explained below:
- (a) Information on the strategic rationale for undertaking the business combination would be required for all business combinations (rather than a subset) and no exemption would be provided.
  - (b) Information about expected synergies would be subject to an exemption when specific circumstances are met.

#### *Strategic rationale*

- 24 The IASB [agenda paper 18B](#) of the September 2022 meeting explains that while some respondents said information about strategic rationale of a business combination may contain commercially sensitive information, most preparers said they are willing to provide such information in their financial statements. Most said that they often already provide this information in other published materials, for example, press releases at the time of the business combination. This type of information is useful for users of financial statements. The IASB staff research on what entities disclose about business combinations confirmed this.
- 25 Currently IFRS 3 does not exempt an entity from disclosing the ‘primary reasons for the business combination’ and the IASB staff observed that they did not hear feedback suggesting this information is so commercially sensitive that an exemption from disclosing it is needed.
- 26 In developing its recommendations to the IASB, the IASB staff noted that the requirement to disclose the strategic rationale for a business combination would

replace, in part, the existing requirement to disclose the primary reasons for a business combination. The IASB staff expect an entity's primary reason for a business combination to be similar to its strategic rationale for undertaking the business combination, with the latter simply providing a closer link to the entity's overall business strategy and management's objectives for the business combination.

- 27 Furthermore, feedback received from the IASB meetings with CMAC and GDF in June 2022 indicated that some members agreed that an entity should disclose some level of qualitative information for all business combinations and that an entity should disclose the strategic rationale for all business combinations.
- 28 For the above reasons, the IASB did not consider it necessary to disclose information on strategic rationale only for a subset or provide an exemption for such information.

*Expected synergies in the year of acquisition*

- 29 The IASB's preliminary views in the DP is that it should require an entity to disclose, in the year in which a business combination occurs:
  - (a) a description of synergies expected from combining the operations of the acquired business with the entity's business;
  - (b) when the synergies are expected to be realised;
  - (c) the estimated amount or range of amounts of those synergies; and
  - (d) the estimated cost or range of costs to achieve those synergies.
- 30 At its meeting in September 2022, the IASB decided to continue with its preliminary view, **but exempt companies** from providing quantitative information about expected synergies in the year of acquisition in some circumstances. (See paragraphs 49 to **Error! Reference source not found.** below).
- 31 The IASB considered whether only qualitative information should be provided regarding expected synergies, rather than introducing an exemption. The IASB staff analysis is considered in [agenda paper 18A](#) of the September 2022 meeting.
- 32 The IASB staff saw some merits in disclosing only qualitative information as this would help address concerns about commercial sensitivity and litigation risk that may arise from disclosing what some think to be forward-looking information. However, in the IASB staff view having only qualitative information would not address the concerns of users that said that without quantitative information about the targets for the business combination and expected synergies they would be unable to:
  - (a) assess whether the price management paid for a business combination was reasonable, which is one of the disclosure objectives the IASB; and
  - (b) understand the context for the disclosure of actual performance in subsequent periods.
- 33 For the above reasons, the IASB agreed with the IASB staff recommendation to require entities to disclose the information but providing an exemption from disclosing that information in specific circumstances.
- 34 The IASB considered that this could better respond to user requests and practical concerns. Exempting entities from disclosing information in particular circumstances could more effectively address situations in which the cost of providing information would exceed the benefits of doing so. It would also preserve as much information as possible in situations in which entities do not have significant practical concerns about providing that information.

### Developing a subset for some subsequent performance information

- 35 The IASB tentatively decided to propose adding to IFRS 3 a requirement for an entity to disclose, for a **subset** which is considered '**strategically important business combinations**', information about:
- (a) management's objectives for the business combination;
  - (b) the metrics and targets management will use to monitor whether those objectives are being met; and
  - (c) in subsequent periods, the extent to which management's objectives are being met, using those metrics, for as long as management monitors the business combination against its objectives (actual performance).
- 36 The IASB also tentatively decided to exempt entities from disclosing some of this information in certain circumstances. (See paragraphs 49 to **Error! Reference source not found.** below)

#### *Strategically important business combinations*

- 37 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:
- (a) Quantitative—that is, a business combination in which:
    - (i) the acquiree's operating profit (to be defined by the IASB's Primary Financial Statements project) exceeds 10% of the acquirer's operating profit, for the acquirer's most recent annual reporting period ending before the business combination was completed;
    - (ii) the acquiree's revenue exceeds 10% of the acquirer's revenue for the acquirer's most recent annual reporting period ending before the business combination was completed; or
    - (iii) the amounts recognised as of the acquisition date for all assets acquired (including goodwill) exceed 10% of the carrying value of the assets recognised on the acquirer's balance sheet as at the acquirer's most recent reporting period date before the business combination.
  - (b) Qualitative—that is a business combination that results in an entity entering a new geographical area of operations or a new major line of business.

- 38 The IASB staff analysis for determining a subset of business combinations of what would comprise a 'strategically important' business combination is provided in [IASB agenda paper 18D](#) of the September 2022 meeting. The paragraphs below provide a summary of this analysis.

#### *Open versus a closed list of thresholds*

- 39 The IASB considered whether the criteria to determining a subset should be based on either an open list of thresholds or a closed list.

#### Open list of factors

- 40 This approach would require the IASB to describe in IFRS 3 the type of business combinations the subset is intended to capture – that is, 'strategically important' business combinations – and to supplement that description with an open list of factors an entity would need to consider when making the assessment. For example, whether the business combination will result in the entity operating in a new geographic location or a separate major line of business.

- 41 This approach would be similar to the requirements in IAS 21 *The Effects of Changes in Foreign Exchange Rates*, that define what functional currency is and provide a list of factors an entity needs to consider when assessing its functional currency.
- 42 The IASB agreed with the IASB staff that would be difficult to devise an open list of factors given the level of judgement involved and may also be difficult to enforce. Such an approach could create tension among auditors, preparers and regulators and may not be as effective as a closed list approach in capturing applicable business combinations, leading to greater cost for preparers.

Closed list of factors

- 43 This approach would require the IASB to specify what constitutes a ‘strategically important’ business combination and an entity would be required to disclose the information described in the preliminary views if the business combination meets at least one of the prescribed thresholds.
- 44 This approach could be similar to IFRS 8 *Operating Segments* requires an entity to report separately information about an operating segment if specified quantitative thresholds are met.
- 45 The thresholds could be either quantitative or qualitative. Quantitative thresholds are used by regulators in various jurisdictions to determine when entities need to disclose certain information. Such thresholds are typically on primary financial statement measures such as gross assets and profit. To those measures regulators use percentages ranging from 5% to 30%. The IASB could build on the thresholds and percentages used by regulators in determining when a business combination is ‘strategically important’.
- 46 Quantitative thresholds to determine a subset were discussed with ASAF members at the ASAF meeting in July 2022. ASAF members provided mixed views on which percentage would capture the right balance of business combinations. For example. One ASAF member noted that a threshold at 5% would result in entities disclosing information for too many business combinations. Another ASAF member suggested requiring the information only for business combinations that increase an entity’s assets by more than 10% or total revenue by more than 5%.
- 47 Based on the feedback received and regulatory requirements already in place, the IASB staff concluded that 10% would be a reasonable compromise. The IASB agreed with the IASB staff recommendation. At this stage, the IASB staff have not tested the effects of this proposal (and now the tentative decision). Based on discussions with the IASB staff, field testing would be considered once the Primary Financial Statements project is more advanced and a definition of “operating profit” is known.

**Develop an exemption from disclosing information in some circumstances**

- 48 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.
- 49 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. The actual mechanics of this tentative decision and how it may be



applied in practice, given the exemption on information on the metrics, will be presented by the IASB staff at a future meeting. The IASB staff consider that in addition to information about actual performance, an entity would be required to disclose a statement as to whether the actual performance met the entity's target. For example, if an entity's key objective for a business combination is to increase revenue by CU100 million each reporting period and the entity applies the exemption not to disclose that objective. In subsequent periods, the entity will disclose the actual increase in revenue achieved for that period (say CU98 million) and whether that increase of CU98 million met the entity's objective.

- 50 The IASB staff analysis for proposing an exemption to disclose the information in certain circumstances is provided in [IASB agenda paper 18C](#) of the September 2022 meeting. The paragraphs below provide a summary of this analysis.

*Designing the exemption*

- 51 The IASB staff recommended that exemption should be designed to allow entities to not disclose a particular item of information in situations in which disclosing that item of information can be expected to prejudice seriously any of the entity's objectives for the business combination. This would address the concerns of preparers on providing commercially sensitive information. It would also respond to concerns (such as litigation risk) about disclosing what some consider to be forward-looking information.
- 52 In September 2022, the IASB discussion ways to develop the exemption but did not discuss the exact wording of the application guidance that would support the exemption.
- 53 The IASB staff recommended that the exemption be supplemented with application guidance, including:
- (a) requiring an entity to:
    - (i) consider whether it is possible to disclose information at a sufficiently aggregated level that would resolve concerns while still meeting the objectives of the disclosure requirements;
    - (ii) disclose the reason for applying the exemption separately for each item of information; and
    - (iii) assess in future periods whether the circumstances leading to the application of the exemption still exist.
  - (b) specify situations in which the exemption would not be permitted, including:
    - (i) a general risk of a potential weakening of competitiveness due to disclosure is not, on its own, sufficient reason to apply the exemption;
    - (ii) the exemption should not be applied to avoid disclosing information only because that information may not be considered favourably by the market;
    - (iii) the information is disclosed in other publicly available material; or
    - (iv) if competitors are already likely to have access 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.
- 54 The IASB staff consider that the exemption could be developed based on exemptions in local regulatory requirements and existing IFRS Standards.
- 55 In relation to regulatory requirements, regulators sometimes exempt an entity from providing some information that would otherwise be required by local regulatory reporting if certain conditions are met. For example, the Australian Securities &

Investments Commission (ASIC) guidance and the European Banking Authority (EBA) guidance require an entity to consider the likelihood of negative consequences when deciding whether to apply the regulatory exemption. The ASIC guidance states that for an entity to apply the regulatory exemption, the unreasonable prejudice must be ‘more probable than not’. The EBA guidance states that a mere possibility of negative consequence is not sufficient for the use of the permitted regulatory exemption.

- 56 In addition, the exemption in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* permits an entity not to disclose some information if disclosure ‘can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset’.
- 57 Also, feedback from ASAF members at the ASAF meeting in July 2022 suggests that the exemption in IAS 37 works well. Some EFRAG FR TEG and CFSS members also agreed. The IASB staff think that the implicit probability assessment in paragraph 92 of IAS 37 could help an entity assess when the exemption should be applied and could contribute to the feedback that this exemption works well.
- 58 Consequently, the IASB staff consider that the IASB should use similar wording in designing an exemption from disclosing information that would be required applying the preliminary views. In other words, an entity should be allowed to not disclose a particular item of information if doing so ‘can be expected to prejudice seriously’ any of the entity’s objectives for the business combination.

*Disclosing the reason to apply the exemption*

- 59 If an entity applies the exemption in paragraph 92 of IAS 37, an entity is required to disclose ‘the fact that, and reason why, the information has not been disclosed’. The IASB staff consider that it would be helpful for the exemption in IFRS 3 to include a similar requirement.
- 60 During previous IASB meetings, an IASB member suggested requiring an entity using an exemption to disclose separately the reason it is using the exemption for each item of information it would otherwise be required to disclose. This would help to prevent boiler plate disclosures, as an entity would need to carefully consider it meets the exemption conditions. For example, if an entity has 3 key objectives for a business combination, with separate corresponding metrics and targets, the entity will need to disclose the reason for applying the exemption separately for each key objective, metric and target it applies the exemption to.

*Continuous assessment*

- 61 There is also a question about whether there is a need for ongoing assessment of the circumstances that led an entity to apply the exemption. Some jurisdictions require that an ongoing assessment is made.
- 62 The IASB staff is proposing to develop application guidance in case there is a change in the circumstances that led to the application of the exemption. For example, if the information becomes public (and therefore no longer commercially sensitive) then the entity would no longer be able to apply the exemption and should be required to disclose the information.
- 63 The exact wording of this application guidance was not yet discussed with the IASB.

**Questions to the EFRAG FR TEG members**

- 64 Do you agree/have any comments on the IASB tentative decision regarding **objectives** in paragraph 18?
- 65 Do you agree/have any comments on the IASB tentative decision regarding **expected synergies** in paragraph 22?
- 66 Do you agree/have any comments on the IASB tentative decision regarding the **disclosure of subsequent performance** in paragraph 35 and the exemption in 36?
- 67 Do you agree/have any comments on the IASB tentative decision regarding the **description of ‘strategically important’ business combinations and the proposed thresholds** in paragraph 37? Do you think these proposed thresholds will capture the appropriate level (in terms of costs to preparers and useful information for users) of business combinations?
- 68 Do you agree/have any comments on the IASB tentative decision regarding the **exemption** in paragraph 48?
- 69 Do you agree/have any comments on the IASB tentative decision to **propose no exemption** from disclosing information **about the actual performance in subsequent periods** in paragraph 49?

## Appendix - Summary of the IASB tentative decisions

1 The table below provides an overview of IASB discussions and tentative decisions so far.

Topic	Decisions reached	Meeting Date
<i>Feedback received on DP</i>	<p>In March 2021, the IASB discussed a summary of the feedback received on its preliminary views expressed in the DP.</p> <p>In April 2021, the IASB received a summary that focused only on <b>user feedback</b>.</p> <p>In May 2021, the IASB discussed a <b>literature review</b> that summarised the evidence from academic papers on topics relevant to the questions in the DP. The literature review was based on an academic literature review that provides an overview of academic papers on empirical goodwill research published in the last 20 years, published articles and other academic material.</p>	March - May 2021
<i>Objective of the project</i>	<p>The IASB tentatively decided to retain the objective of the project unchanged from that described in its DP. The objective is to explore whether entities can, at a reasonable cost, provide users with more useful information about the acquisitions those entities make.</p> <p>The IASB also tentatively decided to make no changes to the project scope. The IASB considers its preliminary views as a package that meets the project objective.</p>	June 2021
<i>Project plan</i>	<p>The IASB decided on a project plan. As part of that project plan the IASB is prioritising analysis of feedback on:</p> <ul style="list-style-type: none"> <li>disclosures about business combinations; and</li> <li>whether to retain the impairment-only model or whether to reintroduce amortisation for goodwill (the subsequent accounting for goodwill).</li> </ul> <p>The IASB staff sent a request to <b>IFASS</b> members asking for information on how goodwill is accounted for under local GAAP and views on the estimation of goodwill useful lives and possible challenges on transition should amortisation be reintroduced</p>	September 2021
<i>Location of information</i>	<p>The IASB tentatively decided that, based on the <i>Conceptual Framework for Financial Reporting</i>, 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.</p> <p>The IASB discussed practical concerns over requiring entities to include such information in financial statements. In particular, the IASB discussed the staff's additional research and analysis of concerns over</p>	October 2021

	<p>requiring entities to disclose information that might be considered forward-looking in some jurisdictions.</p> <p>The IASB will continue its redeliberations on its preliminary views on the package of disclosure requirements at future meetings, including whether not to proceed with some or all of the disclosure requirements for practical reasons.</p>	
<p><i>Expected synergies arising from a business combination</i></p> <p><i>Contribution of the acquired business</i></p> <p><i>Liabilities arising from financing activities and defined benefit pension liabilities</i></p>	<p><i>Expected synergies</i></p> <p>To better the practical concerns raised by respondents, the IASB, will test examples with stakeholders that illustrate disclosure of information about:</p> <ul style="list-style-type: none"> <li>• total expected synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies; and</li> <li>• 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).</li> </ul> <p>The IASB also tentatively decided:</p> <ul style="list-style-type: none"> <li>• not to define ‘synergies’.</li> <li>• not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view.</li> </ul> <p><i>Contribution of the acquired business</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> <li>• to retain the requirement in paragraph B64(q) of IFRS 3.</li> <li>• 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.</li> </ul> <p>The IASB tentatively decided 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.</p> <p>The IASB tentatively decided 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 project on Primary Financial Statements.</p> <p>The IASB tentatively decided not to add a requirement to disclose information about cash flows arising from operating activities.</p> <p><i>Liabilities arising from financing activities and defined benefit pension liabilities</i></p> <p>The IASB discussed feedback on its preliminary view on developing proposals to specify that liabilities arising</p>	<p>November 2021</p>

	<p>from financing activities and defined benefit pension liabilities are major classes of liabilities.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• paragraph B64(i) of IFRS 3 to remove the term ‘major’; and</li> <li>• 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.</li> </ul>	
<p><i>Expected synergies arising from a business combination and information on subsequent performance</i></p>	<p>In this meeting the IASB discussed:</p> <ul style="list-style-type: none"> <li>• feedback from additional outreach activities on the IASB’s preliminary views, as described in the DP, concerning potential improvements to the current disclosure requirements about business combinations; and</li> <li>• how to advance or develop those preliminary views.</li> </ul> <p>At the September 2022 meeting the IASB tentatively decided to:</p> <ul style="list-style-type: none"> <li>• require some of the information for only a subset of business combinations; and</li> <li>• exempt entities from disclosing some information in specific circumstances</li> </ul>	<p>April 2022</p> <p>September 2022</p>
<p><i>Subsequent accounting for goodwill</i></p>	<p>In July 2022, the IASB redeliberated its preliminary views on the subsequent accounting for goodwill and whether to reintroduce amortisation of goodwill and discussed disclosures about business combinations and improving the effectiveness of the impairment test in IAS 36.</p> <p>In September 2022, the IASB had a joint meeting with the FASB (education purposes) where both boards discussed various aspects of their respective projects on goodwill and impairment and their tentative decisions (these projects do not constitute a joint project).</p> <hr/> <p>At its May 2022 meeting, the IASB discussed additional research on:</p> <ul style="list-style-type: none"> <li>• whether it is feasible to estimate the useful life of goodwill and the pattern in which it diminishes; and</li> <li>• the potential consequences of transitioning to an amortisation-based model.</li> </ul> <p>At its October 2022 meeting, the IASB discussed the following:</p>	<p>July 2021</p> <p>September 2022</p> <p>May 2022</p> <p>October 2022</p>

*Goodwill and Impairment – Project Update – Tentative decisions on Disclosures*

	<ul style="list-style-type: none"><li>• Subsequent accounting for goodwill – Overview of feedback and research; and</li><li>• Subsequent accounting for goodwill – Possible ways forward.</li></ul>	
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**EFRAG Final Comment Letter**

- 2 EFRAG considered that the proposed disclosure requirements could result in useful information to assess business acquisitions. However, for the requirements to be most useful, the information should be provided for all material acquisitions based on the information that the relevant decision-maker monitors.
- 3 EFRAG noted some practical concerns including what information will be provided noting that some information might be better provided in the management commentary instead of the financial statements. In that regard, EFRAG noted that the information is based on management expectations and refers to non-GAAP indicators. However, EFRAG would also have reservations about allowing entities to present the information in the management commentary by either including the requirements in the management commentary practice statement or allowing entities to provide the information in the management commentary by cross reference.
- 4 EFRAG also noted that the IASB would have to consider how to avoid entities having to disclose commercially sensitive information. EFRAG thus disagrees that commercial sensitivity would never be a reason to prevent disclosure of information that investors would find useful. EFRAG made some suggestions how the IASB could address the issue of commercial sensitivity:
  - (a) One approach could be a 'disclose or explain' approach under which an entity does not disclose specified information, if disclosing the information would seriously harm the entity's possibilities to achieve the expected objectives (or by other means result in a significant unfavourable position for the entity). This approach would be similar to the approach included in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under a 'disclose or explain' approach, the IASB would have to consider how the approach should be applied when some information might be commercially sensitive while others might not to avoid that, for example, only the 'good' information is disclosed.
  - (b) Another approach, the IASB could consider in the case an entity would not provide the required disclosures, would be to either require entities to determine the additional information it would need to meet the disclosure objectives or to specify alternative information to allow users making some assessment of the management's decisions to acquire a business.