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## **Business Combinations—Disclosures, Goodwill and Impairment**

### **Cover Note**

#### **Introduction and Objective**

- 1 The objective of the session is for EFRAG FR TEG to recommend a draft comment letter to the EFRAG FRB for approval on the Exposure Draft ('ED') on *Business Combinations—Disclosures, Goodwill and Impairment*.
- 2 The ED and respective IASB documents can be found here:
  - (a) [Exposure Draft](#);
  - (b) [Basis for Conclusions](#);
  - (c) [Introductory video](#);
  - (d) [Snapshot](#).

#### **Questions to EFRAG FR TEG**

- 3 Does EFRAG FR TEG agree with the EFRAG responses included in the appendix of the EFRAG draft comment letter presented in agenda paper 07-02? If not, please provide your suggestions/ alternative views?
- 4 Does EFRAG FR TEG agree with EFRAG's views included in the cover letter presented in agenda paper 07-02?
- 5 Does EFRAG FR TEG recommend the proposed EFRAG draft comment letter in agenda 07-02 for EFRAG FRB approval?

#### **Background on the project**

- 6 The IASB issued the Discussion paper [Business Combinations – Disclosures, Goodwill and Impairment](#) ('the DP') in March 2020 and started redeliberating the proposals in 2021. The DP was issued in response to the Post-implementation Review of IFRS 3 conducted in 2015.
- 7 EFRAG published its [final comment letter](#) in January 2021. In the comment letter, EFRAG supported the objective of the IASB's project, noting that there is room for improvement in goodwill accounting and related disclosures.

- 8 The IASB issued the Exposure Draft [Business Combinations – Disclosures, Goodwill and Impairment](#) (the ED) in March 2024. The ED proposes:
- (a) Amendments to IFRS 3 *Business Combinations* that are intended to improve the information companies disclose about acquisitions. These proposals aim to balance investor needs with preparer concerns about disclosing information about the performance of acquisitions and the cost of providing that information.
  - (b) Targeted changes to the current impairment test in IAS 36 *Impairment of Assets* which are intended to reduce shielding, reduce management over-optimism and to change how a company calculates the value in use of an asset.

### Survey feedback and EFRAG recent discussions on the IASB proposals

#### *Survey on key proposals*

- 9 In October 2023, the EFRAG project team launched a survey aimed at preparers of financial statements to collect input on the IASB's proposed disclosure requirements for business combinations and whether these could be applied in practice at a reasonable cost.
- 10 Feedback from the survey was used to develop EFRAG's key messages which formed the basis for the proposed EFRAG draft comment letter presented in agenda paper 07-02.

#### *EFRAG discussions on key messages for the draft comment letter*

- 11 EFRAG FR TEG discussed the key messages developed by the EFRAG Secretariat at its meeting on [14 February 2024 EFRAG FR TEG meeting](#). At that meeting, EFRAG FR TEG expressed, on balance, expressed general support for the IASB proposals. EFRAG FR TEG acknowledged that the survey results expressed some reservations on some of the key disclosure proposals. However, EFRAG FR TEG noted that the surveys represented only 11 respondents with some respondents not having undertaken business combinations during the period requested and other respondents noting that the acquisitions they had undertaken did not meet the proposed criteria for strategic business combinations.
- 12 Overall, EFRAG FR TEG considered that the outcome of the survey responses was important but needed further consideration especially given that users have reiterated that they consider the information useful for their analysis and the IASB had made significant efforts to reduce the populations of acquisitions for which the performance information is required and developed an exemption which entities could use in certain circumstances. In summary, EFRAG FR TEG:
- (a) Acknowledged the efforts made by the IASB on requiring most of the information only for strategically important business combinations rather than for all material business combinations.
  - (b) Welcomed the proposed exemption which an entity could use in cases where the information (information on synergies, targets and objectives) was considered prejudicial to the entity.
  - (c) Considered that the reduced disclosure proposals combined with the proposed exemption achieved the right balance both for users and preparers. Users had emphasised that the proposed information would be useful for their assessment of the business combinations an entity undertakes, and given that this information is

already internally available, EFRAG FR TEG supported providing this information in the financial statements.

- 13 After the EFRAG FR TEG meeting, the EFRAG project team met with the EFRAG IAWG (26 February 2023), EFRAG FIWG (27 February 2024) and with the EFRAG FRB (29 February 2024). The EFRAG IAWG expressed several reservations on the proposals while the EFRAG FIWG was generally supportive.
- 14 The EFRAG FRB asked the EFRAG staff to tone down the support in key messages when developing the draft comment letter. In summary, the EFRAG FRB:
  - (a) Expressed concerns about the location of information and with some of the proposed information (e.g., quantitative information on expected synergies in the year of acquisition).
  - (b) Considered that the improvements to the impairment test do not go far enough.
  - (c) Overall, considered that the package of proposed disclosures and the limited amendments to the impairment test would not solve the so-called ‘goodwill problem’.

#### **The proposed EFRAG draft comment letter**

- 15 The EFRAG Secretariat has softened the tone of EFRAG’s support of the proposals (compared to the key messages discussed in February 2024) in developing the EFRAG draft comment letter without changing EFRAG’s overall support for the disclosure proposals. This mainly because EFRAG considered that the IASB had made significant efforts to achieve the right balance to improve the disclosure provided to users on business combinations at a reasonable cost to preparers.

#### **EFRAG deadline for comment letter and approval of final comment letter**

- 16 The EFRAG Secretariat is proposing a deadline for comments from constituents to be Monday 10 June 2024. This suggestion considers the following:

15 July 2024 (will ask for an extension)	IASB deadline for comments
17 July 2024	EFRAG FRB meeting to approve the FCL (additional meeting)
1 July 2024	EFRAG FR TEG meeting to recommend the FCL to EFRAG FRB
23 April 2024	EFRAG FRB meeting to approve the DCL (additional meeting)

#### **Next steps**

- 17 The EFRAG Secretariat is in the process of planning outreach activities and collaborating with the IASB staff, accounting associations and national standard setters. So far, we have tentatively scheduled the following activities:
  - (a) 29 April 2024 - Outreach call with preparer organised by IASB staff
  - (b) April – June 2024 – Participate in calls organised by Accountancy Europe

- (c) EFRAG Academic Panel – Considering a session in May 2024 to present EFRAG’s draft comment letter
  - (d) 14 May 2024 - EFRAG User Panel joint meeting with EFRAG FR TEG – share with EFRAG User Panel EFRAG’s main views on the proposals.
- 18 Once the EFRAG draft comment letter is published we will contact European national standard setters to see how we could collaborate in promoting and sharing EFRAG’s position with the aim to obtain a good level of feedback from European stakeholders.

#### **Agenda Papers**

- 19 In addition to this cover note, **agenda paper 07-02** is provided for this meeting – EFRAG’s proposed draft comment letter.