Staff paper

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IASB® meeting

Date	**December 2024**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Performance information—management approach and other feedback**
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Purpose and structure

1. As Agenda Paper 18 explains:

   (a) Agenda Paper 18B provides the International Accounting Standards Board (IASB) with common feedback on whether to require an entity to disclose information about the performance of a business combination and quantitative information about expected synergies;

   (b) Agenda Paper 18C summarises feedback on whether to only require disclosure of performance information for a subset of business combinations; and

   (c) this paper summarises feedback on:

      (i) the proposed management approach for disclosing information about the performance of a business combination (paragraphs 4–19); and

      (ii) other feedback on requiring an entity to disclose information about the performance of a business combination (paragraphs 20–26).

Key messages

2. Most respondents support the proposed requirement to disclose information about the performance of a business combination that is reviewed by the entity's key management personnel.

3. Many respondents support requiring an entity to disclose information about the performance of a business combination for as long as management review that information.

Management approach

4. This section discusses:

   (a) approach and level of management used to identify performance information to be disclosed (paragraphs 5–10); and

   (b) time period for which an entity would be required to disclose performance information (paragraphs 11–19).

Approach and level of management

Background

5. The Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (Exposure Draft) proposed that the information an entity would be required to disclose about the performance of a business combination (performance information) reflects information the entity's management uses to review and measure the success of a business combination (management approach). Specifically, the Exposure Draft proposed to require an entity to disclose performance information based on the information reviewed by the entity's key management personnel.

6. Question 4(a) in the Exposure Draft asked:

(a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed about the performance of a strategic business combination?

Feedback

7. Most respondents agree with using a management approach for disclosing performance information and identifying management as an entity's Key Management Personnel (KMP) as defined in IAS 24 *Related Party Disclosures*. Those respondents say disclosing performance information reviewed by KMP would:

   (a) provide relevant information for users of financial statements (users) in their decision-making process;

   (b) help users assess management stewardship, thereby enhancing transparency and governance; and

   (c) utilise terms that are well understood by users.

8. However, some respondents disagree. Of these:

   (a) many disagree more generally with requiring an entity to disclose performance information (see Agenda Paper 18B for more details).

   (b) some agree with a management approach but disagree with using KMP. A few of these respondents say IAS 24 defines KMP for the purpose of identifying related party transactions and not to provide information about transactions involving third parties. Applying a concept not designed specifically for disclosures about business combinations could lead to practical complications and unintended consequences. Many of these respondents suggest alternative approaches to define management (see paragraph 9).

(c) a few suggest not adopting a management approach and instead prescribing the information an entity should disclose (for example, profit, return on investment or estimated break-even period). In particular, they say:

(i) such an approach would be easier to apply and could ensure consistency and comparability across different entities.

(ii) information typically reviewed by management is not relevant for users. They say information management review may not be designed to convey the outcomes of business combinations, and therefore, may not be relevant for investment decisions.

(iii) such an approach would minimise the amount of management judgment involved and would help portray an objective picture of the business combination performance.

9. Suggestions to define management differently include:

(a) some respondents suggest reverting to the preliminary view in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (Discussion Paper) and identifying management as an entity's chief operating decision maker (CODM) because:

(i) using the CODM would, in their view, better align performance information with disclosures about operating segments (which is determined based on information the CODM reviews).

(ii) the function of the CODM[1] is aligned with the purpose of the performance information—to inform users about business performance and to hold management accountable for investment decisions.

(iii) an entity's CODM represents, in some respondents' view, a more senior level of management compared to KMP and consequently, the

[1] Paragraph 7 of IFRS 8 *Operating Segments* says the CODM's function is 'to allocate resources to and assess the performance of the operating segments of an entity'.

information would be more useful when compared to information reviewed by KMP.

(iv) if the impairment test were performed at the operating segment level (as suggested by a few respondents), then having the performance of strategic business combinations reviewed by an entity's CODM could highlight indications of impairment.

(b) some respondents suggest not defining management to provide flexibility for entities that have different corporate structures. Some respondents say KMP and CODM are often used interchangeably.

(c) a few respondents suggest focusing on information reviewed by 'those charged with governance'—a term commonly used in corporate governance codes in various jurisdictions. They say this approach would help align an entity's accounting disclosures with its corporate governance practices.

(d) one respondent suggests requiring an entity to consider information disclosed outside financial statements, information regularly reviewed by CODM and other similar types of information when considering what information to disclose (similar to paragraph B88 of IFRS 15 *Revenue from Contracts with Customers*).

10. Some respondents suggest clarifying whether the requirements refer to information reviewed collectively by the entire group of KMP or whether it applies to information reviewed by any individual member within the group.

Time period for disclosing performance information

Background

11. The Exposure Draft proposed requiring an entity to disclose performance information for as long as the entity's KMP review the performance of the business combination. The Exposure Draft also proposed that if an entity's KMP:

(a) do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination (KOTs) are met, the entity would be required to disclose that fact and the reasons for not doing so;

(b) stop reviewing whether a KOT is met before the end of the second annual reporting period after the year of acquisition (core time period), the entity would be required to disclose that fact and the reasons it stopped doing so; and

(c) have stopped reviewing whether a KOT is met but still receive information about the metric that was originally used to measure the achievement of that KOT, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition.[2]

12. Question 4(b) in the Exposure Draft asked:

> (b) Do you agree that:
>
> (i) an entity should be required to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information? Why or why not?
>
> (ii) an entity should be required to disclose the information specified by the proposals when the entity's key management personnel do not start or stop reviewing the achievement of a key objective and the related targets for a strategic business combination within a particular time period? Why or why not?

[2] For example, if the KOT was to increase revenue by 10% annually for three years but KMP now monitor revenue against their latest forecast of 8% annual revenue growth, the entity would still—within the core time period—disclose actual revenue information KMP receive, even though KMP have stopped reviewing performance against the KOT.

Disclosing performance information for as long as KMP review

13. Some respondents did not comment on time period for which an entity would be required to disclose performance information. Many respondents agree with requiring an entity to disclose performance information for as long as KMP review that information. They say this would be in line with the management approach and can provide useful information. Some respondents say such an approach offers flexibility because an entity can stop disclosing information if management stop reviewing the information because the information is no longer important.

14. On the other hand, some respondents disagree for various reasons:

    (a) some respondents suggest not requiring an entity to disclose performance information indefinitely. They say information about the performance of a business combination would not be relevant after a period of time and should not be required after that time. Some of these respondents suggest allowing an entity to stop disclosing this information when:

        (i) management no longer considers the information to be relevant for users; or

        (ii) after a specified period (for example, 2–5 years).

    (b) one respondent says requiring an entity to disclose performance information for as long as management reviews that information is vague and could be difficult to apply.

    (c) one respondent say performance information is so important that an entity should be required to disclose that information even if management does not monitor the information.

    (d) one respondent says the proposal could disincentivise management from monitoring the performance of a business combination.

Disclosure within core time period

Disclosing the fact and reason for not starting, or stopping to review performance information

15. Most respondents agree that entities should be required to disclose the fact and reasons if KMP do not start reviewing (and do not plan to review), or if they stop reviewing a KOT within the core time period (see paragraph 11). They say the proposal would provide transparency.

16. Some respondents disagree and say:

    (a) requiring entities to disclose the reason for not starting to, or stopping to review performance information could result in unhelpful, boiler plate information. They suggest requiring an entity to disclose only the fact and not the reason.

    (b) the requirement could force management to change how they manage an entity.

The core time period

17. Some respondents agree with the two-year core time period proposed (see paragraph 11(b)). They say this time period is practical and provides a reasonable timeframe for evaluating the performance and outcomes of a business combination without imposing excessive demands. They say demand for information about a business combination typically falls after a few years, and that 2 years appears to be about the right length of time.

18. Some other respondents disagree:

    (a) a few say two years is too short. They say large and complex business combinations, such as those relating to infrastructure and extractive industries often take longer than 2 years to evaluate.

    (b) a few say two years is too long. They say entities often integrate acquirees soon after a business combination, often within a year.

19. Some respondents say the requirements relating to time period for disclosing performance information are too complex. It is unclear why the IASB would require an entity to disclose performance information for up to the end of two years. In their view, this requirement is inconsistent with goodwill having an indefinite useful life. Some of these respondents suggest removing the requirement to disclose information if KMP do not review the performance of a business combination but continue to receive that information within the core time period (see paragraph 11(c)). In their view:

    (a) information not reviewed by management to assess the performance of a business combination would not be useful; and

    (b) the requirement would be difficult to implement because KMP typically have access to all information and it would be difficult to tell whether KMP still 'receive' that information.

Other feedback on disclosing performance information

20. Many respondents provide feedback and suggestions on other aspects of performance information, including:

    (a) integration of acquiree (paragraphs 21–23); and

    (b) other feedback on performance information (paragraphs 24–26).

Integration of acquiree

21. Paragraph BC146–BC147 of the Basis for Conclusions state:

    > BC146 The preliminary views in the Discussion Paper took into account situations in which an acquired business is integrated. The IASB decided to follow the same approach in developing its proposals in this Exposure Draft. In particular, the IASB expects that, for a strategic business combination, even if management's intention is to quickly integrate the acquired

business into an entity's existing business, the entity's key management personnel are likely to be reviewing some information to assess the performance of the business combination—for example by using information about the combined business.

BC147 The IASB's proposals:

(a) follow a management approach—if an entity's management intends to review information about a combined business to assess the performance of the business combination, then this information is what an entity would be required to disclose;

(b) would not require an entity to create information about the acquired business in isolation if its management assesses the performance of a business combination in a different way. If an entity does not review the performance of the business combination because of integration, it would be required to disclose that fact.

22. Some respondents express concerns about integration, saying it would be difficult to track and report the performance of a business combination in isolation.

23. A few stakeholders acknowledge and welcome the clarifications in the Exposure Draft. However, these respondents say information about the performance of the combined business might not be representative of the performance of the business combination and could confuse and mislead users.

Other feedback on performance information

24. Some respondents suggest requiring an entity to disclose additional information about the performance of a business combination, including:

(a) the basis for measuring the achievement of a KOT;

(b) a reconciliation of targets and actual performance figures to measures defined in IFRS Accounting Standards;

(c) if management revises its internal plan, the updated management KOTs for the business combination; and

(d) when a business combination is not meeting management's target, the estimated amount of deviation from the original target.

25. Some respondents request clarifying various aspects of the proposals to require disclose of performance information:

(a) an entity may have multiple acquisition-date objectives for a business combination and it is unclear how an entity should determine which of those objectives are key objectives.

(b) how an entity should determine whether the performance of a business combination is, in subsequent periods, meeting the KOTs.

(c) IFRS 18 *Presentation and Disclosure in Financial Statements* requires an entity to disclose management-defined performance measures. A few respondents suggest clarifying the relationship between KOTs and management-defined performance measure for an entity because the metrics for these two measures may often, but not always, be the same.

26. Some respondents suggest providing illustrative examples demonstrating how an entity might disclose the achievement of key objectives or targets that are qualitative or based on measures not defined in IFRS Accounting Standards.