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Business Combinations – Disclosure, Goodwill and Impairment

Disclosures Cover Note

Objective of this session

- 1 The purpose of this session is to collect and exchange views between EFRAG User Panel and EFRAG FR TEG members on the recent IASB tentative decisions on the package of disclosures an entity should provide on the objective(s) and subsequent performance of a business combination.

Background

- 2 The IASB issued the Discussion paper [*Business Combinations – Disclosures, Goodwill and Impairment*](#) ('the DP') in March 2020 and started redeliberating the proposals in 2021. An exposure draft is expected in 2024.
- 3 Recent discussions with the EFRAG FR TEG and EFRAG FRB highlighted that members continue to express concerns with commercial sensibility of the information, the effects of integration and providing the information in the financial statements primarily with regards to synergies and subsequent performance of a business combination. Some members argue that the information should be provided outside of the financial statements.
- 4 EFRAG User Panel discussed the disclosures at its meeting in February 2023. Members supported the direction to improve the disclosures on business combinations in the financial statements. Members were of the view that the information is known by the company and generally available to external sources (such as investment bankers) so there was no reason why the information could not be included in the financial statements. A summary of the User Panel meeting is provided in the appendix.
- 5 Given the mixed views between the EFRAG FR TEG and EFRAG User Panel, the EFRAG Secretariat thought it could be helpful to have a joint and interactive discussion where members of the EFRAG User Panel could exchange views with EFRAG FR TEG about why the information is useful/not useful and where it should be presented.

Key discussion points for the session

- 6 The key points for discussion are included in the questions to EFRAG User Panel members in the presentation in agenda paper 04-02. The questions are summarised below:
 - (a) In your experience, do companies typically disclose information about the amount of expected synergies? If so, (i) where and (ii) how are synergies being described?

- (b) What do you use information about synergies for?
- (c) In your experience, do companies voluntarily disclose information about the subsequent performance of business combinations against initial expectation? If so, where?
- (d) Does the IASB's tentative decision to require the information about the objectives, metrics and targets for a business combination for only "strategically important" business combinations provide sufficient information for users on the subsequent performance on business combinations?
- (e) Does the IASB's tentative decision on the application guidance to applying the exemption from disclosing some information in specific circumstances help ensure that the exemption is used as intended by the IASB?
- (f) Do you have other comments on the IASB's tentative decisions on the changes to the disclosure requirements?

Next steps

- 7 In 2023 the IASB started to discuss improvements to the goodwill impairment test under IAS 36 *Impairment of Assets*.
- 8 The EFRAG Secretariat will continue to update EFRAG FR TEG and EFRAG User Panel as the project progresses.

Agenda Papers

- 9 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 04-02 – Presentations on Disclosures on objectives and subsequent performance of a business combination;
 - (b) Agenda paper 04-03 – IASB document "In Brief" - *Business Combinations—Disclosures, Goodwill and Impairment* – Project Update

Appendix 1: Summary of EFRAG User Panel meeting 3 February 2023 on Business Combinations - Disclosures, Goodwill and Impairment

10 Below is an extract of the Report of the Chairman of the EFRAG User Panel meeting on 3 February 2023.

11 EFRAG User Panel received an update and discussed the IASB's tentative decisions on disclosures an entity needed to provide about the objectives, subsequent performance and expected synergies from a business combination. Members provided the following feedback:

- (a) A large majority of User Panel members supported the IASB's tentative decisions to provide information for strategically important business combinations about the synergies, strategic rationale, objectives, targets and metrics of a business combination and whether these initial expectations were met in subsequent years. Members were of the view that the information is known by the company and generally available to external sources (such as investment bankers) so there was no reason why the information could not be included in the financial statements.
- (b) Two User Panel members did not support the disclosures mainly because in their view they supported the goodwill amortisation model which the IASB had rejected and did not consider the disclosures would solve the current problem with goodwill. These members also argued that the information entities provided for synergies was often not useful. One User Panel member noted that it would be difficult to provide quantitative information about expected synergies in practice because of its forward-looking nature. This member considered that qualitative information about expected synergies would be sufficient.
- (c) Two User Panel members considered that it was important to have the same information for internally generated businesses – this was currently not required under IFRS 3. This was needed for users to make comparable and useful analysis between external and internally generated acquisitions. Another User Panel member supported this view, noting that internally generated growth did not get such attention in the financial statements.
- (d) Regarding the thresholds on determining “strategically important” business combinations, one User Panel member suggested market capitalisation to be added to the quantitative criteria – in some cases the acquired company did not have revenues or profits – so the market cap or fair value of the acquired entity would be an important consideration. Another suggestion that received support by User Panel members was to require entities to provide aggregated information for smaller business combinations.
- (e) One User Panel member was sceptical about applying qualitative thresholds to determine ‘strategically important’ business combinations and considered that qualitative thresholds would be more suitable. It was also noted that many small business combinations may become strategically important when considered together.

Some User Panel members were sceptical about too many escape routes for preparers not willing to provide the information. However, they acknowledged, that this could be mitigated by the market forces forcing companies to provide the information required. Members stressed that even when the exemption was used, some information was still needed to be disclosed.