



EFRAG

financial reporting

Business Combinations – Disclosures, Goodwill and Impairment: Disclosures

General

Objective

This survey seeks input on the IASB's tentative decisions on its project *Business Combinations - Disclosure, Goodwill and Impairment* ^[1] regarding the disclosure requirements for business combinations (referred to as "to be proposed disclosure requirements").

This survey contains questions on the following aspects of the to be proposed disclosure requirements:

- thresholds for determining a subset of business combinations that would comprise a "strategically important" business combination;
- application and level of aggregation of the exemption from disclosing information in specific circumstances; and
- quantitative information about expected synergies.

The objective of this survey is to help EFRAG's project team to better understand whether the to be proposed disclosure requirements in the paragraph above can be applied in practice and whether they meet the intended objectives at a reasonable cost.

Please submit your answers to the EFRAG project team^[2] by clicking on the "Submit" button at the end of the survey by 22 November 2023. Thank you for completing the survey.

The collected information will remain confidential. Unless permission to do so is granted, information used in any reports will be presented in such a way that no individual company or person can be identified. However, the list of respondents will be made public, unless they explicitly requested anonymity.

[1] <https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/>

[2] If you have any queries please contact Isabel Batista (isabel.batista@efrag.org), Galina Borisova (galina.borisova@efrag.org), or Ioanna Michailidi (ioanna.michailidi@efrag.org)

Do you accept the name of your entity to be published in the list of respondents?

Please select:*

Yes No

Structure of the survey

This survey is divided in five parts:

- (a) General information;**
- (b) Thresholds for determining a “strategically important” business combination;**
- (c) Exemption from disclosing information in specific circumstances;**
- (d) Quantitative information about expected synergies in the year of acquisition (Optional); and**
- (e) Other.**

This survey is aimed at preparers of financial statements who have conducted business combinations within the scope of IFRS 3 Business Combinations in the last three financial years (2020, 2021 or 2022).

Background

In June 2015, the IASB completed the Post-implementation Review of IFRS 3 and in response to the feedback received, the IASB decided to undertake improvements to the accounting and disclosures for business combinations.

In March 2020, the IASB published the Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment (the “DP”). The DP explored whether companies can, at a reasonable cost, provide users of financial statements with more useful information about the business combinations that companies undertake. Specifically, the DP researched whether^[3]:

- 1. companies could provide better information in the financial statements about business combinations, in particular, information on the subsequent performance of a business combination;**
- 2. the impairment test could be made more effective at recognising impairment losses on goodwill on a timely basis and at a reasonable cost;**
- 3. amortisation of goodwill should be reintroduced;**
- 4. the impairment test could be amended to reduce its cost and complexity; and**
- 5. some intangible assets should be included within goodwill.**

Almost all users that responded to the DP stressed that the to be proposed disclosure requirements in the DP would help them better understand the rationale of the business combination and to hold management to account for those business combinations.

However, many preparers had concerns about providing such information, particularly because the new information requested could be commercially sensitive, forward-looking, costly and unavailable if the acquired business were integrated into the acquiring company’s operations.

Given this feedback, in its redeliberation process and reaching its tentative decisions, the IASB has tried to find a solution that would be acceptable to both preparers and users.

The IASB expects to publish an exposure draft in the first half of 2024.

[3] Please note that 2. – 5. are not addressed in this survey.

Part (a): General information

1) Name of the entity:*

2) Email address:*

3) Primary industry where the entity is operating:*

4) Country where the head office is located:*

5) Please specify whether your financial reporting is prepared in accordance with IFRS:*

Yes

No

Apply both IFRS Standards and other GAAP's

6) How many business combinations within the scope of IFRS 3 has your entity conducted in the last three years?*

Please choose zero for the years that you have not conducted a Business Combination

Please indicate the number for 2020:

0 _____ [] _____ 25

Please indicate the number for 2021:

0 _____ [] _____ 25

Please indicate the number for 2022:

0 _____ [] _____ 25

Part (b): Thresholds for determining a “strategically important” business combination

IASB’s tentative decisions

For all “material”^[4] business combinations, an entity would be required to disclose information about:

- 1. the strategic rationale for the business combination; and**
- 2. quantitative information about synergies expected from the business combination.**

For all “strategically important” business combinations, and for this subset of business combinations only, an entity would be required to disclose information about:

- 1. the entity’s objectives for the business combination;**
- 2. metrics and targets defined by the entity to measure whether the objectives will be met for the business combination; and**
- 3. actual performance of the business combination.**

The IASB considered that requiring some of the information for only a subset of business combinations would best address concerns about the costs of complying with new disclosure requirements. In addition, the IASB proposed an exemption from disclosing some information in specific circumstances as outlined in Part (c) of this survey.

[4] In line with the current application in IFRS 3

“Strategically important” business combination

The IASB tentatively decided that a “strategically important” business combination would be a business combination for which not meeting the objectives of the business combination would seriously put at risk the entity achieving its overall business strategy.

To identify such a business combination, the IASB tentatively decided to propose using a closed list of thresholds; a business combination that meets any of the following thresholds would be “strategically important”:

a) Quantitative – that is, a business combination in which:

- the acquiree’s operating profit^[5] exceeds 10% of the acquirer’s operating profit, for the acquirer’s most recent annual reporting period ending before the business combination was completed;**
- the acquiree’s revenue exceeds 10% of the acquirer’s revenue for the acquirer’s most recent annual reporting period ending before the business combination was completed; or**
- the amounts recognised as of the acquisition date for all assets acquired (including goodwill) exceed 10% of the carrying value of the assets recognised on the acquirer’s balance sheet as at the acquirer’s most recent reporting period date before the business combination.**

b) Qualitative – that is, a business combination that results in an entity entering a new geographical area of operations and/or a new major line of business.

[5] During its redeliberation process, the IASB tentatively decided that the definition of “operating profit” should be in line with what will be decided within the scope in a final Standard on Primary Financial Statements.

7) Does your organisation internally defines a “new geographical area”? Please select:*

- Yes
- No

If “Yes”, please explain how your organisation defines it.

8) Does your organisation internally define a “new major line of business”? Please select:*

- Yes
- No

If “Yes”, please explain how your organisation defines it.

9) For each business combination undertaken in 2020, 2021 and 2022 please indicate whether the qualitative and/or quantitative thresholds would have been met.*

Business combination identification number for the purpose of this survey

Depending on the number of business combinations for each year please add a new answer and number them (example BC n.1; BC n.2; BC n.3):

Qualitative and/or quantitative thresholds met*

- >10% operating profit^[6]

[6] For the purpose of this survey, “operating profit” means the entity’s own definition consistent with what is indicated in the financial statements as of 31 December 2020, 2021 and 2022.

- >10% revenue
- >10% total assets
- New geographical area
- New major line of business
- Qualitative and quantitative thresholds not met

10) In your view, do you agree that a combination of quantitative and qualitative thresholds is the most appropriate way to define a “strategically important” business combination?*

- Yes, both qualitative and quantitative thresholds should be used.
- No, only quantitative thresholds should be used.
- No, only qualitative thresholds should be used.
- No, another approach should be applied to define “strategically important” business combinations. Please describe that approach.

Please describe that approach:

11) Quantitative thresholds

Do you consider “operating profit”, “revenue” and “total assets” the most appropriate quantitative properties to define “strategically important” business combinations?

Please select:*

- Yes
- No

If “No”, what properties would you consider to be more appropriate? Please explain:

12) Do you consider 10% (of acquiree’s operating profit, revenue or total assets) to be the most appropriate threshold to define “strategically important” business combinations?

Please select:*

- Yes
- No

If “No”, what percentage do you consider to be more appropriate? Please explain:

13) Qualitative thresholds

Do you consider “new geographical area” and/or “new major line of business” the most appropriate qualitative properties to define “strategically important” business combinations?

Please select:*

- Yes
- No

If “No”, what properties would you consider to be more appropriate? Please explain:

14) Do you consider that the proposed thresholds (as described in the section "Strategically important business combination" above) would address preparers' concerns about the costs of complying with the to be proposed disclosure requirements?

Please select:*

Yes

No

If “No”, how do you consider that these concerns should be addressed?*

Increase the quantitative thresholds. Please indicate what percentage you consider as appropriate.

Allow entities to perform their own assessment to determine when a business combination is “strategically important”, with an open list of factors to consider. If possible, provide a list of factors that you consider relevant.

Other approaches.

If possible, provide a list of factors that you consider relevant.

Other approaches. Please explain:

Please indicate what percentage you consider as appropriate:

Part (c): Exemption from disclosing information in specific circumstances

IASB's tentative decisions

The IASB tentatively decided to propose an exemption in specific circumstances that would permit an entity not to disclose information about^[7]:

- a) **management's objectives for a business combination^(*)**;
- b) **the metrics and targets management will use to monitor whether the objectives for the business combination are being met^(*)**;
- c) **quantitative information about synergies expected to arise from the business combination; and**
- d) **the qualitative statement of whether actual performance of a business combination in subsequent periods met the entity's target for the business combination^(*).**

[7] The exemption covers all business combinations, including those that fall into the scope of "strategically important" business combinations.

(*) Relevant only for "strategically important" business combinations.

The IASB tentatively decided to propose no exemption from disclosing information about:

- a) **the strategic rationale for the business combination; and**
- b) **the actual performance in subsequent periods using the metrics management uses to monitor whether the objectives for the business combination are being met.**

The IASB tentatively decided to propose a principle for an entity to apply when using the to be 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.

To help entities apply the exemption, the IASB tentatively decided to propose application guidance. This application guidance would require an entity:

- a) **to consider factors including the effect of disclosing the information and the availability of the information in determining whether the exemption is applicable, for example:**
 - **an entity should be able to identify a specific reason for not disclosing the information. A general risk of a potential weakening of competitiveness due to disclosure is not, on its own, sufficient reason to apply the exemption; and**
 - **if an entity has made the information available in a public communication, it would not be appropriate to apply the exemption.**
- b) **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.**
- c) **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 it to that item of information.**
- d) **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^[8].

[8] The disclosure requirements apply for as long as the management monitors performance acquisition-date objectives.

The table below provides an overview of how the subset (strategically important business combination) and the exemption will affect the proposed disclosure requirements.

Information	All material business combinations	Only 'strategically important' business combinations
Proposed exemption applies	In year of acquisition, quantitative information about expected synergies	In year of acquisition information about management's objectives and targets. Subsequently a qualitative statement of whether actual performance met the entity's objective and target.
No proposed exemption	In year of acquisition, strategic rationale for undertaking the business combination	Actual performance in subsequent periods

The IASB considered that the exemption would best address respondent concerns in particular concerns about commercial sensitivity.

15) For how many business combinations would your organisation have applied the exemption from disclosing a particular item of information?*

Please choose zero for the years that you have not conducted a Business Combination

Please indicate the number for 2020

0 _____ [] _____ 25

Please indicate the number for 2021

0 _____ [] _____ 25

Please indicate the number for 2022

0 _____ [] _____ 25

16) For each business combination undertaken in 2020, 2021 and 2022 please indicate for what item of information would your organisation have applied the exemption and the reason for applying it.

Business combination identification number for the purpose of this survey

Depending on the number of business combinations for each year please add a new answer and number them (example BC n.1; BC n.2; BC n.3):

Item of information*

- Management's objectives
- Metrics and targets
- Synergies expected
- Qualitative statement on actual performance
- Exemption would not have been applied

Reason(s)

17) Please indicate for each business combination undertaken in 2020 and 2021 for what item of information would your organisation still have applied the exemption in 2022?

Business combination identification number for the purpose of this survey

Depending on the number of business combinations for each year please add a new answer and number them (example BC n.1; BC n.2; BC n.3):

Item of information*

- Management's objectives
- Metrics and targets
- Quantitative information about expected synergies*
- Qualitative statement on actual performance*
- Exemption would no longer have been applied in 2022

18) Do you consider the IASB should specify that the exemption would only apply “in extremely rare cases”, as specified in paragraph 92 of IAS 37^[9]?

[9] Paragraph 92 of IAS 37 states: “In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 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. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.”

Please select:*

- Yes

No

19) Do you consider the exemption would address respondent concerns in particular concerns about commercial sensitivity?

Please select:*

Yes

No

If “No”, how do you consider that these concerns should be addressed? Please explain:

Part (d) (Optional): Quantitative information about expected synergies in the year of acquisition

IASB's tentative decisions

The IASB tentatively decided to require entities to:

- a) disclose quantitative information about expected synergies by category (for example, total revenue synergies, total cost synergies and the total for any other type of synergy);**
- b) 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;**
- c) describe the synergies by specifying each category of expected synergy; and**
- d) 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.**

20) Do you consider that the IASB should define “synergies”?

Please select:

Yes

No

if “Yes”, please explain why.

21) Do you consider that disclosing information about synergies at an aggregated level would resolve respondents concerns while still meeting the objectives of the disclosure requirements?

Please select:

Yes

No

If “No”, how do you consider that these concerns should be addressed? Please explain:

22) For how many business combinations did your entity not estimate expected synergies per category?

Please choose zero for the years that you have not conducted a Business Combination

Please indicate the number for 2020

0 _____ [] _____ 25

Please indicate the number for 2021

0 _____ [] _____ 25

Please indicate the number for 2022

0 _____ [] _____ 25

Please explain the reason(s) for not estimating expected synergies per category.

23) Did your organisation disclose any information on synergies for any of the business combinations conducted in the last three years?

Please select:

Yes

No

If “Yes”, at what level?

Line by line

By category

Total of all categories

Other

Please explain

Part (e): Other

24) Please provide any other comments on the IASB's tentative decisions.

25) Would you be available for a follow-up discussion with the EFRAG project team?

Please select:*

Yes

No

Thank You!

Thank you for taking our survey.