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Business Combinations – Disclosure, Goodwill and Impairment

Transition requirements and due process Issues paper

Objective

- 1 The objective of the paper is to provide EFRAG FR TEG members with an update on the IASB's tentative decisions taken in September 2023 in respect to:
 - (a) Transition and first-time adopters ([IASB Agenda Paper 18B](#))
 - (b) Due process and permission to begin the balloting process of the proposed changes to IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets* ([IASB Agenda Paper 18C](#))

IASB tentative decisions

Transition and first-time adopters

- 2 The IASB tentatively decided:
 - (a) to require an entity to apply the proposed amendments to the disclosure requirements in IFRS 3 to business combinations for which the acquisition date is on or after the effective date of the amendments, with earlier application permitted;
 - (b) not to provide first-time adopters with a specific exemption from applying the proposed amendments to IAS 36; and
 - (c) to require eligible subsidiaries to apply the proposed amendments to the prospective IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*, without restating comparative information, from the effective date of those proposed amendments, with earlier application permitted.¹
- 3 All 14 IASB members agreed with these decisions.
- 4 The IASB also tentatively decided:
 - (a) to require an entity to apply the proposed amendments to IAS 36 to impairment tests on or after the effective date of the proposed amendments, with earlier application permitted; and

¹ This IASB tentative decision is not discussed in this paper as it's a consequential amendment to the IFRS on *Subsidiaries without Public Accountability*.

- (b) not to provide first-time adopters with a specific exemption from applying the proposed amendments to IFRS 3.

5 Thirteen of 14 IASB members agreed with these decisions.

Due process and permission to begin the balloting process

- 6 The IASB decided to set a comment period of 120 days for the Exposure Draft.
- 7 All 14 IASB members agreed with this decision.
- 8 No IASB member indicated an intention to dissent from the proposals in the Exposure Draft.
- 9 All 14 IASB members confirmed they were satisfied the IASB has complied with the applicable due process requirements and has undertaken sufficient consultation and analysis to begin the process for balloting the Exposure Draft.

Transition and first-time adopters

- 10 The IASB staff considered whether the proposed amendments to IFRS 3 and IAS 36 would be applied retrospectively according to IAS 8 *Accounting Policies Changes in Accounting Estimates and Errors* or whether specific transition requirements would be developed to apply the proposed requirements prospectively.
- 11 Based on the cost-benefit analysis performed by the IASB staff, the IASB concluded that a prospective application of the proposed amendments to IFRS 3 and IAS 36 would be more relevant for the following reasons:
 - (a) Unavailability and cost for providing some of the required information;
 - (b) The use of hindsight by entities for some of the requirements;
 - (c) Insufficient time for entities to update their internal controls and processes;
 - (d) Limited usefulness of information for business combinations that occurred before and during the comparative period; and
 - (e) High levels of complexity for applying some requirements retrospectively.
- 12 The IASB also tentatively decided that prospective application should be applied on or after the effective date rather than on or after the beginning of the earliest comparative period presented². This decision is consistent with paragraph 64 of IFRS 3 which requires an entity to transition to IFRS 3 prospectively to business combinations occurring on or after IFRS 3's effective date.
- 13 In addition, the IASB considered that a relief for first-time adopters with respect to the proposed amendments would not be appropriate, since benefits stemming from the information exceeds associated costs.
- 14 Regarding the early application, the IASB did not identify reasons to prevent entities from doing so, since if available, entities should be able to provide information useful for users for business combinations that the management is monitoring. However, one IASB member pointed out the possibility that entities would select for which business combinations to apply the requirements earlier.
- 15 Finally, the IASB agreed with the IASB staff that an entity would be able to apply the proposed amendments to IAS 36 without applying the proposed amendments to IFRS 3 and therefore saw no reason to link the earlier application of these two amendments.

² This would mean that an entity would restate comparative information but would not disclose information about business combinations that took place before the comparative period, even if management is monitoring their performance during the comparative period.

EFRAG Secretariat analysis

- 16 The EFRAG Secretariat agrees with the IASB's tentative decisions on transition and first-time adopters' requirements, since the retrospective application of the amendments to IFRS 3 and IAS 36 would not result in benefits that would exceed costs. This is because entities could generally find it difficult to implement the proposals (some proposals) retrospectively without the use of hindsight and thus compromising the benefits to users. Some of the information might not be readily available. The IASB staff analysis of the costs and benefits of retrospective application is detailed in the [IASB agenda paper 18B](#).
- 17 The EFRAG Secretariat also agrees that voluntary application should be permitted since users should be able to benefit from the resulting information if entities elect to apply the requirements earlier than the effective date.

Due process and permission to begin the balloting process

- 18 The IASB considered that the staff's recommendation to allow a comment period of 120 days for the Exposure Draft was appropriate, which is also aligned with the IASB's standard comment period.
- 19 Moreover, the IASB agreed that it has complied with the applicable due process steps and gave permission to the IASB staff to begin the process for balloting the Exposure Draft, which is expected to be published in H1 2024.

EFRAG Secretariat analysis

- 20 The EFRAG Secretariat highlights that even though the comment period of 120 days is aligned with the IASB's standard consultation period, the IASB should consider extending the comment period in case the Exposure Draft is published right before or during the European holiday period.

Questions for EFRAG FR TEG members

- 21 Does EFRAG FR TEG have any comments on the IASB's tentative decisions in paragraph 2 and paragraph 4?
- 22 Does EFRAG FR TEG have any comments or suggestions on the proposed consultation period of 120 days?