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Business Combinations – Disclosures, Goodwill and Impairment – Project Update Cover Note

Objective

- 1 The objective of the session is to provide EFRAG FR TEG members with an update on the status of the IASB *Business Combinations – Disclosures, Goodwill and Impairment* project. The update focuses on the IASB tentative decisions in January 2023 on how to design the disclosure exemption and the disclosure requirements related to expected synergies.
- 2 Questions for EFRAG FR TEG are in agenda paper 06-02.

Background of the IASB project

- 3 The IASB issued the [Discussion paper Business Combinations – Disclosures, Goodwill and Impairment](#) ('the DP') in March 2020 with a comment period that ended on 31 December 2020.
- 4 The DP included suggestions on improving the disclosures about business combinations by adding information about the strategic rationale and objectives for the acquisition including information about synergies as well as the metrics management plan to use to monitor achievement of those objectives; its subsequent performance; improving the accounting for goodwill by assessing whether the amortisation should be reintroduced and some other targeted improvements / simplifications to the current impairment test including the suggestion to only require a quantitative impairment test of cash-generating units ('CGUs') including goodwill to be performed when there would be an indication of an impairment.
- 5 EFRAG published its [final comment letter](#) in January 2021.
- 6 In September 2021 the IASB started a re-deliberation process on the preliminary views included in the DP. A summary of the IASB tentative decisions so far on the project is provided in the Appendix.
- 7 In particular, in September 2022, discussing some of the preliminary views related to disclosures about business combinations that were expressed in the DP, the IASB considered whether information (on objectives, subsequent performance and synergies) should be disclosed for only a subset of business combinations (and whether some information should be exempt from being disclosed in certain circumstances).
- 8 The table below (an extract from IASB [In brief](#) published in January 2023) provides a summary of proposed changes to disclosures about business combination.

	All material business combinations	Only 'strategically important' business combinations
Proposed exemption applies	In year of acquisition, quantitative information about expected synergies (expands requirement to disclose qualitative information about factors making up goodwill)	In year of acquisition, information about management's: <ul style="list-style-type: none"> • objectives; • metrics; and • targets
No proposed exemption	In year of acquisition, strategic rationale for undertaking the business combination (replaces requirement to disclose 'primary reasons for the business combination' in IFRS 3)	In subsequent periods, information about the extent to which management's objectives are being met, using those metrics

- 9 In December 2022, the IASB decided:
- (a) to add the project to the standard-setting work plan; and
 - (b) to change the project title to *Business Combinations—Disclosures, Goodwill and Impairment*.

Background of the EFRAG discussions

- 10 The IASB re-deliberations on disclosure on business combinations were last discussed by the EFRAG FR TEG in November 2022.
- 11 EFRAG FR TEG members generally welcomed the direction of the IASB project and believed that the decisions taken by the IASB strike a good balance between the preparers' concerns and users' needs. Members appreciated the extensive work performed by the IASB to achieve this result.
- 12 Nevertheless, EFRAG FR TEG members highlighted the following points of attention:
- (a) the importance of further application guidance were highlighted in order to ensure the correct application of the criteria to the subset of business combinations for which users really need subsequent performance information;
 - (b) mixed views were provided on the 10% thresholds. While some believed it was a reasonable approach, others expressed concerns that they are rule based and hence are too rigid;
 - (c) the importance of having a 'workable' exemption for all stakeholders (preparers, users, auditors, etc.) were highlighted. In this context, further application guidance with concrete examples from the IASB will be crucial.
 - (d) the IASB should better clarify what "expected synergies" means and develop a clear definition as entities are required to provide quantitative information on this aspect;
 - (e) some concerns were expressed about the quantitative disclosures related to expected synergies as such disclosures are forward-looking and, in some circumstances, cannot be measured with a sufficient level of reliability.
- 13 EFRAG FRB discussed these topics in December 2022. EFRAG FRB members noted the IASB decision to continue with the impairment-only model and expressed concerns relating to the cost benefit aspects and robustness of the proposed disclosure requirements.
- 14 Members questioned the applicability of the qualitative criteria for deciding if a business acquisition was significant, the link between negative deviations from targets and goodwill impairment and the ability of entities to follow-up individual acquisitions.

- 15 Support was provided for the work on simplification and clarification of the impairment measurement rules.

IASB Next steps

- 16 In the coming months in 2023, the IASB will discuss:
- (a) detailed aspects of the package of disclosure requirements – for example:
 - (i) the management approach to information about subsequent performance of business combinations including for example, whether it is appropriate to identify the information to be disclosed using the information an entity's Chief Operating Decision Maker reviews;
 - (ii) the length of time for which to require entities to disclose information about the subsequent performance of business combinations
 - (iii) other aspects – for example the scope of entities subject to the disclosure requirements about the subsequent performance of business combinations;
 - (b) the IASB's preliminary views on simplifying the application of the impairment test in IAS 36 Impairment of Assets;
 - (c) The IASB's preliminary views on the feasibility of improving the effectiveness of the impairment test of cash-generating units containing goodwill in IAS 36.
- 17 Once the IASB has made tentative decisions on all aspects of the project, the IASB staff will ask the IASB whether the package as a whole meets the project objective and whether it would like to publish an exposure draft setting out its proposals.

EFRAG Next steps

- 18 The EFRAG Secretariat will continue to monitor and update EFRAG FR TEG and EFRAG FRB on a regular basis.
- 19 The EFRAG Secretariat is planning to undertake outreach in early 2023 to test the thresholds for determining a subset of business combinations of what would comprise a 'strategically important' business combination.
- 20 The EFRAG Secretariat will also undertake outreach to better understand the application and level of aggregation of the exemption from disclosing information in specific circumstances once more details and the wording of the exemption are known.

Agenda Papers

- 21 In addition to this cover note, agenda paper 06-02 – *Business Combinations – Project Update – Issue paper* has been provided for the session.

Appendix – IASB tentative decisions so far

Summary of the IASB tentative decisions

1 The table below provides an overview of IASB discussions and tentative decisions so far.

Topic	Decisions reached	Meeting Date
<i>Feedback received on DP</i>	<p>In March 2021, the IASB discussed a summary of the feedback received on its preliminary views expressed in the DP.</p> <p>In April 2021, the IASB received a summary that focused only on user feedback.</p> <p>In May 2021, the IASB discussed a literature review that summarised the evidence from academic papers on topics relevant to the questions in the DP. The literature review was based on an academic literature review that provides an overview of academic papers on empirical goodwill research published in the last 20 years, published articles and other academic material.</p>	March - May 2021
<i>Objective of the project</i>	<p>The IASB tentatively decided to retain the objective of the project unchanged from that described in its DP. The objective is to explore whether entities can, at a reasonable cost, provide users with more useful information about the acquisitions those entities make.</p> <p>The IASB also tentatively decided to make no changes to the project scope. The IASB considers its preliminary views as a package that meets the project objective.</p>	June 2021
<i>Project plan</i>	<p>The IASB decided on a project plan. As part of that project plan the IASB is prioritising analysis of feedback on:</p> <ul style="list-style-type: none"> • disclosures about business combinations; and • whether to retain the impairment-only model or whether to reintroduce amortisation for goodwill (the subsequent accounting for goodwill). <p>The IASB staff sent a request to IFASS members asking for information on how goodwill is accounted for under local GAAP and views on the estimation of goodwill useful lives and possible challenges on transition should amortisation be reintroduced</p>	September 2021
<i>Location of information</i>	<p>The IASB tentatively decided that, based on the <i>Conceptual Framework for Financial Reporting</i>, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met.</p> <p>The IASB discussed practical concerns over requiring entities to include such information in financial statements. In particular, the IASB discussed the staff's additional research and analysis of concerns over requiring entities to disclose information that might be considered forward-looking in some jurisdictions.</p> <p>The IASB will continue its redeliberations on its preliminary views on the package of disclosure requirements at future meetings, including whether not to proceed with some or all of the disclosure requirements for practical reasons.</p>	October 2021
<p><i>Expected synergies arising from a business combination</i></p> <p><i>Contribution of the acquired business</i></p>	<p><i>Expected synergies</i></p> <p>To better the practical concerns raised by respondents, the IASB, will test examples with stakeholders that illustrate disclosure of information about:</p>	November 2021

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<p><i>Improvements to existing IFRS 3 disclosure requirements</i></p>	<p>about management’s objectives for a business combination and the metrics and targets management will use to monitor whether the objectives for the business combination are being met and (ii) actual performance in subsequent periods; and</p> <ul style="list-style-type: none"> providing an exemption in specific circumstances that would permit an entity not to disclose information about management’s objectives for a business combination and the metrics and targets management will use to monitor whether the objectives for the business combination are being met. <p>At its meeting in September 2022, the IASB also tentatively decided:</p> <ul style="list-style-type: none"> adding the disclosure objectives described in the Discussion Paper to IFRS 3; adding to IFRS 3 a requirement for an entity to disclose in the year of a business combination quantitative information about expected synergies; and providing an exemption from disclosing that information in specific circumstances. 	
<p><i>Design of the exemption</i></p>	<p>At the January 2023 meeting, the IASB tentatively decided to propose a principle for an entity to apply when using this proposed exemption. An entity applying the principle would be allowed to use the exemption from disclosing a particular item of information if disclosing that information can be expected to prejudice seriously any of the entity’s objectives for the business combination.</p> <p>To help entities apply this exemption, the IASB tentatively decided to propose application guidance. This application guidance would require an entity:</p> <ul style="list-style-type: none"> to consider factors including the effect of disclosing the information and the availability of the information in determining whether the exemption is applicable; to consider whether it is possible to disclose information at a sufficiently aggregated level to resolve concerns while still meeting the objectives of the disclosure requirements; to disclose, for each item of information to which an entity has applied the exemption, that it has applied the exemption and the reason for applying the exemption to that item of information; to reassess in each reporting period whether the application of the exemption to an item of information is still appropriate. If it is no longer appropriate to apply the exemption, the entity would be required to disclose the item of information previously exempted. An entity would be required to perform that reassessment for as long as the entity would otherwise be required to disclose information about the subsequent performance of the business combination. <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> to require an entity to disclose a qualitative statement of whether actual performance of a business combination in subsequent periods met the entity’s target for the business combination; and to permit an entity to apply the exemption agreed in this meeting to that qualitative statement. 	<p>January 2023</p>
<p><i>Expected synergies</i></p>	<p>At the January 2023 meeting, the IASB tentatively decided to require an entity:</p> <ul style="list-style-type: none"> to disclose quantitative information about expected synergies by category (for example, total revenue synergies, total cost synergies and the total for each other type of synergy); to consider, for any case in which a disclosure of totals by category would qualify for an exemption, whether disclosure as a total for all categories could remove the reason for applying the exemption to the total by category and, if so, to disclose the total of all categories; 	<p>January 2023</p>

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	<ul style="list-style-type: none"> to describe the synergies by specifying each category of expected synergy; to disclose when the benefits expected from the synergies are expected to start and how long they will last. This disclosure would require an entity to identify whether the synergies are expected to be finite or indefinite. 	
<i>Subsequent accounting for goodwill</i>	<p>At its May 2022 meeting, the IASB discussed additional research on:</p> <ul style="list-style-type: none"> whether it is feasible to estimate the useful life of goodwill and the pattern in which it diminishes; and the potential consequences of transitioning to an amortisation-based model. 	May 2022
	<p>In July 2022, the IASB redeliberated its preliminary views on the subsequent accounting for goodwill and whether to reintroduce amortisation of goodwill and discussed disclosures about business combinations and improving the effectiveness of the impairment test in IAS 36.</p> <p>The IASB had a joint meeting with the FASB (education purposes) where both boards discussed various aspects of their respective projects on goodwill and impairment and their tentative decisions (these projects do not constitute a joint project).</p>	July 2022
	<p>At its October 2022 meeting, the IASB discussed the following:</p> <ul style="list-style-type: none"> Subsequent accounting for goodwill – Overview of feedback and research; and Subsequent accounting for goodwill – Possible ways forward. 	October 2022
	<p>At its meeting in November 2022, the IASB tentatively decided to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill.</p>	November 2022
<i>Identifiable intangible assets acquired in a business combination</i>	<p>The IASB tentatively decided to maintain its preliminary view and therefore to make no changes to the recognition criteria in IFRS 3 Business Combinations for identifiable intangible assets acquired in a business combination.</p>	December 2022
<i>Total equity excluding goodwill</i>	<p>The IASB tentatively decided against proceeding with its preliminary view and therefore tentatively decided not to require an entity to present the amount of total equity excluding goodwill as a separate line item on its statement of financial position.</p>	December 2022
<i>Other topics</i>	<p>The IASB decided not to consider additional topics suggested by respondents in this project, except for the following two topics related to possible improvements to the effectiveness of the impairment test of cash-generating units containing goodwill:</p> <ul style="list-style-type: none"> requiring an entity to disclose goodwill by reportable segment; and how the requirements in IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> relating to the level at which goodwill balances are translated interacts with the level at which goodwill is tested for impairment applying IAS 36 <i>Impairment of Assets</i>. 	December 2022