

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

## Business Combinations—Disclosures, Goodwill and Impairment

### Cover Note

#### Objective

- 1 The objective of the session is for the EFRAG FRB to approve the EFRAG draft comment letter on the IASB Exposure Draft ('ED') on *Business Combinations—Disclosures, Goodwill and Impairment* published on 14 March 2024.
- 2 The ED and respective IASB documents can be found here:
  - (a) [Exposure Draft](#);
  - (b) [Basis for Conclusions](#);
  - (c) [Introductory video](#);
  - (d) [Snapshot](#).

#### Questions for the EFRAG FRB

- 3 Do EFRAG FRB members agree with EFRAG's preliminary views included in the covering letter and the accompanying appendix of the EFRAG draft comment letter presented in agenda paper 02-02? If not, please provide your suggestions?
- 4 Do EFRAG FRB members approve the proposed EFRAG draft comment letter in agenda paper 02-02?

#### Background on the project

- 5 The IASB issued the Discussion paper [Business Combinations – Disclosures, Goodwill and Impairment](#) ('the DP') in March 2020 and started redeliberating the proposals in 2021. The DP was issued in response to the Post-implementation Review of IFRS 3 conducted in 2015.
- 6 EFRAG published its [final comment letter](#) to the DP in January 2021. In the comment letter, EFRAG supported the objective of the IASB's project, noting that there is room for improvement in goodwill accounting and related disclosures.
- 7 The IASB issued the Exposure Draft [Business Combinations – Disclosures, Goodwill and Impairment](#) (the ED) in March 2024. The ED proposes:
  - (a) Amendments to IFRS 3 *Business Combinations* that are intended to improve the information companies disclose about business combinations. These proposals aim

to balance investor needs with preparer concerns about disclosing information about the performance of acquisitions and the cost of providing that information.

- (b) Targeted changes to the current impairment test in IAS 36 *Impairment of Assets* which are intended to reduce shielding, reduce management over-optimism and to change how a company calculates the value in use of an asset.

### Survey feedback and EFRAG recent discussions on the IASB proposals

#### *Survey on key proposals*

- 8 In October 2023, the EFRAG project team launched a survey aimed at preparers of financial statements to collect input on the IASB's proposed disclosure requirements for business combinations and whether these could be applied in practice at a reasonable cost.
- 9 Feedback from the survey was used to develop EFRAG's key messages which, after discussion with EFRAG FR TEG and the EFRAG FRB, formed the basis for the proposed EFRAG draft comment letter presented in agenda paper 02-02.

#### *EFRAG discussions on key messages for the draft comment letter*

##### *EFRAG FRB meeting in February 2024*

- 10 At its meeting on 29 February 2024, the EFRAG FRB discussed key messages for EFRAG's draft comment letter as recommended by EFRAG FR TEG. The EFRAG FRB generally supported the IASB proposals but asked the EFRAG Secretariat to tone down the support when developing the draft comment letter. In summary, the EFRAG FRB:
  - (a) Expressed concerns about the location of information and with some of the proposed information (e.g., quantitative information on expected synergies in the year of acquisition).
  - (b) Considered that the improvements to the impairment test do not go far enough.
  - (c) Overall, considered that the package of proposed disclosures and the limited amendments to the impairment test would not solve the so-called 'goodwill problem'.

##### *EFRAG FR TEG meeting in April 2024*

- 11 At its meeting on 12 April 2024, EFRAG FR TEG unanimously voted in favour of recommending the proposed EFRAG draft comment letter for EFRAG FRB approval.
- 12 EFRAG FR TEG voted in support of the IASB proposals with some EFRAG FR TEG members expressing the need to reconfirm some of the proposed disclosures by asking the EFRAG Secretariat to include a question to constituents to gather additional input on these matters.
- 13 Overall, EFRAG FR TEG considered that the IASB had reached a good compromise to respond to users' requests to improve the disclosure requirements for business combinations at a reasonable cost to preparers, notably considering the significant changes made by the IASB in response to EFRAG's feedback on the Discussion Paper. EFRAG FR TEG also generally supported the proposed changes to the impairment test.

### The proposed EFRAG draft comment letter

- 14 The proposed EFRAG draft comment letter reflects the request from the EFRAG FRB at its meeting in February 2024 to soften the tone of the support for the IASB’s proposals without changing EFRAG’s overall view. The proposed draft letter includes several questions to constituents to gather specific insight on some of the more contentious disclosure proposals.

### EFRAG deadline for comment letter and approval of final comment letter

- 15 The EFRAG Secretariat is proposing the deadline for comments from constituents to be **Monday 10 June 2024**. This suggestion considers the following:

1 July 2024	EFRAG FR TEG meeting to recommend the FCL to the EFRAG FRB
15 July 2024	IASB deadline for comments (EFRAG will ask for an extension)
17 July 2024	EFRAG FRB meeting to approve the FCL

### Next steps

- 16 The EFRAG Secretariat is in the process of planning outreach activities and collaborating with the IASB staff, accounting associations and national standard setters to obtain feedback on EFRAG’s preliminary views and addition insight on some of the disclosure proposals that have raised concerns. So far, we have tentatively scheduled the following activities:
- (a) 29 April 2024 - Outreach call with preparer organised by IASB staff
  - (b) April – June 2024 – Participate in calls organised by Accountancy Europe
  - (c) 30 April 2024 EAA reporting standards workshop – Presentation of EFRAG’s preliminary views on the IASB ED
  - (d) 14 May 2024 - EFRAG User Panel joint meeting with EFRAG FR TEG – share with EFRAG User Panel EFRAG’s main views on the proposals.

### Agenda Papers

- 17 In addition to this cover note, **agenda paper 02-02** is provided for this meeting – EFRAG’s proposed draft comment letter.