

Comment Letter

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

22 July 2024

Dear Mr Barckow,

Re: Exposure Draft *Business combinations – Disclosures, Goodwill and Impairment*

On behalf of EFRAG, I am writing to comment on the IASB's Exposure Draft Business Combinations – Disclosures, Goodwill and Impairment issued by the IASB on 14 March 2024 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on the endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG supports the IASB's objective to improve the information entities provide to investors about acquisitions made, at a reasonable cost.

However, EFRAG has key reservations on some of the proposed amendments to IFRS 3 *Business Combinations*. Regarding the proposed disclosures on performance and quantitative information on expected synergies, we are of the view that this information should not be disclosed in the financial statements but rather in the management report.

EFRAG is not convinced that the IASB's proposed amendments IAS 36 *Impairment of Assets* will change existing practice. Thus, they may fail to meet the IASB's objective.

Proposed amendments to IFRS 3

EFRAG welcomes the IASB's effort to strike the right balance between costs for preparers and benefits for users, notably by significantly changing the proposals from the 2020 IASB Discussion Paper.

However, feedback received by EFRAG from non-user constituents **highlighted reservations/concerns with some of the proposed disclosures**. These are summarised below:

- **Performance of a business combination** – EFRAG notes that many constituents (especially preparers) have raised significant reservations about providing the proposed performance information in financial statements. Although the proposed exemption could be helpful to mitigate some of these concerns, EFRAG has been informed it may not address all concerns. Moreover, in some instances, the post-integration performance information will become so detached from the acquired business that it might not provide information on the acquisition and the amounts recognised, including goodwill. Feedback revealed that separating the acquired business from the integrated business and tracking the post-integration performance could be challenging. Based on these concerns, EFRAG strongly encourages the IASB to conduct field-testing on the proposed disclosures.
- **Thresholds** – EFRAG generally supports the proposed closed-list approach as the most practical solution. However, we consider that the IASB’s proposals may not capture the intended population of major (‘strategic’) business combinations. To address these concerns, we recommend identifying ‘strategic’ acquisitions using thresholds, but allowing entities to rebut the presumption if they can demonstrate that the acquisition does not meet the management’s overall view of a strategic business combination. Additionally, we do not support using operating profit or loss as a threshold, due to its volatile nature.
- **Exemption** – Subject to the concerns noted on the proposed disclosures, EFRAG welcomes the proposal to exempt entities from disclosing some of the information under certain circumstances. However, EFRAG has some concerns related to the use cases for the exemption and the requirement to provide reasons why the entity has not disclosed the information. EFRAG also notes the practical challenges of not prescribing ‘specific circumstances’ in which the exemption would be applied and recommends that the IASB include illustrative examples of these ‘specific circumstances’.
- **Level of management** – EFRAG received mixed views from its constituents on defining the level of management that reviews and monitors the information as Key Management Personnel (‘KMP’). Some supported the use of the term KMP, while others preferred Chief Operating Decision Maker (CODM). Others noted that management structure varies across entities, and designating a specific management level can create confusion and lead to omission of the required information. EFRAG thus recommends the IASB further consider whether it is necessary to define a specific level of management.
- **Quantifying expected synergies** – EFRAG notes significant concerns expressed by constituents (especially preparers) and considers that this information should not be

provided in the financial statements, given its forward-looking and sensitive nature. Based on the concerns above, we strongly encourage the IASB to conduct field-testing on the proposed disclosures.

Proposed amendments to IAS 36

EFRAG regrets that the IASB deviates from the project's initial objective to reduce goodwill shielding, and misses the opportunity to make significant improvements to the impairment test to address the 'shielding' issue.

EFRAG supports the proposed amendments regarding goodwill allocation to cash-generating units, but notes that the amendment in paragraph 80A(b) could be interpreted in different ways and recommends the IASB reconsider the drafting of that paragraph. EFRAG agrees with the idea of allocating goodwill to the lowest level possible. However, EFRAG is not convinced that the proposed amendments will change existing practice much.

For the purpose of reducing the shielding effect, EFRAG suggests requiring entities to provide more disclosures when goodwill is being reallocated in subsequent periods. EFRAG recommends that the requirement in paragraph 134(a) of IAS 36 be amended to include a requirement to explain changes (in the carrying amount of goodwill allocated to the unit (group of units)), including the reasons for any reallocation of goodwill during the reporting period.

EFRAG agrees with the proposal to no longer prohibit the inclusion of cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance, on the basis that it brings cash flows inputs to the value in use measurement in much better alignment with internal forecasting. However, EFRAG notes that removing these prohibitions leads to a need for guidance on what is, and what is not, to be included as part of uncommitted future restructuring or enhancing an asset's performance. Furthermore, feedback received from users suggested that, where a significant amount of value in use is derived from uncommitted future restructuring or enhancement of an asset's performance, they would like to know the extent to which the calculated value in use is influenced by expected uncommitted restructuring and future enhancements. While considering additional costs such disclosures might impose on preparers, EFRAG believes that further guidance on qualitative or quantitative disclosure requirements would be helpful.

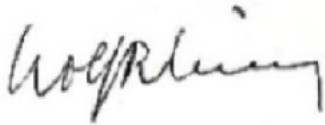
EFRAG agrees with the proposal to remove the limitation to only use pre-tax cash flows and pre-tax discount rates in calculating value in use. EFRAG recommends that the IASB clarify whether using pre-tax cash flows and pre-tax discount rates or post-tax cash flows and post-tax discount rates should produce comparable results.

IASB ED Business combinations – Disclosures, Goodwill and Impairment

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Isabel Batista or me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Wolf Klinz', written in a cursive style.

Wolf Klinz

President of the EFRAG FRB

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Appendix - EFRAG's responses to the questions raised in the ED

Question 1 - Disclosures: Performance of a business combination

Question 1 - Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)

In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that:

- users need better information about business combinations to help them assess whether the price an entity paid for a business combination is reasonable and how the business combination performed after acquisition. In particular users said they need information to help them assess the performance of a business combination against the targets the entity set at the time the business combination occurred (see paragraphs BC18–BC21).

- preparers of financial statements are concerned about the cost of disclosing that information. In particular, preparers said the information would be so commercially sensitive that its disclosure in financial statements should not be required and disclosing this information could expose an entity to increased litigation risk (see paragraph BC22).

Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost. In particular, the IASB is proposing to require an entity to disclose information about the entity's acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination). The IASB has responded to preparers' concerns about disclosing that information by proposing:

- to require this information for only a subset of an entity's business combinations—strategic business combinations (see question 2); and
- to exempt entities from disclosing some items of this information in specific circumstances (see question 3).

(a) Do you agree with the IASB's proposal to require an entity to disclose information about the performance of a strategic business combination, subject to an exemption? Why or why not? In responding, please consider whether the proposals appropriately balance the benefits of requiring an entity to disclose the information with the costs of doing so.

(b) If you disagree with the proposal, what specific changes would you suggest to provide users with more useful information about the performance of a business combination at a reasonable cost?

EFRAG's response

- 1 EFRAG supports the IASB's objective to provide users with better information to help them assess the subsequent performance of major business combinations. However, EFRAG is not convinced that some of the disclosure proposals would effectively achieve these objectives.
- 2 Moreover, EFRAG highlights concerns (notably expressed by preparers) in providing this information in financial statements. EFRAG acknowledges that while the proposed exemption could address some concerns, it will not mitigate all of them.

Performance of strategic business combinations

- 3 EFRAG agrees that the proposed information for major ('strategic') business combinations is in line with the request from users of financial statements.

Sensitivity of information

- 4 However, some non-user constituents have expressed reluctance to provide this information in financial statements, due to its commercial sensitivity (costs savings, revenue attribution, employee-related information, etc.) and legal sensitivity (employee-related information in some jurisdictions). Therefore, should the IASB proceed with the proposed disclosures, EFRAG welcomes the IASB's proposal to exempt an entity from providing the information under certain circumstances.
- 5 Many preparers informed EFRAG that the exemption would be difficult to use in practice (challenging to meet the proposed criteria and additional scrutiny from auditors). Despite this difficulty, some preparers indicated they are likely to try to apply the exemption whenever possible. Therefore, the expected use of the exemption by entities (only in certain 'prejudicial' cases) may be more frequent than envisaged by the IASB. Detailed comments on the proposed exemption are provided in question 3.

Integration

- 6 EFRAG recognises that when an entity intends to integrate an acquired business, its key objectives and targets for an acquisition could be based on the combined (integrated) business, rather than the acquired business in isolation. Therefore, EFRAG supports disclosing performance information based on the integrated business, if this aligns with how management reviews and monitors the acquired business. This approach is consistent with the IASB's management approach regarding the proposed disclosures. However, EFRAG highlights that some constituents noted instances where the integrated information becomes so detached from the acquired business that the information might not be linked to the acquisition and the amounts recognised, including goodwill.

Location of information

- 7 On one hand, EFRAG’s non-user constituents (notably preparers, some auditors and national standard setters) were not convinced that most of the proposed performance information should be disclosed in financial statements. In their view, most of the proposed disclosures on the key objectives and targets of an acquired business are better suited for management reports or other sources of reporting outside of financial statements. In particular, some constituents reiterated the concerns noted in BC75 of the Basis for Conclusions on the ED. Some constituents suggested that the right location for financial KPIs is the financial statements, while non-financial KPIs should be presented in the management report.
- 8 On the other hand, EFRAG acknowledges that users would prefer to have the information in the financial statements, as they would ensure that all entities disclose the information in a consistent way, which would give them more assurance. EFRAG is also conscious that across EU member states, the details on the information required in management reports differ.

Field-testing

- 9 Given the concerns provided above, EFRAG strongly encourages the IASB to field-test the proposed disclosures and any alternatives it might develop and assess the extent to which users are already receiving the information from other sources.

Information on actual performance

- 10 Paragraphs B67A(a) and B67A(b) of the ED also require, for strategic business combinations, information about actual performance and a qualitative statement of whether actual performance is meeting or has met the acquisition-date key objectives and the related targets. EFRAG notes the concerns raised by some IASB members (paragraph BC44 of the Basis for Conclusions on the ED) on this proposal, especially given that the qualitative statement of whether actual performance is meeting or has met the acquisition-date key objectives and the related targets, is subject to an exemption in certain cases.
- 11 However, subject to our comments above, EFRAG agrees that having information on actual performance is still useful for users, even if an entity applies the exemption.

Question 2 - Disclosures: Strategic business combinations

Question 2 - Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of a business combination (that is, information about the entity's acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met) for only strategic business combinations—a subset of material business combinations. A strategic business combination would be one for which failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy.

The IASB is proposing that entities identify a strategic business combination using a set of thresholds in IFRS 3—a business combination that met any one of these thresholds would be considered a strategic business combination (threshold approach) (see paragraphs BC56–BC73).

The IASB based its proposed thresholds on other requirements in IFRS Accounting Standards and the thresholds regulators use to identify particularly important transactions for which an entity is required to take additional steps such as providing more information or holding a shareholder vote. The proposed thresholds are both quantitative (see paragraphs BC63–BC67) and qualitative (see paragraphs BC68–BC70).

(a) Do you agree with the proposal to use a threshold approach? Why or why not? If you disagree with the proposal, what approach would you suggest and why?

(b) If you agree with the proposal to use a threshold approach, do you agree with the proposed thresholds? Why or why not? If not, what thresholds would you suggest and why?

EFRAG's response

- 12 Subject to our response to question 1, EFRAG supports the proposed closed-list approach as being the most practical solution, from an application, audit and enforcement perspective. EFRAG also acknowledges that the proposed criteria included in the proposed thresholds are already used in IFRS Accounting Standards. This allows entities to leverage existing definitions and does not require the IASB to develop new criteria.
- 13 However, **EFRAG has several concerns with the proposed quantitative and qualitative thresholds** in their current form.

Description of ‘strategic’ in paragraph BC54

- 14 EFRAG questions whether the current description of a strategic business combination in paragraph BC54 of the Basis for Conclusions on the ED (*‘...failure to meet any one of an entity’s acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy’*) is consistent with the proposed thresholds. For example, EFRAG considers it difficult to conclude that most acquisitions meeting the proposed thresholds in paragraph B67C of the ED, would put at risk the entity’s overall business strategy if they fail. Furthermore, EFRAG finds the meaning of *‘failing to achieve the overall business strategy’* unclear. To support consistent application of the thresholds, EFRAG suggests that a modified description of a strategic business combination should be included in the main text of the Standard rather than in the Basis for Conclusions.

Proposed closed-list approach versus principle-based approach

- 15 EFRAG considers the proposed closed-list approach to be the most practical solution for identifying a strategic business combination. However, EFRAG questions whether there could be cases where applying the proposed closed-list approach would fail to capture the intended population of acquisitions.
- 16 Some constituents highlighted that a combination of both quantitative and qualitative thresholds would be more appropriate to capture the right population of major acquisitions. For example, some preparers noted that entering a new geographical area does not necessarily imply strategic importance for the management (it may involve very immaterial business combinations), which is why some suggested that at least one of the quantitative thresholds should be met in conjunction with a qualitative threshold.
- 17 Other constituents highlighted that there could be cases where the 10% quantitative threshold measure could be easily met (e.g., for a service company or smaller entities) but for other cases (e.g., more mature manufacturing companies, larger entities) it could be more difficult.
- 18 Overall, EFRAG has learned that there could be cases where the closed-list thresholds would capture business combinations that the entity’s management considers non-strategic. Likewise, a business combination considered strategic by management could fail to meet any of the proposed closed-list thresholds.

Rebuttable presumption/indicators and focus on materiality

- 19 To address the concerns noted above, EFRAG recommends that when an acquisition meets one or more of the qualitative or quantitative thresholds, **an entity should be able to rebut the presumption that it is ‘strategic’**, if the entity can demonstrate that the acquisition

does not align with the management's overall view of a strategic business combination. Likewise, management could exercise their judgement to identify a strategic business combination that happen to fail all of the thresholds. This approach would consider the proposed thresholds as indicators for identifying a 'strategic' acquisition, while allowing management to exercise judgement in deciding which acquisitions qualify as strategic business combinations.

- 20 Furthermore, EFRAG notes that the general concept of materiality in IFRS Accounting Standards would apply when the proposed thresholds (quantitative or qualitative) capture business combinations that the entity considers immaterial. EFRAG recommends that the IASB elaborate on this point in the Basis for Conclusions on the ED, appreciating that materiality is a universally applicable concept in IFRS Accounting Standards.

Quantitative thresholds

- 21 **We are concerned that the 'operating profit or loss' threshold would not capture the intended population of 'strategic' acquisitions**, due to its volatility and fluctuation from year to year. For instance, during periods of low profitability, more business combinations may be identified as strategic simply by meeting the profitability threshold. The reverse could also happen. Using this volatile threshold hampers comparability.
- 22 EFRAG also notes that the 'revenue' threshold could be subject to fluctuation, and therefore suggests using averages over multiple reporting periods instead of the proposed 'most recent annual reporting period'. This would avoid 'one-off' distortions in the revenue figure.
- 23 Some constituents (notably users) recommended adding enterprise value (market capitalisation) as a quantitative threshold. EFRAG acknowledges that, as noted in paragraph BC64 of the Basis for Conclusions on the ED, this could pose a challenge for non-listed entities and may also be subject to volatility.

Acquiree not reporting under IFRS

- 24 EFRAG considers that the IASB should clarify how to apply both the 'operating profit or loss' and the 'revenue' thresholds, if the acquiree did not report under IFRS previously. In this case, additional information would need to be prepared to compare like for like. Since the level of precision required in obtaining this information might influence whether a threshold is met or not, we recommend that the IASB specify how to derive these numbers taking into account cost-benefit considerations.

Other clarifications and editorial suggestions

- 25 EFRAG notes that IFRS 3 gives the acquiring company the choice to either recognise any resulting goodwill in full (including the amount attributable to non-controlling interests) or in part (limiting the goodwill to the share of the acquirer). We therefore recommend that the IASB provide guidance on this matter in relation to the ‘total assets’ (including goodwill) threshold.
- 26 In addition, for clarification and consistent interpretation, EFRAG recommends adding an ‘or’ after paragraph B67C(a)(ii).

Series of business combinations

- 27 EFRAG considers it useful to have guidance on how to assess whether a business combination, which might be small, is the first in a series of business combinations to be entered into that, together, could be considered as a single strategic business combination. EFRAG outreach and other feedback received confirmed the need for additional guidance.
- 28 EFRAG believes that such guidance is desirable to help entities assess when a business combination should, or should not, be considered as part of a coordinated business plan to enter into a series of business combinations that, in aggregate, will be considered to be a strategic business combination. EFRAG considers that guidance on assessing a series of business combinations would not contradict the management approach.
- 29 Therefore, EFRAG recommends that the IASB incorporate the guidance in paragraph BC73 of the Basis for Conclusions on the ED into the main text of the Standard. This could provide entities with direction when deciding whether to consider a ‘series of business combinations’ as a single acquisition that could meet the definition/thresholds of strategic business combination, and when to conduct the assessment (e.g., after the series of acquisitions has occurred).

Question 3 - Disclosures: Exemption from disclosing information

Question 3—Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)

The IASB is proposing to exempt an entity from disclosing some of the information that would be required when applying the proposals in this Exposure Draft in specific circumstances. The exemption is designed to respond to preparers’ concerns about commercial sensitivity and litigation risk but is also designed to be enforceable and auditable so that it is applied only in the appropriate circumstances (see paragraphs BC74–BC107).

The IASB proposes that, as a principle, an entity be exempt from disclosing some information if doing so can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination (see paragraphs BC79–BC89). The IASB has also proposed application guidance (see paragraphs BC90–BC107) to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption.

(a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns.

(b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.

EFRAG's response

30 Subject to our comments on question 1 and question 5 (expected synergies), EFRAG welcomes the IASB's efforts to address some of the concerns expressed in the feedback received, by proposing an exemption to some items of information in specific circumstances.

31 If the IASB proceeds with the proposed disclosures in question 1 and question 5 (expected synergies), EFRAG has the following comments on the proposed exemption.

When to apply the exemption

32 EFRAG considers that information likely to be seriously prejudicial is not limited to information that might impair the entity's ability to meet its key objectives defined at acquisition date. Broader considerations, such as social or legal matters, could also pose a risk of serious prejudice to the entity, without jeopardising those key objectives.

33 EFRAG notes that the purpose of the exemption is not to provide entities with an exit route to avoid providing the information, but rather to use it in situations where publicly disclosing the information is expected to seriously prejudice any of the entity's objectives for the business combination (consistent with the proposed principle).

34 EFRAG welcomes the proposed application guidance, but highlights some practical challenges that arise from the IASB's decision not to prescribe the 'specific circumstances' in which the exemption would be applied, and instead to provide a non-exhaustive list of factors to consider. EFRAG notes that the interpretation of 'specific circumstances' could differ across jurisdictions, sectors and entities, and therefore recommends that further clarifications be provided.

35 Therefore, EFRAG **suggests including illustrative examples of ‘specific circumstances’ where it would be appropriate to apply the exemption** to support preparers. Furthermore, EFRAG suggests illustrating how entities would disclose the fact that they applied the exemption, and when to disclose the previously exempted information.

Disclosing the reason for applying the exemption

36 EFRAG acknowledges that disclosing the reason for applying the exemption aligns with the requirement in paragraph 92 of IAS 37.

37 EFRAG expects that some entities would disclose the reason for applying the exemption at a sufficiently high level, without putting at risk the achievement of any of the entity’s acquisition-date key objectives for the business combination.

38 However, several preparers have informed EFRAG that disclosing the reason for applying the exemption could mean disclosing commercially sensitive or legally constrained information (such as employee-related information), thereby defeating the purpose of the exemption. Therefore, EFRAG recommends that the IASB amend the proposal in paragraph B67E of the ED and **not require entities to disclose the reasons why they have not disclosed an item of information**. If the IASB pursues requiring disclosure of the reasons, EFRAG recommends clarifying whether there is a difference between the term ‘reasons’ used in paragraph B67E of the ED and the ‘specific reason’ used in paragraph B67D(a) of the ED.

Disclosing information in a different way

39 EFRAG notes that providing the information at an aggregated level (e.g., disclosing the total amount of quantitative synergies) is preferable to not providing it at all by applying the exemption. Therefore, EFRAG supports the IASB’s proposal to require entities to first consider if presenting information differently (e.g., at a sufficiently aggregated level) is possible without having a prejudicial effect on the entity before applying the exemption.

Reassessment in subsequent periods

40 EFRAG supports the IASB’s proposal in paragraph B67G of the ED to require entities to reassess the eligibility for the exemption each reporting period, for as long as the entity would be otherwise required to disclose the information.

41 However, EFRAG notes that some constituents highlighted that implementing this proposal is likely to be costly and burdensome to preparers, and therefore suggests the IASB reconsider this requirement in light of cost-benefit considerations.

Question 4 - Disclosures: Identifying information to be disclosed

Question 4—Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of the entity's strategic business combinations (that is, information about its acquisition-date key objectives and related targets for a strategic business combination and whether these key objectives and related targets are being met) that is **reviewed by its key management personnel** (see paragraphs BC110–BC114).

The IASB's proposals would require an entity to **disclose this information for as long as the entity's key management personnel review the performance of the business combination** (see paragraphs BC115–BC120).

The IASB is also proposing (see paragraphs BC121–BC130) that if an entity's key management personnel:

- do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so;
- stop reviewing whether an acquisition-date key objective and the related targets for a business combination are met before the end of the second annual reporting period after the year of acquisition, the entity would be required to disclose that fact and the reasons it stopped doing so; and
- have stopped reviewing whether an acquisition-date key objective and the related targets for a business combination are met but still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition.

(a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed about the performance of a strategic business combination?

(b) Do you agree that:

(i) an entity should be required to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information? Why or why not?

(ii) an entity should be required to disclose the information specified by the proposals when the entity's key management personnel do not start or stop reviewing the achievement of a key objective and the related targets for a strategic business combination within a particular time period? Why or why not?

EFRAG's response

42 Subject to our responses to questions 1 and 5 (expected synergies), EFRAG considers that the proposed disclosures about the performance of a strategic acquisition should be based on information management uses to review and monitor the business combination.

Who provides the information?

43 EFRAG has received mixed views from its constituents on defining the level of management as Key Management Personnel (KMP). Some respondents preferred referring to the Chief Operating Decision Maker (CODM), while others preferred not to define the level of management, noting that the 'decision maker' can vary across entities.

(a) Those supporting the CODM argued that KMP is a broader term than CODM. They believe that the performance of acquisitions is commonly reviewed at the operating segment level, and favoured aligning the level of management with IFRS 8 *Operating Segments*; and

(b) Others highlighted that there is no added value in specifying a level of management once the 'strategic' business combinations are identified.

44 EFRAG acknowledges that the management structure of entities can differ, and therefore questions **whether it is necessary to define a specific level of management**. If the IASB retains the reference to KMP, EFRAG suggests including more guidance on how to apply this concept in practice within the scope of IFRS 3.

45 EFRAG also emphasises the importance of alignment between roles and definitions in different IFRS Accounting Standards, including the existing IFRS 3. In this regard, EFRAG welcomes the IASB's clarification in paragraph 83(b) of the amendments to IAS 36, which state that the level of management monitoring for the purposes of subsequent performance may differ from the level of management monitoring the business associated with goodwill for the purposes of impairment testing.

46 As explained in paragraph BC201 of the Basis for Conclusions on the ED, the use of KMP for the proposed disclosure requirements in IFRS 3 is intended to identify the most important information by focusing on a senior level of management. However, the purpose of the impairment test is to allocate goodwill at the lowest level within an entity, at which its management is monitoring the business associated with goodwill.

How long an entity should be required to disclose information

47 Subject to our comments regarding the proposed disclosure requirements, EFRAG shares the following views on this proposal:

- (a) EFRAG generally supports the IASB's proposal in paragraph B67B of the ED to disclose information about the performance of a business combination for as long as the entity's KMP continues to monitor it against its acquisition-date key objectives and targets. EFRAG notes that a few of our constituents did not agree with this proposal and considered that the proposed core period was sufficient.
- (b) In cases when an entity's KMP has not started reviewing and does not plan to review the required information (whether the key objectives and related targets of strategic business combinations are being met), EFRAG also supports the proposal for an entity to disclose that fact and the reasons for not reviewing the information, as it will be useful for users to understand why an entity does not monitor a strategic business combination.
- (c) EFRAG considers the proposed timeframe set out in paragraph B67B(b) of the ED (two full years after the year of acquisition of a business combination) to be a reasonable minimum period for the information to be disclosed.
- (d) EFRAG finds the flowchart provided after paragraph B67B of the ED, illustrating how to apply the proposals, to be particularly useful.

Question 5 - Disclosures: Other proposals

Question 5 - Disclosures: Other proposals

The IASB is proposing other amendments to the disclosure requirements in IFRS 3. These proposals relate to:

New disclosure objectives (proposed paragraph 62A of IFRS 3)

The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28).

*Requirements to disclose quantitative information about **expected synergies** in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)*

The IASB proposes:

- to require an entity to describe expected synergies by category (for example, revenue synergies, cost synergies and each other type of synergy);
- to require an entity to disclose for **each category** of synergies:
 - the estimated amounts or range of amounts of the expected synergies;
 - the estimated costs or range of costs to achieve these synergies; and
 - the time from which the benefits expected from the synergies are expected to start and how long they will last; and
- to exempt an entity from disclosing that information in specific circumstances. See paragraphs BC148–BC163.

*The **strategic rationale** for a business combination (paragraph B64(d) of IFRS 3)*

The IASB proposes to replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination (see paragraphs BC164–BC165).

***Contribution of the acquired business** (paragraph B64(q) of IFRS 3)*

The IASB proposes to amend paragraph B64(q) of IFRS 3 to improve the information users receive about the contribution of the acquired business (see paragraphs BC166–BC177). In particular, the IASB proposes:

- to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB's Primary Financial Statements project);
- to explain the purpose of the requirement but add no specific application guidance; and
- to specify that the basis for preparing this information is an accounting policy.

***Classes of assets acquired and liabilities assumed** (paragraph B64(i) of IFRS 3)*

The IASB proposes to improve the information entities disclose about the pension and financing liabilities assumed in a business combination by deleting the word 'major' from paragraph B64(i) of IFRS 3 and adding pension and financing liabilities to the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 (see paragraphs BC178–BC181).

Deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3)

The IASB proposes to delete some disclosure requirements from IFRS 3 (see paragraphs BC182–BC183).

Do you agree with the proposals? Why or why not?

EFRAG's response

New disclosure objectives (proposed paragraph 62A of IFRS 3)

48 EFRAG supports the IASB's proposal to add two new disclosure objectives, to better reflect users' needs. The new disclosure objectives also complement the proposed disclosure requirements, as a response to users' feedback that they do not think sufficient information about business combinations is currently provided for assessing the success, or lack thereof, of the acquisitions made.

Expected synergies

49 EFRAG notes significant concerns expressed by its constituents (notably preparers) related to the proposal to disclose quantitative information about expected synergies, including:

- (a) The quantification of synergies is subject to a high level of judgement and uncertainty, so it could be costly to produce and audit. Given the level of judgement involved in producing such information, additional disclosures regarding significant judgement or assumptions under IAS 1 (requirements moved to IAS 8 following the issuance of IFRS 18) may be required;
- (b) In cases where an expected synergy is not considered to be a key objective or related target, the information is only required in the year of acquisition. Therefore, usefulness of information is questionable, if any subsequent year performance information is not provided;
- (c) It remains unclear whether the information on expected synergies is intended to include only those that the acquirer paid for (that reconcile with the paid price and thus justify the goodwill resulting from the acquisition) or the total expected synergies for the group as a whole, which may be higher.

Location of information

50 **EFRAG questions whether quantitative information on expected synergies should be provided in the financial statements**, due to its commercial sensitivity and forward-looking nature, which may give rise to litigation risk.

- 51 However, EFRAG notes that a significant minority of constituents agreed with the IASB's proposal to include the information in the financial statements, citing that:
- (a) forward-looking and judgemental information is already required in the financial statements;
 - (b) the exemption should address some concerns about 'sensitive information';
 - (c) only the information that is prepared for internal purposes should be provided, and it is therefore available and not too costly to prepare;
 - (d) it should be verified that the information reflects management's view, and therefore questioned whether there will be challenges in auditing the information.

Field-testing

- 52 In case the IASB proceeds with requiring the proposed disclosures on expected synergies, EFRAG strongly encourages the IASB to field-test the proposed disclosures and any alternatives it might develop and assess the extent to which users are already receiving the information from other sources.

Remaining aspects of the proposals on expected synergies

- 53 In the paragraphs below, and in case the IASB proceeds with the proposals, EFRAG addresses the remaining aspects of the proposals on expected synergies.
- (a) **Disaggregation by category of expected synergies** - EFRAG considers that disclosing information about expected synergies by category would help the IASB respond to concerns that the information could be commercially sensitive. EFRAG considers that the proposed level of disaggregation between different categories of expected synergies would help users of financial statements, as they use the information on synergy categories differently. Disaggregation of information could potentially help preparers with addressing concerns on commercial sensitivity, in which case an entity could apply the proposed exemption. EFRAG considers that additional guidance would be helpful, especially considering the proposal to provide quantitative information on each category of expected synergy. In this regard, EFRAG recommends that the entity disclose the basis for preparation of the amounts of synergies that are disclosed.
 - (b) **Timing of expected synergies** - EFRAG does not support the proposal to require an entity to disclose when the benefits expected from the synergies are expected to start and for how long they will last. In EFRAG's view, this information would be too

costly to prepare and would involve a high level of judgement, which would not achieve a fair cost-benefit balance.

- (c) **Definition of synergies** - EFRAG generally agrees with the IASB not to define synergies. The term is already used in IFRS 3 for disclosing qualitative information about expected synergies, and entities are accustomed to applying this requirement in practice. EFRAG acknowledges that each business combination will have its unique set of expected synergies, making it difficult to establish a uniform definition applicable to all business combinations. However, EFRAG notes that entities might be less familiar with quantifying synergies and recommends that the IASB provide guidance and more specific examples of expected synergies and how entities should address situations when expected synergies are non-quantitative in nature (e.g., a timing synergy that cannot be quantified).

Strategic rationale for a business combination

- 54 EFRAG supports the IASB's proposal to replace the requirement to disclose the primary reasons with the strategic rationale for the business combination. EFRAG considers the proposal will provide clarity on how the business combination fits into the entity's overall strategy and how it is linked to the nature of synergies. Additionally, EFRAG notes that the proposal is not expected to lead to significant changes compared to the current requirements under IFRS 3.

Contribution of the acquired business

Retaining the requirement in paragraph B64(q) of IFRS 3

- 55 EFRAG agrees with the IASB's proposal to retain the disclosure information in paragraph B64(q) of IFRS 3, as it is important for users to perform year-on-year comparisons of an entity's performance and understand how the two businesses are combined. However, EFRAG has heard from some preparers and auditors that there are difficulties in preparing this information in some cases.

Replacing the requirement to disclose 'profit or loss' with 'operating profit or loss'

- 56 EFRAG also agrees with replacing the term 'profit and loss' with 'operating profit and loss' as defined in IFRS 18 *Presentation and Disclosure in Financial Statements*, as it would limit divergence in practice of what is included in operating profit and loss and increase comparability of information. EFRAG understands that for their analyses, users use information up to operating profit of acquired business, as the operating performance is independent of how the acquisition is structured and how the entity has allocated finance costs and tax expenses between the integrated acquired business and the existing business. In addition, EFRAG acknowledges users' preference to exclude from operating profit or loss

contributed by the acquired business the share of equity accounted for investments in associates and joint ventures, as this may reduce comparability of operating profit based on the measurement method.

Application guidance for the requirement in paragraph B64(q)(ii) of IFRS 3.

57 **EFRAG disagrees with the IASB’s proposal** to specify that the basis of the information required by paragraph B64(q)(ii) of IFRS 3 is an accounting policy.

58 Instead, EFRAG recommends that the IASB require entities to provide an explanation of the basis used to prepare the information.

Classes of assets acquired and liabilities assumed

59 EFRAG agrees with the IASB’s proposal to delete the word ‘major’ from paragraph B64(i) of IFRS 3. The IASB’s approach is coherent with the general principles on materiality in IFRS.

60 Moreover, EFRAG welcomes the IASB’s proposal to include pension and financing liabilities in the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3. The amendments in the illustrative example are helpful for stakeholders to consider pension and debt liabilities as material classes of liabilities assumed.

61 EFRAG acknowledges the importance of this information as it addresses the users’ requests. However, EFRAG’s concern is that stakeholders might misunderstand what assets and liabilities acquired in a business combination need to be described. By removing the word ‘major’, it could be misunderstood that entities need to provide detailed descriptions of each asset and liability acquired in a business combination.

Deleting disclosure requirements

62 EFRAG agrees with the IASB’s proposal to delete from IFRS 3 paragraph 64(h), 67 (d)(iii) and 67(e) because they provide requirements already present in other IFRS Accounting Standards or became redundant when IFRS 3 was amended in 2008 without adding useful information to stakeholders.

Question 6 - Changes to the impairment test

Question 6 - Changes to the impairment test (paragraphs 80–81, 83, 85 and 134(a) of IAS 36)

During the PIR of IFRS 3, the IASB heard concerns that the impairment test of cash generating units containing goodwill results in impairment losses sometimes being recognised too late.

Two of the reasons the IASB identified (see paragraphs BC188–BC189) for these concerns were:

- shielding; and

- management over-optimism.

The IASB is proposing amendments to IAS 36 that could mitigate these reasons (see paragraphs BC192–BC193).

Proposals to reduce shielding

The IASB considered developing a different impairment test that would be significantly more effective at a reasonable cost but concluded that doing so would not be feasible (see paragraphs BC190–BC191).

Instead, the IASB is proposing changes to the impairment test (see paragraphs 80–81, 83 and 85 of IAS 36) to reduce shielding by clarifying how to allocate goodwill to cash generating units (see paragraphs BC194–BC201).

Proposal to reduce management over-optimism

The IASB's view is that management over-optimism is, in part, better dealt with by enforcers and auditors than by amending IAS 36. Nonetheless, the IASB is proposing to amend IAS 36 to require an entity to disclose in which reportable segment a cash generating unit or group of cash-generating units containing goodwill is included (see paragraph 134(a) of IAS 36). The IASB expects this information to provide users with better information about the assumptions used in the impairment test and therefore allow users to better assess whether an entity's assumptions are over-optimistic (see paragraph BC202).

(a) Do you agree with the proposals to reduce shielding? Why or why not?

(b) Do you agree with the proposal to reduce management over-optimism? Why or why not?

EFRAG's response

Proposals not to develop an impairment test that would be significantly more effective at a reasonable cost

63 EFRAG acknowledges the conclusion reached by the IASB: that it is currently not feasible to develop an impairment model that would significantly reduce or eliminate the shielding effect without being very complex and costly. EFRAG does not rule out that developments, including further research, may make this possible in the future. However, EFRAG supports the decision of the IASB at this point in time not to pursue further the search for and development of such a model.

Reducing shielding

64 On the proposals to reduce shielding, EFRAG agrees with the directional change in focus in paragraph 80(a) from the level at which **goodwill** is monitored for internal purposes, to the level at which **the business associated with goodwill** is monitored for internal purposes.

Since goodwill is a measurement of a residual, it is more the business associated with goodwill which is subsequently monitored, rather than the measurement labelled goodwill.

- 65 EFRAG further agrees with the direction of considering the lowest level where subsequently there will be regularly available information when determining the level of allocation of goodwill.
- 66 EFRAG notes that the proposals do not change any fundamentals of the impairment test, but may be expected to help to enforce goodwill allocation to a level lower than operating segment, which is currently considered by many entities as a default.
- 67 EFRAG notes that there may not be a clear relation between the notion of business and CGU or groups of CGUs. EFRAG recommends that the IASB clarify the link between business as defined in IFRS 3, and CGU and business associated with the goodwill as defined in IAS 36.
- 68 EFRAG sees some ambiguity in the guidance proposed in the new paragraph 80A(b) of IAS 36.
- 69 In the amended IAS 36 paragraph 80(a), entities have to identify ‘the lowest level within the entity at which the business associated with the goodwill is managed for internal purposes’. In paragraph 80A(b), entities need to ‘determine the lowest level for which there is financial information ... that management regularly uses to monitor the business associated with the goodwill’. Thus, paragraph 80A(b) adds the requirement of ‘financial information’ and transforms the requirement ‘is managed for internal purposes’ in paragraph 80(a) so that it becomes in paragraph 80A(b) ‘for which there is financial information ... that management regularly uses to monitor the business’.
- 70 However, paragraph 80A(b) further requests ‘that financial information reflects how the benefits expected from the synergies of the combination are managed’. Therefore, while ‘synergies of the combination’ is used as an identifier of cash-generating units or groups of cash-generating units to which goodwill is to be allocated in paragraph 80 (those expected to benefit), it becomes a requirement for the content in the monitoring or the financial information used to monitor the business in paragraph 80A(b).
- 71 This implies that financial information that management regularly uses to monitor the business associated with the goodwill, but which does not reflect how the benefits expected from the synergies of the combination are managed, will not be sufficient to identify cash-generating units or groups of cash-generating units to which goodwill is to be allocated. EFRAG notes that financial reporting is generally not focused on how benefits

expected from synergies of a business combination are managed. As a result, EFRAG believes that the intended reduction of goodwill shielding may not be fully achieved, because lower levels for which there is financial information may fail the new requirement, leaving goodwill to be allocated at a higher level.

72 EFRAG agrees with the initial clarification in paragraph 80A(b) requiring there to be ‘financial information ... that management regularly uses to monitor the business associated with the goodwill’, but does not agree with the last requirement in paragraph 80A(b), as stated above, and recommends that the last sentence in that (sub)paragraph be removed. The removal of the last sentence, ‘That financial information reflects how the benefits expected from the synergies of the combination are managed’, will further enhance the connection between the requirement in paragraph 80A(b) and the last sentence of paragraph 83(b).

73 Considering the initial part of paragraph 80A, paragraph 80A(a) and paragraph 80B, EFRAG sees no new guidance there that is not already clearly present in paragraph 80. To avoid unnecessary expansion of IFRS literature, EFRAG recommends not adding the initial part of paragraph 80A, paragraph 80A(a) and paragraph 80B to IAS 36. If the proposed wording of the initial part of paragraph 80A, paragraph 80A(a) and paragraph 80B is kept, it may create ambiguity relating to the status of other requirements that are not repeated.

74 EFRAG welcomes the clarification provided to paragraph 83 of IAS 36.

75 For the purposes of reducing the shielding effect, EFRAG suggests the IASB consider providing more disclosure requirements when goodwill is being reallocated in subsequent periods. EFRAG recommends that the requirement in paragraph 134(a) of IAS 36 be amended to include a requirement to explain changes (in the carrying amount of goodwill allocated to the unit (group of units)) including the reasons for any reallocation of goodwill during the reporting period.

Reducing management over-optimism

76 EFRAG acknowledges that management over-optimism is a basic feature that is present in any accounting model and best solved through clear principles (rather than anti-abuse rules), transparent disclosures, hands-on auditing, and strong enforcement. Auditing and enforcement are outside the remit of the IASB.

77 EFRAG supports the requirement for entities to report segment information for each reportable segment for which cash-generating unit or groups of cash-generating units are containing goodwill and the carrying amount of the goodwill in each unit.

- 78 It is the expectation of EFRAG that the cost of providing this information would be limited compared to the benefit achieved by increased transparency for users.

Question 7 - Changes to the impairment test: Value in use

Question 7 - Changes to the impairment test: Value in use (paragraphs 33, 44–51, 55, 130(g), 134(d)(v) and A20 of IAS 36)

The IASB is proposing to amend how an entity calculates an asset's value in use. In particular, the IASB proposes:

- to remove a constraint on cash flows used to calculate value in use. An entity would no longer be prohibited from including cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance (see paragraphs BC204–BC214).
- to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates (see paragraphs BC215–BC222).

(a) Do you agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance? Why or why not?

(b) Do you agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use? Why or why not?

EFRAG's response

Removing the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance

- 79 EFRAG agrees with the proposal to no longer prohibit the inclusion of cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance. However, EFRAG notes concerns on enforceability and auditability when establishing the new boundaries.
- 80 EFRAG agrees with the IASB's views presented in paragraph 205 of the Basis for Conclusions on the ED.
- 81 EFRAG notes that the first sentence in paragraph 44A(a) of IAS 36 may be read to require an entity to include in the cash flows of an asset any outflows necessary to maintain the level of economic benefit expected to arise from the assets in its current condition, even if the entity is planning not to maintain the current level. EFRAG recommends considering an

alternative wording. The value in use calculation should not include assumptions for use not aligned with the entity's assumptions.

- 82 As stated, EFRAG agrees with the proposal to no longer prohibit the inclusion of cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance, as this brings the cash flows input to the calculation of value in use and leads to much better alignment with internal forecasting. However, EFRAG notes that removing these prohibitions leads to a need for guidance on what is, and what is not, within the boundaries of restructuring and enhancing an existing asset. Therefore, EFRAG suggests the IASB include guidance on the boundary of investing in/enhancing a current asset versus investing in/enhancing a future asset.
- 83 Where a significant amount of value in use is derived from the inclusion of uncommitted future restructuring or enhancement of an asset's performance, users would like to know the extent to which the calculated value in use is influenced by expected uncommitted future restructuring and enhancements. Therefore, EFRAG believes that further guidance on qualitative or quantitative disclosure requirements would be helpful.
- 84 EFRAG notes that the proposed amendments to the calculation of value in use bring value in use closer to fair value.

Removing the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use

- 85 For the reasons cited in paragraph BC219 and the condition specified in paragraph BC221 of the Basis for Conclusions on the ED, EFRAG supports the proposed amendments to paragraph 50, 51 and 55 of IAS 36. EFRAG suggests that the IASB clarify that applying pre-tax or post-tax inputs and assumptions is not an accounting policy election, so that IAS 36 will not prohibit some value-in-use calculations to be conducted based on pre-tax inputs and assumptions while other value-in-use calculations are based on post-tax inputs and assumptions in the same reporting period by the same entity.
- 86 Allowing the use of consistent pre-tax or post-tax inputs and assumptions in a value in use calculation trigger the questions on how to practically handle tax positions, including if or how the alternatives should trigger the same impairment. EFRAG notes that the IASB should clarify whether using pre-tax cash flows and pre-tax discount rates or post-tax cash flows and post-tax discount rates should produce the same recoverable amount.

Question 8 - Proposed amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

Question 8 - Proposed amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

The IASB proposes to amend the forthcoming IFRS 19 Subsidiaries without Public Accountability: Disclosures (Subsidiaries Standard) to require eligible subsidiaries applying the Subsidiaries Standard to disclose:

- information about the strategic rationale for a business combination (proposed paragraph 36(ca) of the Subsidiaries Standard);
- quantitative information about expected synergies, subject to an exemption in specific circumstances (proposed paragraphs 36(da) and 36A of the Subsidiaries Standard);
- information about the contribution of the acquired business (proposed paragraph 36(j) of the Subsidiaries Standard); and
- information about whether the discount rate used in calculating value in use is pretax or post-tax (paragraph 193 of the Subsidiaries Standard).

See paragraphs BC252–BC256.

Do you agree with the proposals? Why or why not?

EFRAG's response

87 EFRAG welcomes the IASB's efforts to propose disclosure requirements for eligible subsidiaries that would reduce the costs for preparers while maintaining the usefulness of information by only requiring disclosures designed for users of eligible subsidiaries' financial statements.

88 However, EFRAG highlights that the forthcoming *IFRS 19 Subsidiaries without Public Accountability: Disclosures* has not yet been issued nor endorsed in the EU. Therefore, the endorsement of the amendments resulting from this ED is conditional on the outcomes of the EU endorsement process of the forthcoming IFRS Accounting Standard.

89 EFRAG generally agrees that the proposals are consistent with the IASB's key principles and cost-benefit considerations when identifying relevant disclosure requirements for eligible subsidiaries, while noting that it also involves exercising judgment. More specifically, on the proposed disclosure requirements EFRAG notes:

- (a) **Strategic rationale:** EFRAG considers that this disclosure would provide users with some context to understand the quantitative information about expected synergies, and therefore information on short-term cash flows (consistent with the principle in the Basis for Conclusions on the ED paragraph BC253(a)). As per paragraph 77 of

EFRAG's [comment letter](#) on the IASB's ED *Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures*, the disclosure requirement for providing the primary reasons for the business combination (paragraph B64(d) of IFRS 3) was deemed cost-effective for preparers and relevant to users. Thus, EFRAG is pleased that the IASB's ED aligns with the suggestion in EFRAG's comment letter to incorporate this disclosure requirement in the Subsidiaries Standard.

- (b) **Quantitative information about expected synergies:** EFRAG acknowledges that this disclosure would provide users with information on an entity's short-term cash flows (consistent with the principle in the Basis for Conclusions on the ED paragraph BC253(a)). However, as noted in question 5, EFRAG has reservations with the proposal to require the disclosure of quantitative information about expected synergies, and therefore our reservations are also valid for the amendments to IFRS 19.
- (c) **Contribution of the acquired business:** Similar to the above, EFRAG considers that this information would help users in forecasting an entity's short-term cash flows (consistent with the principle in the Basis for Conclusions on the ED paragraph BC253(a)), and it would not be costly to provide since the information is already prepared for consolidation purposes.
- (d) **Discount rate used in calculating value in use:** EFRAG agrees that when the entity is allowed to use pre-tax or post-tax discount rates, it should disclose this information. This disclosure would inform users about measurement uncertainty in the impairment test (consistent with the principle in the Basis for Conclusions on the ED paragraph BC253(c)).

90 On balance, EFRAG notes that the IASB's proposals seem to achieve a fair balance between costs and benefits of disclosing relevant information. EFRAG urges the IASB to revisit the cost-benefit considerations related to the requirement to disclose quantitative information about expected synergies.

Question 9 - Transition

Question 9 – Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 1400 of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)

The IASB is proposing to require an entity to apply the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative

information. The IASB is proposing no specific relief for first-time adopters. See paragraphs BC257–BC263.

Do you agree with the proposals? Why or why not? If you disagree with the proposals, please explain what you would suggest instead and why.

EFRAG's response

- 91 Subject to EFRAG's response to question 1 and question 5 (expected synergies), EFRAG supports application of the proposed amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively with early application permitted. EFRAG agrees that the costs of applying the amendments retrospectively would outweigh the benefits of doing so.
- 92 EFRAG considers that if early application permitted and entities elect to apply the requirements earlier than the effective date, users should be able to benefit from the resulting information.
- 93 EFRAG agrees with the proposal not to propose relief from the proposed amendments to IFRS 3 and IAS 36 for first-time adopters, for the reasons provided by the IASB in paragraphs BC258 and BC262 of the Basis for Conclusions on the ED.

Amendment to IFRS 3

- 94 EFRAG acknowledges that preparers might decide to change how they assess business combinations, therefore entities may need time to update their internal systems.
- 95 EFRAG agrees with the IASB that some of the proposed requirements may be difficult to implement retrospectively without the use of hindsight.

Amendments to IAS 36

- 96 EFRAG agrees with the IASB that, with retrospective application, some information may not be available without the use of hindsight as judgements about future cash flows for the impairment test in previous periods.
- 97 EFRAG also acknowledges that the recoverable amount of an asset would be unaffected by some of the proposed amendments. Therefore, retrospective application would provide no additional information in these circumstances. For clarification purposes, EFRAG proposes that the second sentence in paragraph 1400 is amended as follows: 'An entity shall apply these amendments to allocations of goodwill and impairment tests performed on or after [Day, Month, Year].' (Proposed new text is underlined.)
- 98 EFRAG notes that the amendments to paragraph 33(b), 44, 45 and 48 of IAS 36 will not affect the measurement of goodwill before a new impairment is recognised.

Practice Statement

- 99 EFRAG supports the amendments to example F in IFRS Practice Statement 2 *Making Materiality Judgements* which replace the term ‘primary reasons’ with ‘strategic rationale’.