

Business Combinations—Disclosures, Goodwill and Impairment

EFRAG 's preliminary views on the IASB ED

EFRAG FR-TEG User Panel joint meeting 14 May 2024



DISCLAIMER

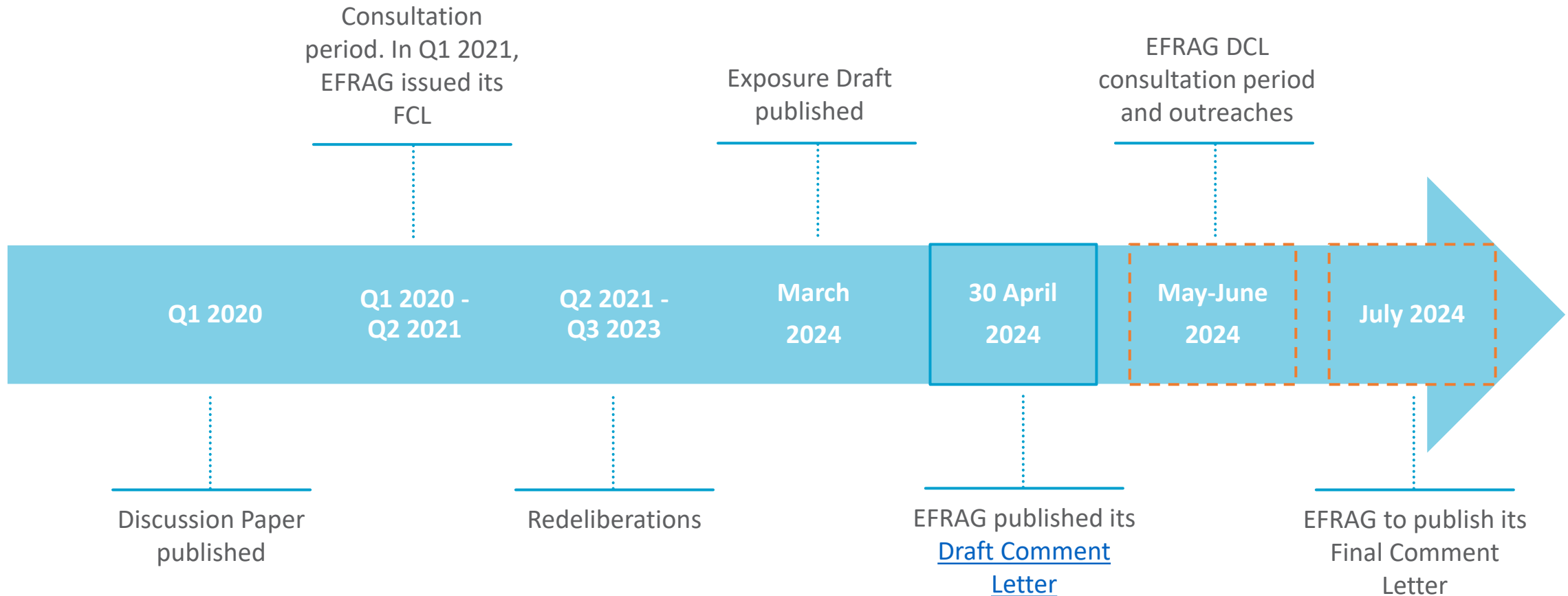
The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances

OVERVIEW

- TIMELINE & PROJECT OBJECTIVE
- EFRAG'S DCL – AMENDMENTS TO IFRS 3
 - Performance of a business combination
 - Strategic business combinations
 - Exemption from disclosing information
 - Identifying information to be disclosed
 - Expected synergies
 - Other matters
- EFRAG'S DCL – AMENDMENTS TO IAS 36
 - Reduce shielding and management over-optimism
 - Value in use

TIMELINE & PROJECT OBJECTIVE

Improve information companies provide investors about their business combinations at a reasonable cost





Improvements to IFRS 3

Performance of strategic business combinations

IASB PROPOSALS

- Acquisition-date key objectives and targets and whether these are being met
- Actual performance and statement of whether actual performance meeting/met key objectives and targets
- Information only required for **strategic business combinations**, and subject to the exemption in specific circumstances (no exemption for actual performance)

EFRAG PRELIMINARY VIEW

- Welcomes the IASB’s proposals for better information on the performance of strategic business combinations as they respond to users' requests
- Appreciates the IASB’s efforts in reaching a compromise for preparers and users by requiring the information only for a subset of business combinations, and for exempting an entity from providing the information in specific circumstances

FEEDBACK REQUIRED

- Potential scenarios where the exemption would not be applicable, and the disclosures would pose serious concerns to the entity
- Whether information on actual performance would be useful in all cases, and the usefulness of integrated performance information to users

Strategic business combinations

IASB PROPOSALS

- Identifying a strategic business combination using a **closed-list of threshold approach**
 - quantitative thresholds—any one of revenue, operating profit and assets of the acquired business constitutes at least 10% of the acquirer’s corresponding amounts; or
 - qualitative thresholds—the acquisition results in a company entering a new major line of business or geographical location

EFRAG PRELIMINARY VIEW

- Supports the proposed thresholds since they are, in most cases, expected to capture the intended population of acquisitions and is consistent with thresholds used in other IFRSs
- Notes concerns that proposed thresholds may capture immaterial acquisitions; but acknowledges that the general concept of materiality would apply and recommends the IASB to elaborate on this in the Basis for Conclusions

FEEDBACK REQUIRED

- Potential challenges in applying the proposed thresholds
- Whether an open-list approach would be more appropriate
- Feedback on the 10% measure (for e.g. volatility of operating profit)
- Usefulness of guidance in assessing whether a series of business combinations could be strategic on an aggregated basis

Exemption from disclosing information

IASB
PROPOSALS

- Exemption to some items of information in specific circumstances (if expected to seriously prejudice achieving key objectives and targets)
- Application guidance to support the identification of the circumstances where the exemption can be applied

EFRAG
PRELIMINARY
VIEW

- Welcomes the proposed exemption, as it would address some of the concerns expressed by constituents (e.g., on commercial sensitivity)
- Suggests including illustrative examples of ‘specific circumstances’ to support entities in its application, as these circumstances could be interpreted differently

FEEDBACK
REQUIRED

- Whether further application guidance and/or illustrative examples are needed to clarify the meaning of ‘specific circumstances’

Identifying information to be disclosed

IASB
PROPOSALS

- Appropriate level of management is set to be the entity's Key Management Personnel (KMP)
- Disclose **information for as long as the KPM review and monitor the performance of the acquisition**
- **Specific requirements when KMP stops monitoring**

EFRAG
PRELIMINARY
VIEW

- Supports proposals and considers that the KMP is the appropriate level
- Entities would be familiar with the 'KMP' term, as it is defined in IAS 24 and used in other IFRSs (IFRS 10)

FEEDBACK
REQUIRED

- Whether KMP is the appropriate level

Expected synergies for all material business combinations

IASB PROPOSALS

- Require the disclosure of **expected synergies by category**
- For each category, disclosure of the estimated cost to achieve the synergies and estimated timeframe
- Information subject to the exemption in specific circumstances

EFRAG PRELIMINARY VIEW

- Generally supportive of proposals, and considers that it would enhance the qualitative information on expected synergies that users currently receive under IFRS 3
- For cases where the disclosure of this information would be prejudicial to the entity, the exemption may be applied

FEEDBACK REQUIRED

- Whether the information of expected synergies would be difficult to provide
- Whether to define ‘synergies’ or provide additional guidance on the types of synergies for which quantitative information should be provided

Other Matters – Location of information

IASB PROPOSALS

- Performance information for strategic business combinations and information on expected synergies for all material business combinations to be disclosed in the financial statements

EFRAG PRELIMINARY VIEW

- Notes concerns related to commercial sensitivity of information, forward-looking information and auditability of information – and thus questions whether the information should be in the financial statements

FEEDBACK REQUIRED

- Whether some of the disclosures pose serious concerns if disclosed in the financial statements and the exemption cannot be applied
- Whether the information should be provided in the financial statements



Improvements to IAS 36

Reduce shielding and management over-optimism

IASB PROPOSALS

- Changes to the impairment test to reduce shielding by clarifying how a company allocates goodwill to cash generating units
- Require the disclosure in which reportable segment a cash generating unit containing goodwill is included to reduce management over-optimism

EFRAG PRELIMINARY VIEW

- Generally agrees with the improvements to the impairment test, even though limited and constitute a lost opportunity
- Proposes not to include the last sentence in paragraph 80A(b), as it creates ambiguity.
- Suggests additional disclosure requirements on goodwill reallocation in subsequent periods

FEEDBACK REQUIRED

- Whether the last sentence in paragraph 80A(b) should be deleted
- Seeks input on whether additional disclosure requirements are needed on subsequent reallocation of goodwill

Value in use

IASB PROPOSALS

- Remove the restriction on including cash flows from uncommitted future restructuring or asset enhancements
- Remove the need to calculate value in use on a pre-tax basis

EFRAG PRELIMINARY VIEW

- Generally supportive of the IASB's proposals, while noting concerns on enforceability and auditability when establishing new boundaries
- Asks for guidance to clarify the boundaries of restructuring and asset enhancements of existing assets
- Request for additional disclosures when a significant amount of value in use is derived from the inclusion of future restructuring/asset enhancements

FEEDBACK REQUIRED

- Additional feedback on EFRAG's wording suggestions and whether additional guidance is needed on the boundary of an asset
- Whether additional disclosures are needed for significant amounts of future restructurings/asset enhancements
- Whether additional guidance is needed on how to treat deferred taxes

QUESTIONS FOR EFRAG FR TEG-USER PANEL MEMBERS

- We welcome comments on EFRAG's preliminary views in its DCL
- We welcome suggestions on gathering optimal stakeholder feedback on EFRAG's preliminary views

Follow us



35 Square de Meeûs, B-1000 Brussels
info@efrag.org - www.efrag.org



EFRAG is co-funded by the European Union through the Single Market Programme in which the EEA-EFTA countries (Norway, Iceland and Liechtenstein), as well as Kosovo participate. Any views and opinions expressed are however those of the presenter only and do not necessarily reflect those of the European Union, the European Commission or of countries that participate in the Single Market Programme. Neither the European Union, the European Commission nor countries participating in the Single market Programme can be held responsible for them.

THANK YOU