

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

BCDGI project

Proposed exemption to disclosing information and proposals on restructuring/asset enhancements when calculating value in use

Issues Paper

Introduction

- 1 The IASB published Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* ('the ED') in March 2024.
- 2 At its meetings in June and July 2025, the IASB discussed the feedback received including with IASB staff suggestions on the proposed exemption to disclosing some information under IFRS 3 *Business Combinations* and restructuring and asset enhancement cashflows when calculating value in use under *IAS 36 Impairments of Assets*. The IASB did not make any decisions and agreed that the IASB staff should consult further on these proposals. The ASAF discussion in October 2025 will contribute to this consultation.
- 3 EFRAG FR TEG briefly discussed [overall feedback received](#) by the IASB on all the ED proposals at its joint meeting with the FRB in May 2025. The summary of decisions of this meeting can be found [here](#).

Objective

- 4 The objective of this session is to obtain the views of the EFRAG FR TEG-CFSS members on the IASB staff proposals regarding the following topics in preparation for the ASAF meeting in October 2025:
 - (a) The proposed exemption
 - (b) Examples of situations in which an entity can apply the proposed exemption
 - (c) Restructuring and asset enhancement cashflows when calculating value in use ('VIU').

Agenda papers

- 5 In addition to this paper, the following papers are provided for **background purposes**:
- (a) Agenda paper 07-02 – AP1 BCDGI - Cover note – ASAF October 2025 – EFRAG TEG-CFSS 25-09-18
 - (b) Agenda paper 07-03 – AP1 BCDGI - Exemption – ASAF October 2025 – EFRAG TEG-CFSS 25-09-18
 - (c) Agenda paper 07-04 – AP1 BCDGI – Future restructuring– ASAF October 2025 – EFRAG TEG-CFSS 25-09-18.

Structure of this paper

- 6 This paper is structured as follows:
- (a) Topic 1 – Proposed exemption – refining the proposed scope
 - (b) Topic 2 – Proposed exemption - examples of situations in which an entity can apply the exemption
 - (c) Topic 3 – Restructuring and asset enhancement cash flows when calculating VIU
 - (d) Appendix 1 – IASB staff example on applying the exemption to a product launch
 - (e) Appendix 2 - IASB staff example to illustrate the concept of an asset's current potential
 - (f) Appendix 3 – Background information on the proposed exemption
 - (g) Appendix 4 – Background information on restructuring/asset enhancement cashflows when calculating VIU.
- 7 **Questions to EFRAG FR TEG-CFSS members are included within the discussion on each of the 3 topics. These questions include the ASAF questions and some additional questions on topic 3 raised by the EFRAG Secretariat.**

Topic 1 - Proposed exemption – refining the proposed scope (ASAF paper- agenda paper 07-02)

Summary of concerns reported by respondents

- 8 The ED proposed to exempt an entity from disclosing some information (see paragraphs 3 and 4 of Appendix 3) in **specific circumstances**. Under the ED, an entity can use the exemption if disclosing information can be expected to **prejudice seriously** the achievement of any of the entity's acquisition-date key objectives for the business combination.
- 9 One of the concerns reported by respondents was that the proposed exemption might not cover all situations in which disclosure of information would breach statutory legal/regulatory requirements. Respondents thought that it should cover those situations.
- 10 Another concern was that the proposed exemption might not - but should - cover situations that would expose the entity to social or operational risks (including those arising from restructuring initiatives) - for example, loss of a key supplier or key employees. Respondents considered that the exemption as currently worded might not apply to such situations.

Proposed exemption to disclosing information and proposals on restructuring/asset enhancements when calculating value in use – Issues Paper

IASB staff proposals and suggestions by the IASB in June 2025

- 11 The IASB staff noted that as proposed, the exemption applies only when the achievement of an acquisition-date key objective is seriously prejudiced. Compliance with legal and regulatory requirements – which could be essential for the success of a business combination – might not be a key objective of a business combination. For example, an entity’s only key objective for a business combination might be to increase revenue growth which might be unaffected. For similar reasons social and operational risks might not be captured by the exemption.
- 12 In response to the above concerns, the IASB staff recommended the following:
- (a) Retaining the exemption and consider refining it to allow entities to apply the exemption in situations in which disclosing the information could result in **negative legal, regulatory, social and operational consequences**. In doing so, the IASB staff, recommended to the IASB to explore how the exemption could be refined to cover these situations noted by respondents and to obtain additional examples of such cases.
 - (b) Not to extending the exemption to other situations (including effects on negotiating power for future business combinations breaches of non-disclosure / confidentiality agreement and litigation risk rising from an entity failing to meet its objectives) because of factors outside the entity’s control or because management did not efficiently or effectively discharge its responsibilities.
- 13 No decisions were made. The IASB agreed with the IASB staff initial recommendations, including doing further work.

IASB staff proposals for refinement of the scope of the exemption

- 14 The IASB staff will discuss its proposals for refining the wording of the exemption with ASAF members at its October 2025 meeting. At this stage, the IASB staff consider that this could be done by:
- (a) changing the wording of the exemption to, for example, allow an entity to not disclose some of the required information if doing so can be expected to prejudice seriously ‘the success of a business combination’; and
 - (b) specifying that the achievement of an acquisition-date key objective is one - but not the only - example of the success of a business combination.
- 15 The IASB staff noted, however, that some IASB members had concerns with extending the exemption. These members cautioned against unintended consequences when rewording the exemption.

EFRAG Secretariat analysis

- 16 The EFRAG Secretariat agrees that the exemption should cater for situations where disclosing information would breach statutory or regulatory requirements. We also consider that in certain cases disclosing information could expose the entity to social or operational risks that could seriously prejudice the entity and impact the objective of the acquisition per se. We are aware that in some EU jurisdictions disclosing information, before the necessary approval, about restructuring, operational closures and personnel

dismissals can result in breach of regulatory and labour laws. In our view, an entity should not be required by IFRS to disclose information in such cases.

- 17 EFRAG, in its Final Comment Letter, noted the practical challenges of not prescribing ‘specific circumstances’ referred to in the ED to which the exemption would be applied and asked for illustrative examples of these ‘specific circumstances’. We think that refining the wording of the exemption as proposed by the IASB staff will address (partly address) EFRAG’s request. We note that examples of actual cases are discussed in topic 2.
- 18 We agree with the IASB staff proposal to reword the exemption so that it covers a broader range of situations that can seriously prejudice the entity and hence the acquisition including breaching regulatory or statutory requirements and/or disclosing information that arise from social or operational risks.
- 19 Business combinations are unique transactions and will differ from entity to entity, making it challenging to develop a ‘fit-for-all’ exemption description. In our view, there will always be judgement involved when deciding whether the exemption fits the IASB’s intended purpose. We also think that given the high degree of resistance from many preparers to disclose some of the performance and expected synergy information, many will want to use the exemption. Therefore, striking a good balance with the wording will be challenging.
- 20 Overall, we agree with the IASB staff refinement suggestion in paragraph 14. However, we think it might be better to keep the breach of statutory/legal requirements separate. This means that the wording would be that an entity is exempted from disclosing the information if disclosure of that information can be expected to seriously prejudice the success of a business combination or would breach statutory legal / regulatory requirements.

Questions for EFRAG FR TEG-CFSS

- 21 **Q1** - Do you have examples of situations in which disclosing performance and expected synergy information would breach statutory legal / regulatory requirements in your jurisdictions?

Do you think an entity should be exempt from disclosing information in these situations?

- 22 **Q2** - Do you have examples of negative social or operational consequences (other than those discussed in Question 1) that would result from disclosing performance and expected synergy information for a business combination that would not already be captured by the exemption?

Do you think an entity should be exempt from disclosing information in these situations?

- 23 **Q3** - Do you have any suggestion to refine the scope of the exemption in a way that would accommodate the examples you have identified in Question 1 and Question 2 without unduly extending the scope to other situations?

If not, what other suggestions could you propose?

Topic 2 - Proposed exemption - examples of situations in which an entity can apply the exemption (ASAF paper – agenda paper 07-03)

Summary of concerns reported by respondents

- 24 Respondents to the ED, including EFRAG, suggested listing or illustrating specific situations in which an entity would be able to apply the exemption. A few respondents said doing so could be more useful than providing application guidance highlighting situations in which an entity is unable to apply the exemption.

IASB staff proposals and suggestions by the IASB in June

- 25 IASB members generally agreed with the IASB staff's initial view to develop and test examples of situations in which the exemption can be applied.

IASB staff proposals on examples

- 26 The IASB staff noted that the exemption is by nature designed to be highly entity and fact specific and consequently it would be difficult to develop examples that are generic and relevant enough to apply to a large number of entities across multiple jurisdictions. Developing specific examples (like an example of a 'product launch') could result in application by analogy and thus expanding the use of the exemption beyond its intended purpose.
- 27 Nonetheless, the IASB staff identified two cases which might be generic enough to allow the IASB to develop examples:
- (a) product launch; and
 - (b) breach of a statutory/ legal requirement.

- 28 The IASB staff example of the product launch is reproduced in Appendix 1 of this paper.

EFRAG Secretariat analysis

- 29 The EFRAG Secretariat considers that having illustrative examples would generally be useful and would align with EFRAG's request in its Final Comment Letter for illustrative examples of the 'specific circumstances' to which the exemption could apply.
- 30 We broadly agree that the IASB staff example of a product launch included in Appendix 1 could help entities, as it contrasts a specific case when the exemption could be used and when it might not be able to be used. However, we also consider that even in this example an entity would need to apply judgement when deciding whether disclosing the information result in the entity/objectives of the acquisition being 'seriously prejudiced'.

Questions for EFRAG FR TEG-CFSS

- 31 **Q5** - Considering the benefits and costs of developing examples, do you think we should include examples of situations in which an entity can apply the exemption?
- 32 **Q6** - Do you have examples of situations for which the IASB can consider developing examples beyond a product launch and breach of legal/ regulatory requirements?
- 33 **Q7** - Do you have comments or suggestions on the example included in Appendix 1?

Topic 3 - Restructuring and asset enhancement cashflows when calculating value in use (ASAF paper – agenda paper 07-04)

Current/proposed requirements under IAS 36

- 34 Applying IAS 36, the recoverable amount of an asset or cash-generating unit (CGU) is the **higher of** its fair value less costs of disposal ('FVLCD') and its VIU.
- 35 In calculating VIU, paragraph 44 of IAS 36 currently requires future cash flows to be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:
- (a) future restructuring to which an entity is not yet committed; or
 - (b) improving or enhancing the asset's performance.
- 36 The ED proposed to remove the requirement to exclude restructuring and enhancement cash flows. The IASB argued that the proposal would reduce complexity and make the impairment test less prone to error because estimates of value in use would be based more closely on cash flow projections that are prepared, monitored and used internally for decision-making.
- 37 The Basis for Conclusions of the ED (paragraph BC212) explained that the IASB is not changing the requirement in paragraph 44 of IAS 36 to estimate cash flows for an asset in its current condition. In the IASB's view, this requirement is consistent with permitting cash flows from a future restructuring or asset enhancement if the asset contains the current potential to generate those cash flows, even if the asset is being used in a different way.

Summary of concerns reported by respondents

- 38 Many respondents agreed with the proposal. Those that disagreed said that removing the requirement would worsen the 'impairment issue'.
- 39 However, several respondents, including EFRAG, asked for further application guidance such as defining 'current condition' and 'current potential' of an asset or adding illustrative examples.

IASB staff proposals and suggestions by the IASB in July

- 40 During the July 2025 IASB meeting, IASB members acknowledged there could be benefits and costs associated with updating or developing examples to help stakeholders better understand and apply the concept of an asset's current potential. However, IASB members also acknowledged that, any example would, by its nature, be limited in terms of the facts and circumstances it can illustrate. This could lead to further questions and application challenges when entities have fact patterns and circumstances that differ from those illustrated within the example.
- 41 The IASB staff developed an example that illustrates cash flows that reflect an asset (or CGU)'s current potential and cash flows which do not reflect such current potential. This example is included in Appendix 2. The IASB consider that this example could be used as a starting point to help stakeholders better understand and apply the concept of an asset's current potential.

EFRAG Secretariat analysis

- 42 The EFRAG Secretariat considers that the IASB staff's initial views and suggested example (see appendix 2) could address EFRAG's request to further clarify what is intended by 'current condition' and 'current potential'. We also consider that the example could be helpful to understand what 'elements' should be included in future cash flows when determining VIU and which cannot (because they are not sufficiently developed to argue that they contain the current potential).
- 43 We also think that assessing current potential will be a matter of judgement. However, this same or similar judgement already exists when determining fair value.
- 44 Furthermore, we understand why some (especially users of financial statements) say that the proposal could result in less impairments being recognised. This could happen if the VIU of a CGU is higher than its FVLCD, when compared to the carrying amount. We think that one way to address this concern is to require an entity to explain (disclose) why VIU is higher than FVLCD. Although we think that under current practice such cases would not be common, we suspect they could happen especially after applying the ED proposal. This could be due to a different set of cash flows being included for VIU calculations compared to what would be used when determining FVLCD. This could indeed be viewed as causing delays in the impairment test for companies applying IFRS.
- 45 Another suggestion, as suggested by an IASB member during the IASB's discussions, to solve the concern on potential impairment delays could be to remove the 'higher of 'option and require only FVLCD to be compared to the carrying amount. We understand that this is the case under US GAAP requirements.

Questions for EFRAG FR TEG-CFSS

- 46 **Q8** - Considering the benefits and costs, do you think the IASB should develop an example that illustrates cash flows that reflect an asset's current potential as well as cash flows that do not reflect such potential?
- 47 **Q9** - Would an example similar to that included in Appendix 2 to this paper help stakeholders better understand and apply the concept of an asset's current potential? Why or why not? If not, what changes would you suggest and why?
- 48 **Q9 (additional question of the EFRAG Secretariat)** – Do you agree the IASB should consider disclosure requirements for cases when VIU is higher than FVLCD? Why or why not? (See EFRAG Secretariat analysis)
- 49 **Q10 (additional question of the EFRAG Secretariat)** – What are your thoughts on removing the 'higher of 'option and require only FVLCD?

Appendix 1 – IASB staff example on applying the exemption to a product launch

The example below is the same example as in the ASAF paper (agenda paper 07-03).

Scenario 1—entity might be able to apply the exemption

Entity A acquires a business. Its key objective for the business combination is to leverage the acquiree’s research and development work to launch a new unique product in 20X3 that is not currently available in the market. Information about the acquiree’s prior research and development work on the new product is not publicly available.

The entity assesses that if it discloses information about its key objective—i.e. to launch the new product in 20X3—a competitor could use that information and develop and launch its own competing product before the entity can do so.

In this situation the entity might be able to use the exemption from disclosing its key objective for the product launch. In particular, in applying proposed paragraph B67D of IFRS 3 (see [ED](#)), the entity considers, amongst other things:

- effect of disclosing the information—a competitor could use that information and develop and launch its own competing product before the entity can do so;
- public availability of the information—information about the new product is not publicly available.

The entity would still need to consider other applicable requirements and application guidance (for example, would disclosing the information result in a ‘seriously prejudice’) before concluding on whether it can use the exemption.

Scenario 1—entity might NOT be able to apply the exemption

Entity A acquires a business. The acquiree is developing a pharmaceutical product that is undergoing public trials. Entity A’s key objective from the business combination is to obtain regulatory approval for, and launch, the new product by 20X3.

Information about the acquiree’s research and development work and the trials is publicly available. Due to the nature of the R&D, competitors are unlikely to be able to develop, test and gain regulatory approval to launch first.

In this situation, the entity is unlikely to be able to use the exemption from disclosing its key objective for the product launch. In particular, in applying proposed paragraph B67D of IFRS 3 (see [Exposure Draft](#)), the entity considers, amongst other things:

- effect of disclosing the information—competitors are unlikely to be able to develop, test and gain regulatory approval to launch first;
- public availability of the information—information about the new product is publicly available.

Appendix 2 – IASB staff example to illustrate the concept of an asset's current potential (IAS 36)

The example below is the same IASB staff example as in the ASAF paper (agenda paper 07-04).

The IASB staff notes that this example includes information they think they can be included in an example to help stakeholders better understand and apply the concept of an asset's current potential. Any example they may include with the final amendments could differ in content and format from what has been presented here. The IASB staff is not asking for drafting suggestions on the example.

Example: Background

At the end of 20X1, entity G tests a production facility for impairment. The facility is a cash-generating unit (CGU).

The facility consists of two sections:

- Section A, which is currently operational and generating cash flows; and
- Section B, which is an unused warehouse with potential to be developed to extend the facility's existing production capacity.

Management has assessed that developing and operating Section B as an extension of the facility's existing production capacity is financially feasible and has approved the budget which includes the cash flows from the development plan. Section B has the necessary zoning, operational and regulatory permits needed for the development.

Management's approved budget includes estimates of:

- future cash inflows and outflows from the continued operation of Section A.
- future cash outflows required to develop Section B. This work is expected to be completed by 20X3.
- future cash inflows and outflows from operating Section B after the planned completion of the development work in 20X3.

The forecasted cash inflows and outflows included in the approved budget are reasonable and supportable.

In addition to the planned development of Section B, management is contemplating acquiring an adjacent piece of land to further extend the production facility. However, management is currently in the process of assessing the financial feasibility of this plan and the entity has not yet acquired the land or obtained necessary zoning, operational and regulatory permits related to this additional piece of land.

Example: Application of proposed IAS 36 requirements

Development of Section B

Proposed paragraph 44A(b) requires the asset (or CGU) to have the current potential to be restructured, improved or enhanced, and the cash flow projections associated with the restructuring, improvement or enhancement to meet the requirements in paragraph 33 of IAS 36.

Applying this paragraph, management assesses that:

- the production facility has the current potential to be restructured, improved or enhanced through the development of Section B because:
 - the entity already owns Section B;

Proposed exemption to disclosing information and proposals on restructuring/asset enhancements when calculating value in use – Issues Paper

- the entity has the necessary zoning, operational and regulatory permits needed for the development; and
- the development is financially feasible.
- the cash flow projections meet the requirements in paragraph 33(a) and 33(b) of IAS 36. The cash flow projections are reasonable and supportable and they are part of the approved budgets. In calculating value in use (VIU), management must apply paragraph 33(c) of IAS 36 when estimating any cash flow projections beyond the period covered by the approved budget.

Consequently, management includes any cash flows from the planned development of Section B in calculating VIU of the production facility. The VIU calculation would—include:

- cash inflows and outflows from the continued operation of Section A;
- cash outflows from the planned development of Section B; and
- cash inflows and outflows from operating Section B after development work is completed in 20X3.

Acquisition of adjacent piece of land

Applying proposed paragraph 44A(b) of IAS 36, management assesses that its plan to acquire an adjacent piece of land does not form part of the production facility's current potential. In particular:

- the entity has not acquired the adjacent piece of land;
- the entity does not have the necessary zoning, operational and regulatory permits needed for the acquisition and subsequent development; and
- management has not assessed whether the acquisition and subsequent development is financially feasible.

Consequently, **management does not include any future cash flows** from the planned acquisition and development in calculating the production facility's VIU.

Appendix 3 – Background information on the proposed exemption

- 1 This appendix provides the following background information on the proposed exemption:
 - (a) ED proposals
 - (b) Feedback received on the proposals including EFRAG’s position in its FCL
 - (c) Summary of discussions at the IASB meeting in June 2025 including the IASB staff initial views and IASB suggestions for further consultations before taking a decision.

ED proposal

- 2 The ED proposed to exempt an entity from disclosing some information in specific circumstances 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.
- 3 The specific circumstances to **which the proposed exemption applies are:**
 - (a) the acquisition-date key objectives and the related targets for a business combination;
 - (b) a qualitative statement of whether actual performance is meeting or has met the objectives and targets for a business combination; and
 - (c) expected synergy information.
- 4 The proposed exemption **would not apply** to the disclosure of:
 - (a) the strategic rationale for a business combination; and
 - (b) information on the actual performance being reviewed to determine whether acquisition-date key objectives and the related targets are being met.
- 5 **Aggregation of information** - The ED states (application guidance) that before applying the proposed exemption, the acquirer shall first consider whether, instead of applying the exemption, it is possible to disclose information in a different way - for example, at a sufficiently aggregated level - such that the disclosure objectives could be met without prejudicing seriously any of the acquirer’s acquisition-date key objectives for the business combination. If it is possible to do so, the acquirer would disclose the information in that different way. For example, if the acquirer concludes that information about expected synergies from combining operations of the acquiree and the acquirer would be eligible for the exemption, before applying the exemption the acquirer would first consider whether it is possible to disclose the information about expected synergies aggregated in total for all categories without prejudicing seriously any of the acquisition date key objectives for the business combination. If it is possible to do so, the acquirer would disclose information about expected synergies from a business combination aggregated in total for all categories.
- 6 **Reasons for applying the exemption** - If the exemption is applied, the acquirer shall **disclose** the fact that it has applied the exemption and **the reasons** it has not disclosed the item of information. In the Basis for Conclusions of the ED, the IASB explains that disclosing

the reason(s) is similar to the requirement in paragraph 92 of IAS 37 which requires an entity to disclose the fact that, and reason why, the information has not been disclosed when it applies the exemption in IAS 37. Some IASB members also thought this requirement would make the application of the exemption more robust by improving the auditability and enforceability of the exemption.

Feedback received by the IASB

- 7 Almost all respondents commenting on this proposal agreed with the proposed exemption. However, many of these respondents said the scope of the proposed exemption is restrictive and does not cover all situations involving commercially sensitive information. These respondents suggested expanding the exemption to cover additional situations.
- 8 On applying the exemption:
 - (a) Some respondents said the exemption would be subjective, involve judgement and be difficult to apply. Many respondents asked for illustrative examples/application guidance to ensure consistent application in appropriate circumstances. Some respondents added that the term 'seriously prejudicial' is open to interpretation and possible misuse and could be challenging to audit. Other respondents suggested that the exemption be applied in 'extremely rare cases' – similar to the exemption in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*¹.
 - (b) There were mixed views on disclosing the reason for using the exemption. A few respondents explicitly supported requiring an entity to disclose the reason for applying the exemption because the information would be useful and would help investors assess management's intentions. However, some respondents noted that disclosing the fact that an entity has applied the exemption and the reasons it has not disclosed the item of information could also be commercially sensitive (for example, if it related to unannounced employee redundancies) and consequently, should not be required. Some other respondents said that entities' reasons for applying the exemption could be boilerplate and some asked for examples.
 - (c) A few respondents noted that reassessing whether the exemption remains applicable in subsequent periods could lead to additional cost and disclosure of information which would no longer be useful.
- 9 In its Final Comment Letter:
 - (a) EFRAG welcomed the proposal to exempt entities from disclosing some of the information under certain circumstances. However, EFRAG noted some concerns related to the use cases for the exemption and the requirement to provide reasons why the entity has not disclosed the information.

¹ Paragraph 92 of IAS 37 exempts an entity from disclosing some or all information that would be required by paragraphs 84 - 89 of IAS 37 if doing so can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset that the information relates to.

Proposed exemption to disclosing information and proposals on restructuring/asset enhancements when calculating value in use – Issues Paper

- (b) EFRAG also noted the practical challenges of not prescribing ‘specific circumstances’ in which the exemption would be applied and recommended that the IASB include illustrative examples of these ‘specific circumstances’.
- (c) EFRAG supported the proposal to reassess the eligibility for the exemption at each reporting period, for as long as the entity would be otherwise required to disclose the information. However, EFRAG noted that some constituents highlighted that implementing this proposal is likely to be costly and burdensome to preparers and therefore suggested the IASB reconsider this requirement in light of cost-benefit considerations.

IASB meeting in June 2025

- 10 At its meeting in June 2025, the IASB had a preliminary discussion on situations to which that exemption would apply and how it would be applied. No decisions were made.

IASB staff analysis and initial recommendations for June IASB meeting

Situations to which the exemption applies

- 11 The IASB staff noted that the feedback received respondents identified various situations where respondents felt the exemption should apply such as (a) effect on future transactions (b) breach of legal/regulatory requirements (c) non-disclosure/confidentiality agreements (d) litigation risk and (e) social/operational risks.
- 12 The IASB staff initially recommended the IASB:
- (a) To retain the exemption and consider **refining it to allow** entities to apply the exemption in situations in which disclosing the information could **result in negative legal, regulatory, social and operational consequences**.
 - (b) **Not to extend exemption to other situations** (including effects on negotiating power for future business combinations breaches of non-disclosure/confidentiality agreement and litigation risk rising from an entity failing to meet its objectives) because of factors outside the entity’s control or because management did not efficiently or effectively discharge its responsibilities.
 - (c) To discuss in a future meeting whether and how to respond to concerns about the loss of safe harbour protections and whether to allow an entity to incorporate by cross-reference information disclosed outside financial statements in relation to the performance of a business combination or expected synergies.

Application of the exemption

- 13 Base on the feedback received, the IASB staff initial suggestions to the IASB were:
- (a) Not define the term ‘seriously prejudicial’. The feedback the IASB had at the time of developing the proposed exemption suggested that the exemption in IAS 37 worked well in practice. This continues to be the case, and the IASB staff considers that any definition or application guidance on the term ‘seriously prejudicial’ could have unintended consequences on the application of the exemption in IAS 37.
 - (b) Not include a statement specifying that the exemption should be used only in ‘extremely rare circumstances’. Given that each business combination is unique, it would be preferable for the IASB to focus on identifying the circumstances in which

it is appropriate to use the exemption and designing the exemption rather than restricting the application of the exemption in this way.

- (c) **Remove its proposal requiring entities to disclose the reason** for applying the exemption. The IASB staff think an entity should be required to disclose the fact that it has applied the exemption but agrees with respondents who say disclosing the reason for which an entity has applied the exemption could be commercially sensitive. The IASB staff noted that a similar relief not to disclose the reason for applying an exemption regarding commercially sensitive information can be found in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.
- (d) **Retain its proposal requiring entities to reassess at the end of each reporting period** whether a key objective or target to which the exemption was previously applied still qualifies for the exemption. In their analysis, the IASB staff considered that reassessing whether the exemption remains applicable in subsequent periods would not impose significant costs because the entity would be required to consider only whether its reason for applying the exemption to the acquisition date key objectives and related targets in the prior period continues to remain applicable.

IASB discussion

14 **Situations to which the exemption applies** - IASB members generally agreed with the overall direction initially suggested by the IASB staff.

- (a) However, IASB members cautioned on expanding the exception. Several IASB members were concerned that expanding the exemption may lead to ‘misuse’ and potentially result in an entity not disclosing any of the proposed information thus defeating the objective of the project.
- (b) Some IASB members expressed caution with introducing new terms like social (such as workforce lay-offs) or operational risks and ‘success’ of a business combination and what was intended to be captured within the exemption. It was also important not to get into specific ‘exemption’ cases as each business combination was unique.
- (c) Some members considered that entities would not disclose information that breached statutory regulations so that should not be an issue in practice. There was a question on whether ‘laws or regulations’ would include contractual agreements for example the purchase price – disclosing the purchase price could be in breach of a contractual or statutory requirement.
- (d) IASB members agreed with the staff’s recommendations to explore/test the cases to which the exemption should apply and to which it would not apply. It was important to revisit the exemption when looking at the proposed ‘package’ as a whole (thresholds for disclosing the information, possible rebuttable presumption, aggregation of information and the exemption).

15 **On the application of the exemption:**

- (a) IASB members generally agreed not to require an entity to provide the reasons for applying it as requesting the reason would probably entail commercially sensitive information and result in boilerplate descriptions. However, IASB members

Proposed exemption to disclosing information and proposals on restructuring/asset enhancements when calculating value in use – Issues Paper

suggested to consult with regulators as they were the ones that might challenge the use of the exemption and wish to know why it was applied.

- (b) Members also agreed not to include ‘extremely rare circumstances’ as an entity may need to apply the exception in other less rare cases – the frequency of using the exemption should not be the determinant factor. IASB members agreed with the IASB staff’s suggestion to test the exemption examples.

Appendix 4 – Background information on restructuring and asset enhancement cashflows when calculating value in use

- 1 This appendix provides the following background information on the proposed exemption:
 - (a) ED proposals
 - (b) Feedback received on the proposals including EFRAG’s position in its FCL
 - (c) Summary of discussions at the IASB meeting in June 2025 including the IASB staff initial views and IASB suggestions for further consultations before taking a decision.

ED proposal

- 2 The ED proposed to remove the requirement in IAS 36 to exclude restructuring and enhancement cash flows when calculating value in use (VIU) of an asset or a cash-generating unit (CGU).
- 3 Paragraph 44A of the ED states that estimates of future cash flows of an asset in its current condition include:
 - (a) ...
 - (b) Future cash flows associated with the current potential of the asset to be restructured, improved or enhanced. If the asset has the current potential to be restructured, improved or enhanced, and the cash flow projections associated with the restructuring, improvement or enhancement meet the requirements in paragraph 33 (which describes the basis for estimates of future cash flows), estimates of future cash flows for the asset shall include estimated future cash inflows and outflows that are expected to arise from that restructuring, improvement or enhancement.

Feedback received by the IASB

- 4 Many respondents agreed with the proposal. Some highlighted that reflecting the growth potential of an asset(s) in VIU calculations would provide more useful information as such potential growth would be reflected in the transaction price (and therefore the amount of goodwill).
- 5 However, like EFRAG several respondents asked for further application guidance such as defining ‘current condition’ and ‘current potential’ of an asset or adding illustrative examples. Many of these respondents said removing this requirement could increase the level of judgement required to calculate VIU and increase management over-optimism (thus worsening the ‘impairment issue’). Respondents provided examples of scenarios which could be challenging and would benefit from further guidance:
 - (a) whether to include cash flows from a planned future business combination or an asset acquisition, and under what conditions; and
 - (b) how to assess whether a cash flow reflects the potential of a current asset (or CGU) or results in a new asset (or a different CGU).
- 6 **EFRAG** agreed with the proposal on the basis that it brought cash flow inputs to the VIU measurement in much better alignment with internal forecasting. However:

Proposed exemption to disclosing information and proposals on restructuring/asset enhancements when calculating value in use – Issues Paper

- (a) EFRAG asked for guidance on what should be included as part of uncommitted future restructuring or enhancing an asset's performance.
- (b) Furthermore, feedback received from users suggested that, where a significant amount of VIU was derived from uncommitted future restructuring/enhancements they would like to know the extent to which these amounts affected VIU.
- (c) EFRAG considered that further guidance on qualitative or quantitative disclosure requirements would be helpful.

IASB meeting in July 2025

- 7 In July 2025, the IASB discussed feedback on its proposal to remove from IAS 36 the requirement for an entity to exclude cash flows from uncommitted future restructurings and asset enhancements when calculating VIU ([agenda paper 18B](#)). The IASB was not asked to make decisions on this topic.

IASB staff analysis and initial recommendations

- 8 The IASB staff initially **recommended to retain the proposal and not to add additional disclosure requirements** such as assumptions and judgements used in determining restructuring and enhancement cash flows. The IASB staff noted that:
- (a) The existing requirements in IAS 36 often require management to apply judgement to distinguish maintenance capital expenditure from expansionary capital expenditure and identify which cash flows need to be excluded because they relate to expansionary capital expenditure. Feedback when developing the proposals confirmed that making this determination (and subsequent adjustments to the most recent internal cash flow projections) can be arbitrary, resource consuming and complex.
 - (b) Aligning the cash flows an entity would be required to use for determining VIU more closely with management's budgets and forecasts will reduce costs and complexity and require less judgement than the existing requirements.
 - (c) It is unnecessary to add disclosure requirements specifically for restructuring and enhancement cash flows because it add complexity and remove any cost savings from the proposal and because they consider that the requirements in IAS 36 to disclose key assumptions on which management has based its cash flow projections is sufficient.
 - (d) It is unnecessary to reconsider whether to maintain two methods (VIU and FVLCD) to estimate recoverable value because mandating only one method would be a fundamental change to the impairment test that goes beyond the scope of the project (and respondents generally did not report a concern with having two methods).

IASB discussion

- 9 The majority of IASB members agreed with retaining the proposal and with the staff initial recommendations not to add additional disclosure requirements for restructuring and enhancement cash flows included in calculating VIU. These members noted that:

Proposed exemption to disclosing information and proposals on restructuring/asset enhancements when calculating value in use – Issues Paper

- (a) The proposal would reduce costs and complexity for preparers, by aligning cash flows an entity would be required to use for determining VIU more closely with management’s budgets and forecasts. The proposal also has a strong conceptual basis because it reflects economic reality rather than excluding it as is done under current requirements in IAS 36.
 - (b) Acknowledged that the issue might be with the term ‘uncommitted’ which may be different to what is done under IFRS (for example the recognition of a restructuring liability under IAS 37 which is recognised only when specific conditions are met, and only for qualifying costs). Management’s plans alone do not necessarily result in a restructuring provision in the financial statements. This is different to the cash flows to be included when determining VIU where management’s plans would be considered.
 - (c) Some IASB members (previously auditors and preparers) considered that the current requirements lead to endless discussions between preparers and auditors and ultimately the end result will be aligned with management forecasts which is what the IASB is proposing.
 - (d) IASB members acknowledged there could be benefits and costs associated with updating or developing examples to help stakeholders better understand and apply the concept of an asset’s current potential
- 10 Two IASB members continued to disagree with the proposal. These members questioned whether the term currently used in IAS 36 ‘current condition’ was the same as the proposed term ‘current potential’. In their view the terms were different and allowing entities to potentially delay impairments which would be contrary to the project objective. One member suggested developing a single measure for impairment similar to US GAAP requirements (carrying amount is compared to fair value for impairment purposes).