Staff paper

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IASB® meeting

Date	**December 2024**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Expected synergy information**
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Purpose and structure of this paper

1. As Agenda Paper 18 for this meeting 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; and
   (b) this paper summarises feedback specific to the proposed requirement to disclose quantitative information about expected synergies.

2. The paper contains:
   (a) key messages (paragraphs 3–5);
   (b) background (paragraphs 6–7);
   (c) feedback summary (paragraphs 8–25); and
   (d) question for the IASB.

Key messages

3. Some respondents agree and most respondents disagree with the proposed requirements to disclose quantitative information about expected synergies in the year of acquisition in financial statements.

4. The respondents who agree, and a few who disagree, say the information would be useful and could help users assess the potential effect of a business combination on the entity's performance.

5. In addition to reasons discussed in Agenda Paper 18B for this meeting, respondents who disagree say expected synergies would be subjective and difficult to quantify with precision. Some respondents say the cost to quantify expected synergies would exceed the benefits to users. A few also say this information might not be available at the time of a business combination.

Background

6. The Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (Exposure Draft) proposed requiring an entity to:

   (a) describe expected synergies from a business combination by category (for example, revenue synergies, cost synergies and each other type of synergy);

   (b) disclose for each category of synergies:

      (i) the estimated amounts or range of amounts of the expected synergies;

      (ii) the estimated costs or range of costs to achieve these synergies; and

      (iii) the time from which the benefits expected from the synergies are expected to start and how long they will last.

7. An entity would be required to disclose the information in paragraphs 6(a) and 6(b) (expected synergy information) for each business combination.[1]

Feedback summary

8. This section summarises:

   (a) whether to require disclosure of expected synergy information (paragraphs 9–21) including:

      (i) reasons for agreeing (paragraphs 10–11); and

      (ii) reasons for disagreeing (paragraphs 12–21);

   (b) feedback on specific aspects of the proposed requirement to disclose expected synergy information (paragraph 22); and

   (c) other feedback (paragraphs 23–25).

Whether to require disclosure of expected synergy information

9. Some respondents (including most users and user groups) agree with the proposed requirement to disclose expected synergy information. However, most respondents (including almost all preparers and preparer groups and accounting firms) disagree.

Reasons for agreeing

10. Respondents who agree say expected synergy information:

   (a) would be valuable, relevant and useful in assessing the potential performance of a business combination;

   (b) may be costly to disclose but the benefits would justify the costs;

[1] Paragraph B65 of IFRS 3 would require an entity to disclose this information in aggregate for individually immaterial business combinations occurring during the reporting period that are material collectively.

(c) should be available to entities because the information is used to evaluate potential business combinations;

(d) is sometimes disclosed outside financial statements, for example, in a press release. One user says large entities in their jurisdiction disclose and track expected synergies for 3 years;

(e) would help ensure that acquirers recognise other separately identifiable intangibles, although the option to disclose a range as opposed to a point estimate may result in less useful information; and

(f) may temper management's over-optimism when pursuing business combinations.

11. A few respondents who disagree acknowledge expected synergy information could be useful.

Reasons for disagreeing

12. Agenda Paper 18B for this meeting discusses some of the main reasons for disagreeing with requiring expected synergy information in financial statements. These included:

(a) conceptual reasons (paragraphs 20–21 of Agenda Paper 18B);

(b) auditability and expectations gap (paragraphs 22–31 of Agenda Paper 18B);

(c) commercial sensitivity and litigation risk arising from disclosing forward-looking information (paragraphs 32–40 of Agenda Paper 18B); and

(d) monetary costs (paragraphs 41–43 of Agenda Paper 18B);

13. Specifically for the expected synergy information, respondents say:

(a) information needed might not be available (paragraph 16);

(b) expected synergies can be challenging to estimate (paragraphs 17–19); and

(c) expected synergy information might not be useful (paragraphs 20–21).

14. Some respondents suggest not requiring expected synergy information and instead enhancing existing requirements to disclose qualitative information about expected synergies.[2]

15. A few users and user groups disagree with requiring expected synergy information because the information is forward-looking and of limited use. They also say there might be a lack of comparability between entities because 'synergy' has not been defined.

Information might not be available

16. Some respondents say expected synergy information might not be available because:

    (a) entities might not have a well-designed and consistent way to measure expected synergies, and any calculation of expected synergies might vary from case to case depending on the level and quality of information available about the target at the date of acquisition, objectives, assumptions applied;

    (b) the entity might acquire another business without specifically calculating expected synergies (for example, in a distress sale);

    (c) detailed information relevant to calculating expected synergies might sometimes be made available only after the business combination, which might lead to changes in earlier estimates; and

    (d) it might be difficult to isolate the effect of expected synergies if expected synergies are not tracked separately or are tracked at an overall group level.

Estimation challenges

17. Some respondents say expected synergies are difficult to estimate or quantify. Some say estimating synergies involves judgement and can be subjective. A few say expected synergies are uncertain by nature.

[2] Paragraph B64(e) of IFRS 3 requires an entity to disclose a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

18. These respondents also say:

(a) it is difficult to estimate expected synergies with precision especially if those synergies arise from a combination of technologies, increased market share, or quick integration of the acquirer and acquiree; and

(b) it might be difficult to distinguish revenue or cost synergies resulting from a business combination from organic growth or operational efficiencies unrelated to the business combination.

19. One respondent says goodwill cannot be separately identified and, by definition, its amount cannot be measured by category or how long it may last. The respondent says since synergies typically constitute goodwill, requiring the measurement of synergies by category and disclosure of their duration would be contrary to the definition of intangible assets in IAS 38.

Usefulness of information

20. Respondents say expected synergy information would not be useful. They say:

(a) the lack of a definition of 'synergy' could lead to a lack of comparability between entities (paragraph 22(e)) (some respondents);

(b) requiring an entity to disclose expected synergy information only in the year of acquisition with no follow-up in future reporting periods would not be useful because investors need to see the result of expected synergies to assess the success of the business combination (some respondents);

(c) the judgemental and subjective nature of expected synergies (explained in paragraphs 17–19) means users cannot rely on expected synergy information (a few respondents);

(d) expected synergies might change between the acquisition date and the next reporting date so acquisition-date synergies may not be useful at the reporting date (a few respondents); and

(e) expected synergies can misleading or speculative (a few respondents).

21. A few standard-setters say users in their jurisdiction say expected synergy information would be of limited value.

Feedback on specific aspects of the proposed requirement

22. The table below summarises feedback on specific aspects of the proposed requirement to disclose expected synergy information. Many respondents did not comment on all aspects of the proposed synergy information. In order to show the level of feedback for each aspect, we quantified feedback in the table by reference to all respondents.[3]

Topic	Feedback summary
(a) Categories of synergy (see paragraph 6(a) of this paper)	A few standard-setters support the proposed aggregation of expected synergies by category. They say: (a) the proposal strikes the right balance between requiring an entity to disclose information and maintaining confidentiality of sensitive information; (b) the proposal will address some preparer concerns raised during their outreach; and (c) requiring more detailed cost synergies, such as employee-related cost synergies could be commercially sensitive. One organisation representing a group of securities regulators suggests requiring an entity to describe the expected synergies included in each category to provide additional transparency for users. A few respondents do not support the requirement to quantify expected synergies aggregated by category.

[3] As paragraph B2 of Agenda Paper 23A of the IASB's October 2024 meeting explains, ordinarily feedback is quantified by reference to the number of respondents who commented on a particular issue.

Topic	Feedback summary
	They disagree with disclosing synergies by category for similar reasons to disagreeing with quantifying synergies at all (paragraphs 12–21).
(b) Estimated amount or range of amounts of expected synergies (see paragraph 6(b)(i))	A few respondents explicitly agree with the proposal to allow entities to disclose a range of amounts of expected synergies. A few respondents request clarifying at what point in time expected synergies should be calculated (at the time of acquisition, or at the time of preparing disclosures and calculating goodwill). One respondent suggests allowing the acquirer to update expected synergy information if information comes to light during the measurement period.[4]
(c) Estimated costs to achieve synergies (see paragraph 6(b)(ii))	A few respondents disagree with the proposed requirement to disclose the estimated costs or range of costs to achieve synergies. They say it would be: (a) challenging to estimate and the information required to make the estimate might not be available; (b) so commercially sensitive that it should not be disclosed in financial statements; and (c) difficult to disclose any restructuring-related information before making public announcements.[5]

[4] The measurement period is the period after the acquisition date during which the acquirer may retrospectively adjust the provisional amounts recognised for a business combination. (IFRS 3 paragraphs 45–50)

[5] A few of the respondents who provided the feedback in (b) and (c) provided feedback on the exemption. Agenda Paper 18F to this meeting discusses feedback on the exemption.

Topic	Feedback summary
	One user representative group says information about estimated costs to achieve expected synergies would be useful.
(d) Timeframe (see paragraph 6(b)(iii))	A few respondents explicitly agree with the requirement to disclose the time from which the benefits expected from the synergies are expected to start and how long they will last. However, a few disagree saying the information would be subjective, challenging to determine and costly.
(e) Definition of 'synergy'	The IASB considered but decided not to define 'synergy' (see paragraph BC160 of the Basis for Conclusions to the Exposure Draft). As paragraph 15 explains, some respondents say not defining 'synergy' could lead to diversity in how entities determine expected synergies and consequently, lack of comparability across entities. A few express concerns that expected synergy information might not be calculated based on IFRS Accounting Standards. However, a few respondents explicitly agree with not defining 'synergy' and say the term is widely understood. They say entities currently identify expected synergies in an appropriate manner in order to meet the requirement in IFRS 3 to disclose qualitative information about expected synergies[6].

[6] See the footnote to paragraph 14.

Other feedback

23. With respect to the population of business combinations which an entity would be required to disclose expected synergy information about (see paragraph 7):

    (a) some respondents, particularly preparers and preparer groups suggest requiring expected synergy information only for strategic business combinations.

    (b) some respondents say that often expected synergies do not drive the acquisition price or contribute to goodwill. They also say that there are no, or immaterial expected synergies in some business combinations. These respondents suggest either not requiring this information for such business combinations or clarifying how to apply the requirements in these situations.

    (c) a few respondents disagree with the proposal to disclose expected synergies in aggregate for individually immaterial business combinations occurring during the reporting period that are material collectively. They say the information would be onerous to track, might not be available and might not be useful.

24. A few respondents who agree with quantifying expected synergies suggest also requiring entities to disclose information about the extent to which those expected synergies are realised in subsequent reporting periods.

25. Other suggestions include:

    (a) requests for application guidance and illustrative examples (some respondents) on:

        (i) the definition and scope of ‘synergy’ (see paragraph 22(e));

        (ii) how to estimate and categorise synergies; and

        (iii) situations in which expected synergies are non-quantitative (for example, a timing synergy that cannot be quantified).

    (b) clarifying whether to disclose synergies management expects to derive from the business combination or only expected synergies included in any recognised goodwill (a few respondents). These respondents say an entity might, for example, not recognise goodwill in a bargain purchase business combination but may still expect synergies from that business combination. One of these respondents says the proposed expected synergy requirements imply that expected synergies exist only if there is recognised goodwill.

(c) requiring an entity to disclose only expected synergy information that is reviewed by key management personnel (one accounting professional body).

(d) clarifying that any difference between goodwill recognised and expected synergies does not necessarily mean an overpayment (one respondent).

Question for the IASB
Do IASB members have any questions or comments on the feedback in this agenda paper?