
IASB[®] meeting

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Project	Business Combinations—Disclosures, Goodwill and Impairment
Topic	Exemption from some disclosure requirements
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Purpose and structure of this paper

1. As Agenda Paper 18 for this meeting explains, this paper summarises feedback on the proposed exemption from some disclosure requirements in the Exposure Draft [*Business Combinations—Disclosures, Goodwill and Impairment*](#) (Exposure Draft).
2. The paper is structured as follows:
 - (a) key messages (paragraphs 3–5);
 - (b) background (paragraphs 6–12);
 - (c) feedback summary (paragraphs 13–43); and
 - (d) question for the IASB.

Key messages

3. Almost all respondents agree with allowing an exemption from disclosing some of the required information in specific situations. However, many of these respondents say the scope of the proposed exemption is restrictive and does not cover all situations in which information about the performance of strategic business combinations and quantitative information about expected synergies would be so commercially sensitive

that it should not be disclosed in financial statements. These respondents suggest expanding the exemption to cover additional situations.

4. A few respondents (including user groups, regulators and national standard-setters) say the proposed exemption would be subjective and open to interpretation and possible misuse. These respondents generally suggest further restricting the scope of the exemption and clarifying how often the IASB expects the exemption to be used.
5. A few respondents say the IASB should not provide any exemption.

Background

6. In March 2020 the IASB published the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (Discussion Paper). Many stakeholders, particularly preparers, expressed concerns that some of the information an entity would be required to disclose if the preliminary views were implemented would be so commercially sensitive that its disclosure in financial statements should not be required.
7. The IASB investigated these concerns with preparers to obtain a better understanding. The IASB also discussed with users to understand what information about business combinations users need. The IASB brought together both groups of stakeholders to find solutions that would balance users' need for information and respond to some preparer concerns.
8. Following these discussions, the IASB decided to propose exempting an entity from disclosing some of the proposed information about the performance of strategic business combinations (performance information) and quantitative information about expected synergies from combining operations of the acquiree and the acquirer (expected synergy information) in specific situations (proposed exemption).

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9. The proposed exemption would apply to the disclosure of:
- (a) the acquisition-date key objectives and the related targets for a business combination;
 - (b) a qualitative statement of whether actual performance is meeting or has met the objectives and targets for a business combination; and
 - (c) expected synergy information.
10. The proposed exemption would not apply to the disclosure of:
- (a) the strategic rationale for a business combination¹; and
 - (b) the actual performance being reviewed to determine whether acquisition-date key objectives and the related targets are being met.
11. The IASB developed a principle underpinning the proposed exemption—that an entity be exempted from disclosing specified information (paragraph 9) if disclosure of that information can be expected to prejudice seriously the achievement of any of the entity’s acquisition-date key objectives for a business combination. To ensure the proposed exemption would be operational and enforceable, the IASB also proposed application guidance. Paragraph BC90 of the Basis for Conclusions on the Exposure Draft (Basis for Conclusions) summarises the proposed application guidance.
12. Question 3 in the Exposure Draft relates to proposed exemption. It asked:
- a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns.
 - b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate

¹ The IASB proposed to replace the requirement for an entity to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for a business combination. We will present feedback on this proposed requirement at a future IASB meeting.

circumstances? If not, please explain what application guidance you would suggest to achieve that aim.

Feedback summary

13. This paper summarises feedback on:
- (a) whether to provide an exemption (paragraphs 14–15);
 - (b) situations to which the exemption would apply (paragraphs 16–20);
 - (c) information to which the exemption would apply (paragraphs 21–24); and
 - (d) applying the proposed exemption (paragraphs 25–43).

Whether to provide an exemption

14. Almost all respondents agree with the need for an exemption to address preparers' concerns on commercial sensitivity. As paragraph 33 of Agenda Paper 18B for this meeting explains, users and user groups also agree that there could be circumstances in which disclosing information could harm an entity and that it would be appropriate to exempt an entity from disclosing that information.
15. However, a few respondents—including a few users and user groups— suggest not providing any exemption. They say the proposed exemption is likely to be misused because it would be difficult to assess its applicability to the entity and there would be diversity in how entities apply the exemption.

Situations to which the proposed exemption would apply

16. The IASB designed the exemption primarily to respond to preparers' concerns about commercial sensitivity. The IASB considered whether to allow the exemption to apply if an entity might be exposed to litigation risks that arise from disclosing what some stakeholders regard as forward-looking information. In the IASB's view, litigation risk arising from an entity failing to meet its acquisition-date key objectives for a

business combination because it disclosed the information would be addressed by the exemption.

17. The IASB considered but decided not to use the exemption to address litigation risk arising from the entity failing to meet its objectives for a business combination (a) because of factors outside the entity's control or (b) because management did not efficiently or effectively discharge its responsibilities. Paragraph BC84 of the Basis for Conclusions explains that litigation risk resulting from these circumstances:

...results from an entity failing to meet its acquisition-date key objectives for a business combination for reasons other than the disclosure of the information. In other words, it is not the disclosure of information that causes the entity to fail to achieve its acquisition-date key objectives. This risk is no different from litigation risk that arises from disclosing forward-looking information required by other IFRS Accounting Standards. For example, such a risk could arise from the measurement and disclosure of expected credit losses in accordance with IFRS 9 Financial Instruments, or from the disclosure of assumptions used in the impairment test required by IAS 36.

Requests for extending the exemption to cover more situations

18. Many respondents say the proposed exemption should also cover other situations, including situations in which disclosing the required information would:
- (a) affect the entity's negotiating position for future business combinations, contingent consideration, or restructuring initiatives.
 - (b) breach legal / regulatory requirements or non-disclosure / confidentiality agreements.
 - (c) expose the entity to litigation risk, including risks arising from an entity failing to meet its objectives (a) because of factors outside the entity's control or (b) because management did not efficiently or effectively discharge its

responsibilities. One respondent disagrees with the IASB's rationale in paragraph BC84 of the Basis for Conclusions (paragraph 17) and says an entity can base expected credit losses and impairment test assumptions on established profiles of the corresponding assets, which do not exist for goodwill.

- (d) expose the entity, or other entities within the group, to social or operational risks; for example, loss of a key supplier or key employees.
- (e) damage or disadvantage the acquiree. The respondent who suggested this says '...if the acquiree is a public company, there is a risk of causing confusion among investors and stakeholders and affecting the activities of the acquiree in the capital markets from the perspective of consistency between the disclosure of the acquiree's own financial results and those of the acquirer.'

19. Respondents from one jurisdiction say an entity should be able to apply the exemption if relevant information is disclosed outside the financial statements in accordance with local regulations.

Requests for restricting the scope of the proposed exemption

20. A few respondents suggest restricting the scope of the proposed exemption. For example, one accounting professional body agrees with the use of the exemption to address concerns about litigation risk arising from disclosing the information. However, the respondent says the exemption could be applied broadly in some jurisdictions where litigation risk is high and suggests providing application guidance and illustrative examples.

Information to which the proposed exemption would apply

21. Paragraphs 9–10 explain which information the proposed exemption can, and cannot, be applied to. Respondents suggest allowing entities to also apply the proposed exemption to:

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- (a) disclosure of actual performance in subsequent periods (some respondents) (paragraph 22); or
 - (b) all performance information, in the year of acquisition and subsequent periods (a few respondents).
22. A few respondents say if an entity applied the exemption to not disclose the acquisition-date key objectives and targets (KOTs) then disclosing actual performance against those targets in subsequent periods (because the exemption cannot apply):
- (a) could be misleading and could lead to users speculating on the information the exemption was applied to; and
 - (b) would allow users to work backwards and identify the KOTs that—applying the exemption—had not been previously disclosed, defeating the purpose of the exemption.
23. A few respondents ask for clarification on how an entity can disclose actual performance when it applied the exemption to acquisition-date KOTs in a previous period.
24. A few respondents asked whether the exemption can be applied to disclosure of non-financial information such as achievement of certain innovations, research and development projects, or ESG related commitments.

Applying the proposed exemption

25. Some respondents say the proposed exemption would be subjective, involve judgement and be difficult to apply. Many respondents across all stakeholder groups request illustrative examples/ application guidance to ensure consistent application in appropriate circumstances.
26. Some respondents suggest listing or illustrating specific situations in which an entity can apply the exemption. A few respondents say this approach could be more useful

than providing application guidance highlighting situations that do not qualify for the exemption.

27. The paragraphs below discuss feedback specific to the application of the exemption. In particular, these paragraphs discuss:
- (a) auditability of the exemption (paragraph 28);
 - (b) use of the term ‘seriously prejudicial’ (paragraph 29);
 - (c) clarifying how often the IASB expects the exemption to be applied (paragraph 30);
 - (d) feedback on the proposed application guidance (paragraphs 31–42); and
 - (e) other suggestions (paragraphs 43).

Auditability

28. Some respondents—including most accounting firms and preparers—express concerns on the auditability of the exemption. They say:
- (a) it could be difficult for preparers to provide evidence that the exemption is applicable and for auditors to assess the exemption’s applicability;
 - (b) the subjective nature of the exemption and judgement involved could lead to extended discussions between auditors and preparers;
 - (c) assessing the exemption could be burdensome for auditors and increase audit risk and cost; and
 - (d) additional application guidance (paragraphs 31–42) could mitigate some of the concerns on auditability.

Use of the term ‘seriously prejudicial’

29. Some respondents (including preparers and preparer groups, user groups, regulators and national standard-setters) say the proposed exemption would be subjective and the term ‘seriously prejudicial’ is open to interpretation and possible misuse and could be

challenging to audit. These respondents also say a broad interpretation of the term could lead to boilerplate disclosures. Respondents request application guidance or examples on specific circumstances that would and would not be considered ‘seriously prejudicial’.

Clarifying how often the IASB expects the exemption to be applied

30. Some respondents, particularly standard-setters, accounting professional bodies and regulators, suggest including a statement similar to the requirement in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and specifying that the exemption should be used only in ‘extremely rare circumstances’. They say such a statement would restrict entities from applying the exemption more often than is necessary.

Feedback on the proposed application guidance

31. The IASB proposed application guidance to ensure the proposed exemption would be operational and enforceable. Respondents provided feedback on specific aspects of the proposed application guidance which the paragraphs below discuss.

Disclosing the reason for applying the proposed exemption

32. The IASB proposed—as part of the application guidance accompanying the proposed exemption—requiring an entity applying the proposed exemption to an item of information to disclose the fact that it has applied the exemption and the reason for doing so.
33. A few respondents explicitly support requiring an entity to disclose the reason for applying the exemption because the information would be useful and would help investors assess management’s intentions. However, some respondents say disclosing the fact that an entity has applied the exemption and the reasons it has not disclosed the item of information could also be commercially sensitive (for example, if it related to unannounced employee redundancies) and consequently, should not be required.

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34. A few respondents say entities' reasons for applying the exemption could be boilerplate.
 35. A few respondents request illustrating how entities could disclose the reason for availing the exemption.

Disclosing information in a different manner

36. The IASB proposed—as part of the application guidance accompanying the proposed exemption—requiring an entity to consider whether, instead of applying the exemption, it is possible to disclose information in a different way—for example, at a sufficiently aggregated level—without prejudicing seriously the entity's key objectives for the business combination.
37. Two standard-setters explicitly agree with this proposal. Users in one of their jurisdictions say aggregated disclosures (similar to those required by IFRS 8 *Operating Segments*) would still provide useful information. A few respondents—particularly users—say aggregated information aggregated in total for all categories of expected synergies would be preferable to no information.
38. A few respondents ask for application guidance/ illustrative examples to help entities better understand how to apply this proposal.
39. However, some respondents (particularly standard-setters and regulators) express concerns about this proposal and say:
 - (a) the proposal could lead to entities disclosing less useful information. For example, one standard-setter says if revenue synergies were commercially sensitive but cost synergies were not, an entity would, applying this proposal only report total synergies. However, users in their jurisdiction would prefer to receive only the cost synergy information rather than the aggregated synergy information.

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- (b) aggregation of information may not be possible for entities with one or two business combinations and would not address their concerns about commercial sensitivity.
40. A few respondents:
- (a) request clarifying how information could be aggregated; and
 - (b) suggest requiring an entity to explain the fact that it is disclosing the information in a different way when it aggregates information applying this proposal.

Reassessing the applicability of the proposed exemption

41. The IASB proposed—as part of the application guidance accompanying the proposed exemption—to require an entity to reassess in each reporting period whether the item of information still qualifies for the exemption. If it is no longer appropriate to apply the exemption, the entity would be required to disclose the item of information previously exempted.
42. A few respondents say reassessing whether the exemption remains applicable in subsequent periods could lead to additional cost and disclosure of information which would no longer be useful. A few respondents suggest specifying the circumstances in which information previously not disclosed applying the exemption should be disclosed in a subsequent period.

Other suggestions

43. A few respondents provide suggestions, for example:
- (a) one organisation representing a group of securities regulators suggests considering the exemption provision in the European Sustainability Reporting Standards which provides explicit conditions to apply that exemption and requires an entity to make every reasonable effort to ensure the overall relevance of the disclosure in question is not impaired;

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- (b) defining ‘sensitive information’;
 - (c) including factors such as the nature of the information, materiality, potential effect on stakeholders, and the feasibility of alternative disclosure methods for an entity to consider when assessing the exemption’s applicability; and
 - (d) monitoring the application of the exemption after it is effective to assess whether the exemption is working as intended.

Question for the IASB

Do IASB members have any questions or comments on this feedback?