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Business Combinations: Disclosures, Goodwill and Impairment

The management approach

Cover note

Objective

- 1 During this session we will ask EFRAG FR TEG members for their views on the IASB's tentative decisions taken in February 2023 on:
 - (a) Applying the management approach – to disclose information about the subsequent performance of business combinations¹
 - (b) Other aspects of the management approach including:
 - (i) how long information should be required for
 - (ii) changing metrics
 - (iii) use of ranges
 - (iv) key objectives

Agenda papers

- 2 In addition to this paper, the following papers are provided for this session:
 - (a) Agenda paper 04-02 – The management approach – Issues paper - Business Combinations: Disclosures, Goodwill and Impairment
 - (b) Agenda paper 04-03 – Other aspects of the management approach – Issues paper - Business Combinations: Disclosures, Goodwill and Impairment

Background

- 3 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.
- 4 The objective of the *Business Combinations—Disclosures, Goodwill and Impairment* project (the project) is to provide users of financial statements with more useful information about the business combinations entities make, at a reasonable cost. To meet this objective, the IASB is considering:
 - (a) the disclosure requirements about business combinations; and

¹ Including objectives, metrics and targets management will use to monitor whether those objectives are being met in subsequent periods.

- (b) the subsequent accounting for goodwill—in particular, potential changes to the impairment test in IAS 36 *Impairment of Assets*.
- 5 In September 2022 the IASB tentatively decided to propose adding to IFRS 3 *Business Combinations* a requirement for an entity to disclose, for **‘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.
- 6 In December 2022 the IASB added the project to its standard-setting work plan. The IASB expects to publish an exposure draft in 2024 to consult on its tentative decisions on the project.
- 7 The appendix to this paper provides a summary of the IASB tentative decisions taken so far.
- 8 The IASB has completed most of its redeliberations and tentative decisions on disclosure regarding the objectives, subsequent performance and synergies of a business combination with only some refinements to be discussed.
- 9 EFRAG TEG has received regular updates on the IASB tentative decisions so far.

Next steps

- 10 The IASB will discuss the following aspects of the DP at future meetings:
- (a) clarifying other aspects of the disclosure requirements for business combinations;
 - (b) reducing the cost and complexity of applying the impairment test of cash-generating units in IAS 36 *Impairment of Assets*; and
 - (c) improving the effectiveness of the impairment test of cash-generating units containing goodwill.
- 11 Once the IASB has made tentative decisions on all aspects of the project, it will consider whether the package of decisions meets the project objective and whether to publish an exposure draft setting out its proposals.
- 12 The IASB staff will discuss some of the aspects in paragraph 10 with ASAF at its meeting at the end of March. Possible changes to the cash-generating units containing goodwill were also discussed with the IASB’s Global Prepares Forum on 3 March 2023 and with the IASB’s Capital Markets Advisory Committee on 9 March. There will also be a discussion with the IFRS Interpretations Committee at its meeting on 14 March 2023.
- 13 The EFRAG Secretariat will continue monitoring the IASB discussions and updating the EFRAG FR TEG and EFRAG FRB as the project develops.
- 14 The EFRAG Secretariat is at the early stage of outreach to test:
- (a) the thresholds proposed by the IASB at its meeting in September 2022, to determine a “strategically important” business combination; and
 - (b) the application of the proposed exemption for some of the disclosures when specific circumstances are met.

Appendix 1: IASB tentative decisions so far

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 user feedback.</p> <p>In May 2021, the IASB discussed a literature review 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"> disclosures about business combinations; and whether to retain the impairment-only model or whether to reintroduce amortisation for goodwill (the subsequent accounting for goodwill). <p>The IASB staff sent a request to IFASS 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 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</p>	October 2021

	meetings, including whether not to proceed with some or all of the disclosure requirements for practical reasons.	
<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><u>Expected synergies</u></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"> • total expected synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies; and • 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). <p>The IASB also tentatively decided:</p> <ul style="list-style-type: none"> • not to define ‘synergies’. • not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view. <p><u>Contribution of the acquired business</u></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> • to retain the requirement in paragraph B64(q) of IFRS 3. • 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. <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><u>Liabilities arising from financing activities and defined benefit pension liabilities</u></p> <p>The IASB discussed feedback on its preliminary view on developing proposals to specify that liabilities arising 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"> • paragraph B64(i) of IFRS 3 to remove the term ‘major’; and • paragraph IE72 of the Illustrative Examples accompanying IFRS 3 to illustrate liabilities arising 	November 2021

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	from financing activities and defined benefit pension liabilities as classes of liabilities assumed.	
<i>Disclosure on the subsequent performance of business combinations</i>	<p>At its meeting in April 2022, the IASB discussed:</p> <ul style="list-style-type: none"> • 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 • how to advance or develop those preliminary views. 	April 2022
<i>Improvements to existing IFRS 3 disclosure requirements</i>	<p>At its meeting in September 2022, the IASB tentatively decided:</p> <ul style="list-style-type: none"> • replacing 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’; • adding to IFRS 3 a requirement for an entity to disclose, for ‘strategically important’ business combinations, (i) information about management’s objectives for a business combination and the metrics and targets management will use to monitor whether the objectives for the business combination are being met and (ii) actual performance in subsequent periods; and • providing an exemption in specific circumstances that would permit an entity not to disclose information about management’s objectives for a business combination and the metrics and targets management will use to monitor whether the objectives for the business combination are being met. <p>At its meeting in September 2022, the IASB also tentatively decided:</p> <ul style="list-style-type: none"> • adding the disclosure objectives described in the Discussion Paper to IFRS 3; • adding to IFRS 3 a requirement for an entity to disclose in the year of a business combination quantitative information about expected synergies; and • providing an exemption from disclosing that information in specific circumstances. 	September 2022
<i>Subsequent accounting for goodwill</i>	<p>At its May 2022 meeting, the IASB discussed additional research on:</p> <ul style="list-style-type: none"> • whether it is feasible to estimate the useful life of goodwill and the pattern in which it diminishes; and • the potential consequences of transitioning to an amortisation model <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>May 2022</p> <p>July 2022</p>

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<p><i>Expected synergies</i></p>	<p>At the January 2023 meeting, the IASB tentatively decided to require an entity:</p> <ul style="list-style-type: none"> • to 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). • to 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. • to describe the synergies by specifying each category of expected synergy. • to 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. <p>All 12 IASB members agreed with this decision.</p>	<p>January 2023</p>
<p><i>Exemption from the requirements</i></p>	<p>At the January 2023 meeting, the IASB tentatively decided to propose a principle for an entity to apply when using this proposed exemption. An entity applying the principle would be allowed to use the exemption from disclosing a particular item of information if disclosing that information can be expected to prejudice seriously any of the entity's objectives for the business combination.</p> <p>All 12 IASB members agreed with this decision.</p> <p>To help entities apply this exemption, the IASB tentatively decided to propose application guidance. This application guidance would require an entity:</p> <ul style="list-style-type: none"> • to consider factors including the effect of disclosing the information and the availability of the information in determining whether the exemption is applicable. • to 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. • to 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. • to 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. <p>Eleven of 12 IASB members agreed with this decision.</p> <p>The IASB tentatively decided:</p>	<p>January 2023</p>

	<ul style="list-style-type: none"> to require an entity to disclose a qualitative statement of whether actual performance of a business combination in subsequent periods met the entity's target for the business combination; and to permit an entity to apply the exemption agreed in this meeting to that qualitative statement. <p>Nine of 12 IASB members agreed with this decision.</p>	
<p><i>The management approach – disclosure of information</i></p>	<p><u>Use of the management approach</u></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> 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 <i>Related Party Disclosures</i>. <p>All 12 IASB members agreed with these decisions.</p> <p><u>Other aspects of the management approach</u></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> to maintain its preliminary view that an entity 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 (that is, the entity's management compares actual performance with the entity's objectives and targets for the business combination it established when entering into the business combination). to maintain its preliminary view that 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. to maintain its preliminary view that 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. 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. 	<p>February 2023</p>

	<ul style="list-style-type: none">• 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. <p>All 12 IASB members agreed with these decisions.</p> <p>The IASB tentatively decided not to proceed with its preliminary view relating to the information that an entity would be required to disclose if it changed the metric its management uses to monitor whether the objectives for the business combination are being met.</p> <p>Seven of 12 IASB members agreed with this decision.</p>	
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