Exposure Draft *Business Combinations – Disclosures, Goodwill and Impairment*

Feedback to Respondents – EFRAG Final Comment Letter

October 2024

This Feedback Statement has been compiled by the EFRAG Secretariat to summarise the main comments received by EFRAG on its draft comment letter and explain how those comments were considered by EFRAG during its technical discussions leading to the publication of its final comment letter. The content of this Feedback Statement does not constitute any form of advice or opinion and does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG.

Summary of contents

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft *Business Combinations – Disclosures, Goodwill and Impairment* ('the ED') on 19 July 2024. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's final comment letter.

Background to the ED

In the post-implementation review of IFRS 3 *Business Combinations* completed in 2015, stakeholders raised concerns about:

- investors receiving insufficient information about the performance of acquisitions;
- impairment tests being costly and complex;
- impairment losses on goodwill sometimes being recognised too late; and
- amortisation of goodwill.

In March 2020, the IASB published the Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* (the DP). EFRAG published its final comment letter on the DP in January 2021.

The IASB's ED attempts to respond to the concerns identified in the post-implementation review and the feedback on the DP by setting out a package of proposals that in the IASB's view would result in companies providing better information – at a reasonable cost – about acquisitions. The ED contains proposed changes to IFRS 3 and IAS 36 *Impairment of Assets*.

The proposed changes to IFRS 3 would:

- result in companies providing information to investors about the performance of an acquisition; and
- allow investors to directly assess the performance of acquisitions rather than using goodwill impairment as a proxy indicator. These proposed changes would therefore address concerns about impairment losses sometimes being recognised too late.

The proposed changes to IAS 36 would also address concerns about impairment losses sometimes being recognised too late and concerns about the cost and complexity of the impairment test.

The IASB requested feedback about:

- whether the proposed changes to IFRS 3 appropriately balance the benefits of requiring a company to make the proposed disclosures and the costs of doing so; and
- whether the proposed changes to the impairment test in IAS 36 would improve the effectiveness of the impairment test and reduce the cost and complexity of applying the test.

EFRAG's draft comment letter

EFRAG published a draft comment letter on the IASB's proposals on 30 April 2024.

Proposed amendments to IFRS 3

In the draft comment letter, EFRAG welcomed the IASB's efforts to develop improved disclosure requirements in IFRS 3 that will provide users with more useful information about business combinations.

EFRAG generally agreed that for strategic business combinations an entity would be required to provide information reviewed by its key management personnel about its acquisition date key objectives and related targets for the business combination and about whether these key objectives and related targets are being met. EFRAG considered that the proposed information is in line with user requests.

EFRAG generally supported the other proposed amendments to the disclosure requirements in IFRS 3, including new disclosures on expected synergies and the strategic rationale for business combinations, and asked for further input from constituents to reach a final decision.

EFRAG disagreed 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 and recommended the IASB to instead require entities to provide an explanation of the basis used to prepare the information.

EFRAG welcomed the IASB's proposal to exempt entities from disclosing some of the information if that information can be expected to seriously prejudice the achievement of the acquisition date objectives. However, EFRAG noted the practical challenges of not prescribing the 'specific circumstances' in which the exemption would be applied and recommended the IASB to include illustrative examples of 'specific circumstances'.

Proposed amendments IAS 36

EFRAG regretted that the IASB deviated from the project's initial objective to reduce goodwill shielding and missed the opportunity to make significant improvements to the impairment test to address the 'shielding' issue.

EFRAG supported the proposed amendments regarding goodwill allocation to cash-generating units but noted that the amendment in paragraph 80A(b) could be interpreted in different ways, and recommended the IASB to reconsider the drafting of that paragraph. Whilst EFRAG agreed with the idea of allocating goodwill to the lowest level possible, EFRAG was not convinced that the proposed amendments would significantly change the existing practice.

EFRAG agreed with the IASB's proposal to permit the inclusion of cash flows arising from future restructuring on the basis that it better aligns cash flows' inputs to the value in use measurement with internal forecasting. However, EFRAG noted that removing these prohibitions would lead to the need for guidance.

EFRAG agreed with the IASB's proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use.

Comments received from respondents

Outreach activities

The outreach activities included one-on-one calls with preparers and with two auditors, participation and observations made in user outreach events and outreach events organised by national standard setters as well as accountancy and professional bodies.

After the publication of its draft comment letter, EFRAG reached out to seventeen European constituents (eleven preparers, three user groups, two auditors and one NSS). An EFRAG representative participated in an ASCG (Germany) outreach.

Most participants supported the IASB's objective to provide users with more useful information about business combinations at a reasonable cost. However, preparers, auditors and national standard setters overall did not support including most of the proposed disclosures in the financial statements and argued that many of these disclosures are better suited for the management report. On the other hand, users supported the proposals on the basis that the disclosures would provide them with better information on business combinations.

The majority of preparers and auditors were critical / did not support the overall disclosure proposals.

Comment letters received

EFRAG has received and considered seventeen comment letters from respondents. These comment letters are available on EFRAG's website.

The comment letters received came from national standard setters, business associations, professional organisations and regulators.

EFRAG's final comment letter

EFRAG issued its final comment letter on 22 July 2024.

Considering the feedback received from respondents, in its final comment letter EFRAG supported the IASB's objective to improve the information entities provide to investors about acquisitions made, at a reasonable cost. However, EFRAG expressed key reservations on some of the proposed amendments to IFRS 3. Regarding the proposed disclosures on performance and quantitative information on expected synergies, EFRAG is of the view that this information should not be disclosed in the financial statements but rather in the management report. EFRAG is also not convinced that the IASB's proposed amendments IAS 36 will change existing practice. Thus, they may fail to meet the IASB's objective.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

General Comments and Cover Letter

Proposals in the ED

The IASB proposed amendments to IFRS 3 and IAS 36 for a number of topics described below.

EFRAG's tentative position

Amendments to IFRS 3

In its draft comment letter, EFRAG welcomed the IASB's efforts to improve disclosures in IFRS 3 that will provide users with more useful information about business combinations. Overall, EFRAG considered that the IASB had achieved the right balance to improve the disclosure requirements at a reasonable cost for preparers.

Amendments to IAS 36

Although EFRAG regretted that the IASB had deviated from the project's initial objective to reduce goodwill shielding and missed the opportunity to make significant improvements to the impairment test to address the 'shielding' issue, EFRAG generally supported the proposed amendments to IAS 36.

Respondents' comments

Outreach activities

Regarding the amendments to IFRS 3, most participants generally supported the IASB's objective to improve the information users receive about acquisitions. However, preparers, auditors and national standard setters expressed concerns,

EFRAG's response to respondents' comments

EFRAG's final position

In its final comment letter, EFRAG maintained its support for the IASB's objective to improve the information entities provide to users about business combinations. However, taking into consideration the feedback received from constituents, EFRAG decided to note key reservations on some of the proposed amendments to IFRS 3, especially about the location of information of the performance disclosures and the quantitative information about expected synergies.

Regarding the amendments to IAS 36, EFRAG emphasised that the proposals would not change existing practice and thus fail to meet the IASB's objective.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

especially about the location of information of some of the proposed disclosure requirements in IFRS 3. Users generally supported the disclosure proposals, as they would provide improved information about acquisitions.

Regarding the amendments to IAS 36, preparers, auditors and national standard setters reported that they did not expect changes in existing practices but supported the proposed amendments. However, users were generally dissatisfied with the proposed amendments to IAS 36.

Comment letters received

Regarding the amendments to IFRS 3, the majority of respondents supported the IASB's objective to provide useful information for users and would be required only for a subset of acquisitions subject to the exemption under certain circumstances. However, respondents expressed concerns about some aspects of the proposals.

Regarding the amendments to IAS 36, most respondents were not convinced that the proposed amendments would achieve the IASB's objective or would result in other behavioural changes. Users expressed general dissatisfaction with the impairment test and did not consider that the proposed amendments would reduce either the shielding effect nor management over-optimism.

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Question 1 – Disclosures: Performance of a business combination

Proposals in the ED

The IASB proposes 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 proposes 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).

EFRAG's tentative position

In its draft comment letter, EFRAG welcomed the IASB's proposals and efforts to reach a compromise between preparers and users by requiring the proposed information on performance to be provided only for strategic business combinations and exempting entities from providing the information in specific

EFRAG's response to respondents' comments

EFRAG's final position

Considering the feedback received from comment letters s and outreach activities, EFRAG reiterated its support for the IASB's objective to provide users with better information about the subsequent performance of 'strategic acquisitions'. However, EFRAG deviated from its initial position and questioned whether the disclosure proposals would effectively achieve these objectives.

Furthermore, EFRAG noted the reservations from some constituents on placing most of the disclosures on the key objectives and targets in the financial statements, mainly due to their commercially-sensitive nature.

In relation to the usefulness of integrated performance information, EFRAG reiterated its support for disclosing performance information based on the integrated business basis if this aligns with management's view. However, EFRAG highlighted concerns from constituents about 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.

Based on the above, EFRAG suggested that the IASB field-test the proposed disclosures and any alternatives and assess the extent to which users already receive the information from other sources.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

cases (when doing so could seriously prejudice the entity from achieving its key objectives and targets for undertaking the business combination).

EFRAG asked questions to constituents regarding concerns on the commercial sensitivity of the information to be provided as well as on usefulness of integrated performance information.

Respondents' comments

Outreach activities

Most participants supported the IASBs objective to provide users with more useful information about business combinations at a reasonable cost. However, preparers, auditors and national standard setters overall did not support including most of the proposed disclosures in the financial statements and argued that many of these disclosures are better suited for the management report.

On the other hand, users support the proposals on the basis that the disclosures would provide them with better information on business combinations.

Comment letters received

The majority of respondents supported the IASB's proposed performance disclosures objectives, as they would provide useful information for users and would be required only for a subset of acquisitions subject to the exemption under certain circumstances. However, they expressed concerns about the costs, complexity, availability, commercial sensitivity and limited usefulness of the proposed disclosures as well as the risk of disclosure overload.

Several respondents expressed concerns about providing integrated business performance information, noting the limited usefulness, potential disclosure

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
overload, the potential disincentive for companies to grow inorganically and impaired comparability. Regarding the location of information, the majority of respondents preferred placing most of the proposed disclosures in the management report rather than in financial statements due to their forward-looking nature and potential audit challenges.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Question 2 – Disclosures: Strategic business combinations

Proposals in the ED

The IASB proposes 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 as well as on 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 proposes that entities identify a strategic business combination using a set of thresholds in IFRS 3; a business combination that meets any one of these thresholds would be considered a strategic business combination.

EFRAG's tentative position

In its draft comment letter, EFRAG generally supported the proposal to identify a strategic business combination based on a closed list approach using a specific set of thresholds, as this approach is similar to other approaches already used in IFRS Accounting Standards.

However, EFRAG questioned whether applying the proposed closed list approach could fail to capture the intended population of acquisitions and asked for the views of constituents.

EFRAG's response to respondents' comments

EFRAG's final position

Considering the feedback received, EFRAG reiterated its agreement with the closed list approach as the most practical.

Nonetheless, EFRAG expressed several concerns with the proposed quantitative and qualitative thresholds and added the following suggestions from constituents.

- They suggested to include a description of a strategic business combination in the main text of the Standard rather than in the Basis for Conclusions.
- They expressed concerns regarding the use of the 'operating profit or loss' threshold and suggested using averages over multiple reporting periods instead of the 'most recent annual reporting period' for the 'revenue' threshold.
- They recommended 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' acquisition.
- They suggested to specify how the thresholds should be applied by the acquiree if the entity did not report under IFRS previously.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG also supported the proposed thresholds since they are, in most cases, expected to capture the intended population of acquisitions and are consistent with thresholds used in other IFRS Standards.

EFRAG, however, noted concerns whereby proposed thresholds may capture immaterial acquisitions but acknowledged that the general concept of materiality would apply, and recommended the IASB to elaborate on this in the Basis for Conclusions.

Respondents' comments

Outreach activities

The majority of participants generally supported a closed list approach as being the most practical solution. However, they called for a more principles-based approach, noting that the IASB's proposal may not capture the most important acquisitions from a user perspective. Several participants suggested that a rebuttable presumption should be added to the proposed thresholds. This would also link to the entity's 'overall business strategy' when identifying a strategic acquisition.

Most participants suggested that the operating profit or loss threshold be removed as it is perceived to be too volatile to allow for a consistent identification of 'strategic business combinations'. Some respondents asked for clarification on the application of the quantitative thresholds. Constituents agreed that guidance on a series of business combinations would be useful but noted that it would be difficult to develop (for example, time frame was a concern).

EFRAG's response to respondents' comments

- They recommended to provide guidance on how the 'total assets' threshold is applied, given the choice under IFRS 3 to either recognise goodwill in full or in part.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Comment letters received

The majority of respondents supported a closed list approach as a practical solution to identify 'strategic business combinations'. Several respondents suggested the introduction of a rebuttable presumption based on the definition of strategic business combination, as the proposed thresholds may not capture the intended population.

Regarding the quantitative thresholds, the majority of respondents disagreed with using the operating profit threshold due to its volatility.

There were also concerns from several respondents about a series of business combinations with a common strategic objective, who suggested a more principles-based approach in assessing whether they are strategic on an aggregated basis.

EFRAG's response to respondents' comments

Question 3 – Disclosures: Exemption from disclosing information

Proposals in the ED

The IASB proposes to exempt an entity from disclosing some of the information that would be required when applying the proposals in this ED 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.

EFRAG's final position

Considering the feedback received, EFRAG decided to maintain its overall initial position and welcomed the proposed exemption.

However, EFRAG decided to highlight that information likely to be seriously prejudicial to entities is not limited to information that might impair the entity's ability to meet its key objectives defined at acquisition date. Therefore, EFRAG noted broader considerations, such as social or legal matters, that would also pose a serious prejudicial risk to the entity without jeopardising those key objectives.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

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. The IASB has also proposed application guidance to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption.

EFRAG's tentative position

In its draft comment letter, EFRAG welcomed the proposed exemption as it would address some of the concerns expressed by constituents (e.g. on commercial sensitivity).

EFRAG suggested including illustrative examples of 'specific circumstances' to support entities in the application of the proposed exemption, as these circumstances could be interpreted differently.

EFRAG recommended the IASB not to require entities to disclose the reasons why they have not disclosed an item of information.

Respondents' comments

Outreach activities

The majority of participants supported the proposed exemption and considered it to be necessary for those cases where the information would be too sensitive to be disclosed publicly. There was also general agreement in providing additional guidance and illustrative examples to ensure the appropriate application of the exemption. However, some challenges were noted in applying the exemption. For example, several respondents disagreed with disclosing the reason for not

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

disclosing the information as this could itself contain prejudicial information and could harm competitiveness.

Comment letters received

The majority of respondents supported the exemption, as it addresses some concerns about commercial sensitivity, while noting several concerns.

There were mixed views on whether the scope was sufficient, with some suggesting expanding it (e.g. to cover litigation risks akin to IAS 37's exemption). Respondents were divided on the need for more guidance or examples to clarify 'sensitive information' and appropriate circumstances where the exemption would be applicable.

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Question 4 – Disclosures: Identifying information to be disclosed

Proposals in the ED

The IASB proposes to require an entity to disclose information about the performance of the entity's strategic business combinations that is reviewed by its key management personnel (KMP).

The IASB's proposals would require an entity to disclose this information for as long as the entity's KMP review the performance of the business combination.

The IASB also introduces specific requirements if KMP does not start or if KMP stops monitoring business combinations within a certain time frame.

EFRAG's tentative position

In its draft comment letter, EFRAG agreed with the IASB's proposal to define a level of management and that the appropriate level of management should be the entity's KMP as defined in IAS 24 *Related Party Disclosures* instead of using the Chief Operating Decision Maker (CODM) as defined in IFRS 8 *Operating Segments* (as proposed in the DP).

EFRAG supported the IASB's proposal 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 also agreed with the proposal for an entity to disclose that fact and the reasons for not reviewing the information in cases where the entity's KMP has not started reviewing and does not plan to review the required information.

EFRAG's response to respondents' comments

EFRAG's final position

In its final comment letter, EFRAG reported mixed views of constituents on defining the level of management as KMP, CODM or not defining it at all.

As a result, EFRAG acknowledged that the management structure of entities can differ and therefore questioned whether it is necessary to define a specific level of management. Moreover, in case the IASB retains the reference to KMP, EFRAG suggested including more guidance on how to apply this concept in practice within the scope of IFRS 3.

EFRAG reiterated its support for disclosing information about the performance of a business combination for as long as the entity's KMP continues to monitor it and supports disclosing that fact along with the reasons for not reviewing the information.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG's response to respondents' comments

Respondents' comments

Outreach activities

Participants provided mixed views on defining the level of management as KMP, with some respondents preferring to refer to the CODM while others preferred not to define the level of management, noting that the 'decision maker' can vary from entity to entity.

Comment letters received

The majority of respondents supported basing disclosures on information reviewed by the entity's KMP, while several respondents questioned the need to specify the level of management as the organisational structure may vary across entities.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG's response to respondents' comments

Question 5 – Disclosures: Other proposals

Proposals in the ED

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

- new disclosure objectives (proposed paragraph 62A of IFRS 3);
- requirements to disclose quantitative information about expected synergies in the year of acquisition;
- the strategic rationale for a business combination (paragraph B64(d) of IFRS 3);
- contribution of the acquired business (paragraph B64(q) of IFRS 3);
- classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3); and
- deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3).

EFRAG's final position

Considering the feedback received, EFRAG reiterated its general support for the IASB's proposals.

However, given the concerns from constituents, EFRAG questioned 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.

EFRAG suggested that the IASB field-test the proposed disclosures on expected synergies and any alternatives it might develop.

EFRAG maintained its initial position of disagreement with the IASB proposal to specify that the basis of the information required by paragraph B64(q)(ii) of IFRS 3 is an accounting policy.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG's tentative position

In its draft comment letter, EFRAG was generally supportive of the IASB proposals and considered that they would enhance the qualitative information on expected synergies that users currently receive under IFRS 3.

EFRAG noted that, for cases where the disclosure of this information would be prejudicial to the entity, the exemption may be applied.

However, EFRAG disagreed with the IASB proposal to specify that the basis of the information required by paragraph B64(q)(ii) of IFRS 3 is an accounting policy. Instead, EFRAG recommended the IASB require entities to provide an explanation of the basis used to prepare the information.

Respondents' comments

Outreach activities

Participants disagreed with the IASB proposal to provide quantitative information about expected synergies in the financial statements because it would be forward-looking information difficult to quantify and to audit.

Comment letters received

The majority of respondents disagreed with the IASB proposal to provide quantitative information about expected synergies in the year of acquisition. They considered that this information would be complex, difficult to audit and enforce, costly, inconsistent and would disadvantage IFRS adopters (e.g. comparable information is not provided under US GAAP).

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Question 6 – Changes to the impairment test

Proposals in the ED

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. The IASB proposes changes to the impairment test to reduce shielding by clarifying how to allocate goodwill to cash generating units (CGUs).

The IASB also proposes 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. 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 overoptimistic.

EFRAG's tentative position

In its draft comment letter, EFRAG regretted that the IASB deviated from the project's initial objective to reduce goodwill shielding and missed the opportunity to make significant improvements to the impairment test to address the 'shielding' issue.

EFRAG's response to respondents' comments

EFRAG's final position

Considering the feedback received, EFRAG decided to maintain its initial position, agreeing with the IASB that it is not possible at this stage to develop an impairment model that would significantly reduce or eliminate the shielding effect without being very complex and costly.

In addition, given the feedback received, EFRAG suggested for the purposes of reducing the shielding effect to require entities to provide more disclosures when goodwill is being reallocated between CGUs in subsequent periods.

EFRAG also maintained its suggestion on redrafting paragraph 80A as it was supported by some respondents.

EFRAG decided not to ask for guidance when the level of allocation could be considered too high due to the lack of support from constituents, which suggested that the standard-setting should not be based on the assumption about misusing.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

EFRAG nevertheless supported the IASB conclusion that it is not possible at this stage to develop an impairment model that would significantly reduce or eliminate the shielding effect without being very complex and costly.

EFRAG noted some ambiguity in paragraph 80A and recommends the IASB reconsider its drafting. EFRAG agreed with the IASB that goodwill should be allocated to the lowest level possible. However, EFRAG was not convinced that the proposed amendments would change existing practice by much.

EFRAG asked for the views of constituents regarding its drafting proposal for paragraph 80A, the need for further disclosure requirements when goodwill is being reallocated in subsequent periods and additional guidance when the level of allocation could be considered too high.

Respondents' comments

Outreach events

Preparers, auditors and national standard setters reported that it would be unlikely for them to change their behaviour in respect of allocation of goodwill to the CGUs as a result of the proposed amendments.

Users reported general unsatisfaction with the information about how the goodwill is allocated to the CGUs.

Comment letters received

The majority of respondents were not convinced that the proposed amendments will lead to significant reduction in the shielding effect or other behavioural changes, which was the IASB's objective when proposing the amendments. A majority suggest that the IASB should continue to work on achieving further

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
improvements in allocating goodwill to individual CGUs or lower level of groups of CGUs, which was identified as a root cause for shielding. A majority supported, or did not disagree with, EFRAG's recommendation to delete the last sentence in paragraph 80A(b). A majority supported the proposed disclosure requirement on which segment goodwill belongs to, but a majority also questioned the effect this will have on countering management overoptimism.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

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

Proposals in the ED

The IASB proposes 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 future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance; and
- 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.

EFRAG's tentative position

In its draft comment letter, EFRAG agreed with the proposal to no longer prohibit the inclusion of cash flows arising from 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 the cash flows inputs to the value in use measurement in much better alignment with the internal forecasting. However, EFRAG noted 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.

EFRAG's response to respondents' comments

EFRAG's final position

Considering feedback received, EFRAG maintained its overall position expressed in its draft comment letter.

In particular, EFRAG supports the inclusion of future restructurings in the calculation of value in use, with a request for further guidance on what should be included as part of uncommitted future restructuring or enhancing an asset's performance.

EFRAG also maintained its support for the IASB proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use, but given the request from constituents, it asked for additional guidance on the treatment of income and deferred tax assets in this context.

As there was no support from constituents, EFRAG decided not to ask for additional disclosure on the extent to which the estimated value in use is influenced by the inclusion of uncommitted future restructurings and asset enhancements.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Furthermore, where a significant amount of the value in use is derived from 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 restructuring and future enhancements. Therefore, further guidance in this regard would be helpful.

EFRAG agreed with the IASB proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use.

EFRAG asked questions to constituents on the need for additional guidance for the asset boundary, additional disclosures on the extent to which the estimated value in use is influenced by the inclusion of uncommitted future restructurings and asset enhancements as well as on the need for additional guidance on how to treat taxes, including deferred taxes, in the calculation of value in use.

Respondents' comments

Outreach events

The proposed amendments to the calculation of value in use have not yielded a large volume of feedback. Preparers were generally supportive of the proposals and did not see significant problems in determining the border of the value-in-use calculation.

Users reported more scepticism or outright disagreement with the proposals, stating that they would provide management with too much leeway to avoid impairment.

Several respondents noted that value in use becomes closer to fair value less cost to sell.

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
Comment letters received All respondents supported the amendment allowing an entity to use post-tax inputs in a value-in-use calculation. The majority of respondents supported the removal of the prohibition to include future restructurings and enhancements in the cash flows in value-in-use calculations. The majority of those supporting the amendment also supported EFRAG's request for further guidance on the boundary of an asset. Some constituents also wanted further clarification on the remaining differences between value in use and fair value. This could imply that some question whether there is a need to have both fair value (less costs to sell) and value in use when determining recoverable amount. The majority of preparers who responded disagreed with EFRAG's suggestion to require additional disclosures about the extent to which the estimated value in use is influenced by the inclusion of uncommitted future restructurings and asset enhancements, mainly because it would result in undue costs for preparers. Users, in contrast, supported EFRAG's request for additional disclosures. Users were generally sceptical in supporting the proposed change to the value in use calculation, as this could increase the effect of managing overoptimism. All respondents commenting on this question agreed with the IASB's proposal to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use mainly because it achieves alignment with practice, results in useful information and reduces the cost and complexity involved in the value in use calculation. Several respondents called for additional guidance in relation to how to treat income and deferred taxes.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

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

Proposals in the ED

The IASB proposes to amend 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;
- quantitative information about expected synergies subject to an exemption in specific circumstances;
- information about the contribution of the acquired business; and
- information about whether the discount rate used in calculating value in use is pre-tax or post-tax.

EFRAG's tentative position

In its draft comment letter, EFRAG generally supported the IASB proposals and noted that they seem to achieve a fair balance between costs and benefits of disclosing relevant information.

However, EFRAG highlighted that the (then) forthcoming IFRS 19 has not yet been issued or endorsed in the EU. Therefore, the endorsement of the amendments

EFRAG's response to respondents' comments

EFRAG's final position

Considering the feedback received, EFRAG maintained its original position, generally supporting the IASB proposals, but urged the IASB to revisit the cost-benefit considerations related to the requirement to disclose quantitative information about expected synergies.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

resulting from this ED is conditional on the outcomes of the EU endorsement process of the forthcoming IFRS Accounting Standard.

Respondents' comments

Comment letters received

The majority of respondents who provided a view on this question agreed with the proposed amendments to IFRS 19. However, several respondents questioned whether the requirement to disclose quantitative information about expected synergies should be included in IFRS 19.

However, one respondent disagreed with the IASB proposals and considered that eligible subsidiaries should only be required to disclose the information about the discount rate.

EFRAG's response to respondents' comments

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Question 9 – Transition

Proposals in the ED

The IASB proposes 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 proposes no specific relief for first-time adopters.

EFRAG's tentative position

In its draft comment letter, EFRAG agreed with the IASB proposals on the prospective application of the proposed amendments without restating comparative information. EFRAG agreed that some of the proposed requirements may be difficult to implement retrospectively without the use of hindsight, and the benefit of this information to users will not outweigh the costs.

EFRAG also agreed not to propose relief from the proposed amendments to IFRS 3 and IAS 36 for first-time adopters.

Respondents' comments

Comment letters received

All respondents agreed to require prospective application of the proposed amendments to IFRS 3 and IAS 36 because some of the information would be difficult to provide retrospectively without the use of hindsight.

A few respondents disagreed with the prospective application. In their view, the amendments proposed in the ED are not a clarification but a change in accounting policies. One respondent suggested to introduce a modified retrospective

EFRAG's response to respondents' comments

EFRAG's final position

Considering the feedback received, EFRAG maintained its agreement with the IASB proposals expressed in the draft comment letter.

EFRAG proposed for clarification purposes to add to paragraph 140O that the amendments also apply to the allocations of goodwill in addition to the impairment test.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	**EFRAG's response to respondents' comments**
application triggered by the goodwill reallocation to a lower level of CGUs or groups of CGUs upon the first-time application of the proposed amendments to IAS 36. Another respondent expressed a preference for the recognition of any impact on the outcome of impairment tests in equity retrospectively at the beginning of the initial application period rather than prospectively in profit or loss after the initial application date.	

Appendix 1: List of respondents from comment letters received

Table 1: List of respondents from comment letters received

Name of respondent[1]	***Country***	***Type / Category***
The Danish Funding Mechanism for EFRAG	Denmark	Association
European Savings and Retail Banks Group (WSBI-ESBG)	Europe	Preparer organisation
German Insurance Association (GDV)	Germany	Preparer organisation
Dutch Accounting Standards Board (DASB)	Netherlands	National Standard Setter
Accountancy Europe	Europe	Professional organisation
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
Austrian Financial Reporting Advisory Committee (AFRAC)	Austria	National Standard Setter
The European Federation of Financial Analysts Societies (EFFAS)	Europe	User organisation
Eumedion	Netherlands	User organisation
BusinessEurope	Europe	Preparer organisation
European Securities and Markets Authority (ESMA)	Europe	Regulator
Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board, NASB)	Norway	National Standard Setter
Financial Analysis and Accounting Committee of the French Society of Financial Analysts (SFAF)	France	User organisation

[1] Respondents whose comment letters were considered by the EFRAG FRB before finalisation of the comment letter.

Deutsches Rechnungslegungs Standards Committee (DSRC)	Germany	National Standard Setter
Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
European Insurance CFO Forum	Europe	Preparer organisation