

EFRAG FR TEG and EFRAG User Panel

10 May 2023

IASB project: Business Combinations – Disclosures, Goodwill
and Impairment

*Disclosures - Objectives and information about subsequent
performance*



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Agenda

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The Discussion Paper

Background

- The IASB published the Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* ('the DP') in March 2020
- The DP was developed in response to the IASB's Post-implementation Review (PIR) of IFRS 3 *Business Combinations*
- The IASB started redeliberating the proposals in 2022 and made tentative decisions on disclosure regarding objectives and subsequent performance of a business combination and tentatively decided to retain the impairment-only model for the subsequent accounting for goodwill
- In January 2023, the IASB published an article "In Brief" that explains the IASB's tentative decisions on disclosure in the context of the project and its primary objectives. This article is provided as agenda paper 04-03
- In March 2023, the IASB started to discuss potential changes to IAS 36 *Impairment of Assets* to reduce the cost and complexity of the impairment test of cash-generating units containing goodwill

Project overview

- **Objective** - Improve information entities provide about their business combinations at a reasonable cost
- **Current focus**
 - A package of disclosure requirements about business combinations
 - Changes to the impairment test of cash-generating units containing goodwill in IAS 36 *Impairment of Assets* (decision not to explore reintroducing amortisation of goodwill was made in November 2022)
- **Next milestone** - Publish an Exposure Draft (expected in 2024)

Disclosures - Preliminary views in the DP

The DP proposed a company to disclose:

In the year of acquisition

- amount of synergies expected from a business combination;
- management's objectives for a business combination; and
- metrics and targets management plan to use in its internal reporting to monitor whether these objectives are being achieved.

In subsequent periods

- progress in achieving the objectives using those metrics

Disclosures - Preliminary views in the DP – Synergies

The preliminary view was to require an entity to disclose in the year a business combination occurs:

- a description of the synergies expected from combining the operations of the acquired business with the entity's business;
- when the synergies are expected to be realised;
- the estimated amount or range of amounts of the synergies; and
- the estimated cost or range of costs to achieve those synergies

Currently IFRS 3 (paragraph B64(e)) requires a qualitative description of the factors that make up the 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

Disclosures - Feedback from users

Users supported the preliminary views in the DP

- Currently, users do not get enough useful information, particularly about the subsequent performance of business combinations
- 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 management paid a reasonable price for the acquired business
- Allow investors to assess performance and more effectively and could use the information to assess management's stewardship of the company's economic resources
- On synergies users said that information on the nature, timing and amount of expected synergies is important
- Would like to have all this information at one place, preferably in the financial statements

Disclosures - Feedback from other stakeholders

Other stakeholders, particularly preparers, were less supportive because of:

- **Commercial sensitivity**—that some of the information, if disclosed, could harm the company, for example because competitors would use the information to prevent a company from achieving its objectives for the business combination. Many respondents expressed concern that quantitative information about expected synergies could be commercially sensitive or could be considered to be forward looking in their jurisdiction
- **Forward-looking information**—that the information could be about the future and if disclosed could increase litigation risk
- **Integration**—that information representing the performance of a business combination might not be available if the acquired business were integrated into the company's operations, because separate information about the acquired business is no longer reported



Proposed changes

Disclosures - Proposed changes

- To address the feedback, the IASB has tried to find a compromised solution that would be acceptable for both users and preparers (and others)
- In September 2022, the IASB tentatively decided to proceed with an **amended version** of the proposed disclosure in the DP and:
 - require some of the information for only a **subset of business combinations** considered to be 'strategically important'; and
 - providing entities with an **exemption** from disclosing some of the information required in specific circumstances.

Disclosures – Summary of proposed changes

Information to be provided in / for	“Strategical important” business combinations	Other business combinations
Year of acquisition	Strategic rationale for undertaking the business combination	
	Quantitative information about expected synergies*)	
	Information about managements Objectives, Metrics and Targets*)	No new or amended requirement
Subsequent periods	Information on actual performance	No new or amended requirement
	Information about the extent to which Objectives are being met using the defined Metrics*)	

*) Exemption applies

Disclosures - Primary reasons for the business combinations

The IASB tentatively decided to:

- Replace the requirement in IFRS 3 for an entity to disclose the 'primary reasons for the business combination' in paragraph B64(d) of IFRS 3 with a requirement to disclose the 'strategic rationale for undertaking the business combination'

This requirement applies to ALL business combinations

Disclosures - Quantitative information about expected synergies

- In the year of acquisition - disclose **quantitative information** about expected synergies by category (for example, total revenue synergies, total cost synergies and the total for each other type of synergy)
 - describe the synergies by specifying each category of expected synergy
 - disclose when the benefits expected from the synergies are expected to start and how long they will last. This disclosure would require an entity to identify whether the synergies are expected to be finite or indefinite
 - consider, for any case in which a disclosure of totals by category would **qualify for an exemption**, whether disclosure as a total for all categories could remove the reason for applying the exemption to the total by category and, if so, to disclose the total of all categories
- The IASB tentatively decided not to define “synergies”
- The IASB staff discussed [examples](#) about expected synergies distinguishing between total cost and total revenue synergies at the April 2022 IASB meeting

Disclosures – A subset of “strategically important” business combinations

- The IASB tentatively decided to require disclosure about the **objectives, metrics, targets and actual performance** of business combinations for only a subset of business combinations
- A subset would help reduce companies’ costs and to balance the costs with the benefits of providing the information
- Requiring a company to disclose some of the information for only “strategically important” business combinations would also help with integration because the probable effect of such business combinations on the combined business’ performance would be more obvious
- Users would receive information for those business combinations that management consider to be “strategically important”

Disclosures – A subset of “strategically important” business combinations (2)

- A subset of material business combinations would be identified using a short, exhaustive list of qualitative and quantitative thresholds:
 - Quantitative thresholds - business combinations in which the acquired business represents more than 10% of the reporting entity’s revenue, operating profit or total assets
 - Qualitative thresholds - business combinations that aim to enter a new geographic location or start a new line of business
- If a business combination meets any of these thresholds an entity would disclose information (unless it can apply the exemption - see next slide)

Disclosures – The exemption

- The IASB tentatively decided to **exempt an entity** from disclosing, in specific circumstances:
 - information about the objectives, metrics and targets for a business combination; and
 - quantitative information about expected synergies
- The exemption could be used in situations in which disclosing an item of information can be expected to **prejudice seriously any of the entity's objectives for the business combination**
- The exemption would be supported by application guidance

Entities would NOT be exempt from disclosing information on the strategic rationale for a business combination and the actual performance in subsequent periods measured using the metrics the entity's management uses to monitor the business combination

Disclosures – The exemption – how can it address concerns

How would the circumstances be identified? The exemption is expected to be tied to the achievement of an entity’s objectives. For example, allowing entities to not disclose an item of information if doing so can be expected to prejudice seriously any of the entity’s key objectives for the business combination

What practical concerns would an exemption resolve? **Commercial sensitivity**
The exemption based on prejudicing an entity’s objective(s) for a business combination should capture commercial harm from a range of sources (for example competitors using the information or litigation by users or other parties)

Some elements of litigation risk
For example, if the risk arises because an entity failed to meet an objective as a result of the disclosure. Litigation risk arising for other reasons would not be covered

What application guidance would be included? **Requirements** (e.g., disclosing the reason for applying the exemption separately for each item of information)
Considerations of when it is appropriate to use the exemption (e.g., it would be inappropriate if that information was already disclosed elsewhere)

Disclosures – Application guidance to apply the exemption

To help entities apply the exemption, the IASB tentatively decided to propose application guidance. **This application guidance would require an entity to:**

- consider factors including the effect of disclosing the information and the availability of the information in determining whether the exemption is applicable;
- consider whether it is possible to disclose information at a sufficiently aggregated level to resolve concerns while still meeting the objectives of the disclosure requirements;
- disclose, for each item of information to which an entity has applied the exemption, that it has applied the exemption and the reason for applying the exemption to that item of information; and
- reassess in each reporting period whether the application of the exemption to an item of information is still appropriate. If it is no longer appropriate to apply the exemption, the entity would be required to disclose the item of information previously exempted. An entity would be required to perform that reassessment for as long as the entity would otherwise be required to disclose information about the subsequent performance of the business combination

Disclosures – level of management

In February 2023, the IASB tentatively decided:

- to specify a level of management within an entity to identify the information the entity is required to disclose about the subsequent performance of business combinations; and
- to describe that level of management as the key management personnel of the reporting entity, as defined in IAS 24 *Related Party Disclosures*

Disclosures – how long should the information be provided for?

The IASB tentatively decided to maintain its preliminary view that:

- An entity will be required to disclose information about the subsequent performance of a business combination for as long as the entity's management continues to monitor whether the objectives of the business combination are being met
- If an entity's management does not monitor whether its objectives for a business combination are being met, the entity should disclose that fact and the reasons why it does not do so
- If an entity's management stops monitoring, before the end of the second full year after the year of the business combination, whether its objectives for a business combination are being met, the entity should disclose that fact and the reasons why it has done so

Disclosures – how long should the information be provided for? (continued)

The IASB tentatively decided to maintain its preliminary view that:

- to propose that an entity whose management stops monitoring, **before the end of the second full year after the year of the business combination**, whether its objectives for a business combination are being met, be required to disclose information about actual performance. The entity will be required to disclose information using the metric set out in the year of acquisition, if (and only if) information about actual performance using that metric is being received by the entity's management
- to permit an entity to disclose information about its targets for a business combination as a range or a point estimate
- to clarify that an entity will be required to disclose only information about its key objectives—that is, the objectives critical to the success of the business combination

An entity is not required to disclose if it changed the metric its management uses to monitor whether the objectives for the business combination are being met



Questions to User Panel members

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- 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? (**Slide 15**)
- What do you use information about synergies for?
- In your experience, do companies voluntarily disclose information about the subsequent performance of business combinations against initial expectation? If so, where?
- 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? (**Slide 16**)
- 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? (**Slides 18-20**)
- Do you have other comments on the IASB's tentative decisions on the changes to the disclosure requirements?

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