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Staff paper

Agenda reference: 3

Capital Markets Advisory Committee

Global Preparers Forum

Date	**13 June 2024**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Exposure Draft outreach**
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Purpose of this session

To seek CMAC and GPF members' views on the following aspects of the IASB's proposals included in the Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment*:

- Identifying strategic business combinations
- Exemption
- Restructuring and asset enhancement cash flows

Slides 4–7 detail the questions that we would like CMAC and GPF members' feedback on.

Information for CMAC and GPF members

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Questions for CMAC and GPF members

Identifying strategic business combinations (slide 18)

We would like to understand whether the IASB has identified the appropriate quantitative and qualitative thresholds to identify a strategic business combination.

1

For GPF members:

a) Approximately what proportion of your entity's total business combinations in the last few years would have been captured by the proposed quantitative and qualitative thresholds?

b) Do you think the proposed thresholds would appropriately capture what you view as being the most important/ strategic business combinations for your entity? Why or why not?

2

For CMAC members:

a) Would the proposed thresholds identify the business combinations that you are interested in receiving performance related information for?

b) If not, what additional/ different quantitative or qualitative thresholds would you suggest considering?

Proposed disclosures and exemption (slides 14–20)

We would like to know if the proposed disclosures about the performance of business combinations and expected synergies—when considered with the proposed exemption—would provide users with useful information about business combinations at a reasonable cost. In particular, we would like to understand:

1

For GPF members:

a) Would the proposed disclosures, when considered together with the proposed exemption, provide useful information about business combinations at a reasonable cost?

b) Can you give examples of situations in which:

   i. you would have been able to apply the proposed exemption?

   ii. the exemption should, in your view, be available but to which you would not be able to apply the exemption?

2

For CMAC members:

a) Would the proposed disclosures, when considered together with the proposed exemption, provide useful information about business combinations at a reasonable cost?

b) Do you agree with GPF members in terms of the situations where an exemption is needed?

c) If not, which of those situations do you think the exemption should not be applicable for? Why not?

Restructuring and asset enhancement cash flows (slide 28)

1

For GPF members:

a) Do you think the change would help reduce the complexity of the impairment test?

b) Can you give examples of additional cash flows that would be included applying the proposals?

2

For CMAC members:

a) IAS 36 requires an entity to disclose key assumptions used in performing an impairment test. Would you need additional information about restructuring or asset enhancement cash flows?

Background information

Summary of the Exposure Draft

Objective

- Improve information entities provide about their business combinations at a reasonable cost

Package of proposals

- A package of improved disclosure requirements in IFRS 3 *Business Combinations*
- Changes to the impairment test of cash-generating units containing goodwill in IAS 36 *Impairment of Assets*

Comment period

- Comments requested by 15 July 2024

Better information for better decisions
– increases transparency and usefulness of information

Project history

- **2013–2015**: Post-implementation review of IFRS 3 *Business Combinations*
- **March 2020**: Published Discussion Paper
- **2021–2023**: Consideration of feedback
- **March 2024**: Published Exposure Draft
- **15 July 2024**: Comment letter deadline

Package of proposals

1 Proposed changes to improve information about acquisitions

- Disclose information used by key management personnel about performance of **strategic acquisitions**
    - Key objectives, targets in year of acquisition
    - Performance against key objectives, targets in subsequent periods
- Other improvements to existing disclosures, including disclosing quantitative information about expected synergies
- **Exempt** an entity from disclosing some information in specific circumstances

2 Proposed changes to goodwill impairment testing

- Clarify how an entity allocates goodwill to cash-generating units (CGU)
- Require entities to disclose which reportable segment contains a CGU
- Simplify value in use calculation

How the package responds to concerns

Information about an acquisition's performance

- Require an entity to disclose information about the performance of an acquisition
- Balance benefit and costs through targeting only strategic acquisitions and proposing an exemption

Concerns about the impairment test

- Proposed disclosure requirements about performance of an acquisition reduce reliance on the impairment test
- Reduce shielding through clarifying how an entity allocates goodwill for testing
- Changes to calculation of value in use to reduce cost

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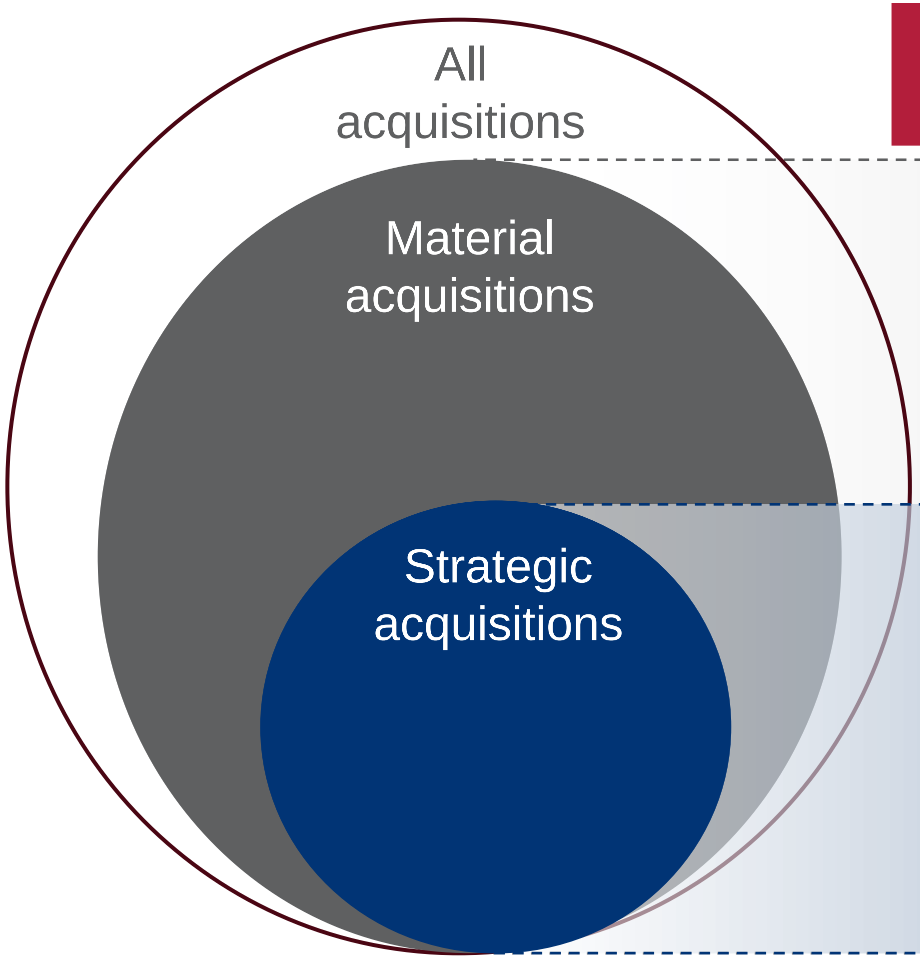
Improving disclosures about business combinations

Summary of key disclosure proposals



	In year of acquisition	In years after acquisition
Material acquisitions	▪ Expected synergies* ▪ Strategic rationale for the acquisition	✕
Strategic acquisitions	▪ Key objectives and targets*	▪ Actual performance of the acquisition ▪ Statement of whether the actual performance is meeting expectations (e.g. interim targets)*

*Exemption available if requirements are met

What did the IASB consider in developing the proposals?

Balancing need for greater information with the costs to prepare it

Acquisitions are typically a large and risky use of capital. Investors need better information to help assess:

- the price paid;
- why management paid that price; and
- subsequently, whether the acquisition is meeting management's expectations

Some investors use impairment losses on goodwill as a signal of an unsuccessful acquisition and sometimes impairment losses are recognised too late.

Investors need for greater information

Information about the performance of acquisitions and information about expected synergies could be commercially sensitive and forward-looking.

Companies should not be required to disclose this information in financial statements.

Costs for companies to provide the information

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Performance of acquisitions

What information should be disclosed?

- **Key objectives** and **targets** (see slide 22 for an illustrative example)
- **Performance** against key objectives and targets (see slide 23 for an illustrative example)

Which acquisitions do companies need to provide the information for?

Strategic acquisitions (see slide 18)

How to address concerns companies may have?

Exemption for some items of **commercially sensitive** information

Information to be disclosed

What information?

- Key objectives and targets for a business combination
- Subsequent performance against those key objectives and targets

Disclosure based on information reviewed by an entity's **key management personnel**

For how long?

Information required for **as long as** key management personnel **review the performance of that business combination**

Additional information required if:
- key management personnel **do not start** reviewing the performance of a business combination
- key management personnel **stop** reviewing the performance of a business combination before the end of the second year after the year of acquisition

Strategic business combinations

Intention: Capture business combinations for which failure to meet any one of an entity's key objectives would put the entity at serious risk of failing to achieve its strategy for maintaining or developing the entity's business model.

Acquisitions that meet any one of the below quantitative or qualitative thresholds would be 'strategic'

Quantitative thresholds	Qualitative thresholds
Revenue, **operating profit** or **assets (including goodwill)** of acquired business constitutes at least 10% of the acquirer's comparative amounts	Business combination results in entity entering a **new major line of business or geographical area of operation**

Expected synergies

Information to be disclosed

In year of acquisition only, information aggregated by category about:

- Expected **synergies**
- **Cost** to achieve synergies
- Expected **timeframe**

(see slide 24 for an illustrative example)

Population of business combinations

All **'material'** business combinations

How to address concerns companies may have?

Exemption for some items of **commercially sensitive** information

Exemption

Principle

An entity may be exempted from disclosing some information if doing so can be expected to prejudice seriously an entity’s objective for a business combination

Application guidance

For example:

- disclosing the reason for applying the exemption for each item of information
- factors to consider in identifying the appropriate circumstances for applying the exemption
- cannot apply exemption if information already disclosed publicly elsewhere

Responds to preparer concerns

In particular, concerns about commercial sensitivity and some concerns about forward-looking information

Strategic business combination—Acquisition-date information

Strategic rationale	As a result of the acquisition, AC expects to be the leading provider of data networking products and services in Canada and Mexico, contributing to AC's strategy of being the leading provider of data networking products and services in North America. AC also expects to reduce costs through economies of scale.

These slides illustrate only some of the new disclosures that would be required applying the proposed amendments. An entity would also be required to disclose other information about the business combinations that is required by IFRS 3.

Strategic business combination—Acquisition-date information

Key objectives and related targets

AC plans to integrate TC into its North American operations. In line with AC's strategy, management's key objectives and related targets for this business combination are:

- to increase annual revenue and profit of AC's North American operations by 45% and 40% respectively by 20X4 (compared to 20X1).
- to launch product X by 20X4
- to increase AC's market share in North America to approximately 20% by 20X4 (from approximately 15% in 20X1).

An entity might be exempt from disclosing information about a key objective and related target (for example, the key objective to launch product X by 20X4) in some situations.

Strategic business combination—Subsequent periods

Actual performance

For the financial period ended 31 December 20X2, AC increased:

- its annual revenue by 20% and profit by 18% for the North American operations; and
- its market share to approximately 16% in North America.

Performance to date is in line with expectation.*

* An entity might be exempt from disclosing this information in some situations.

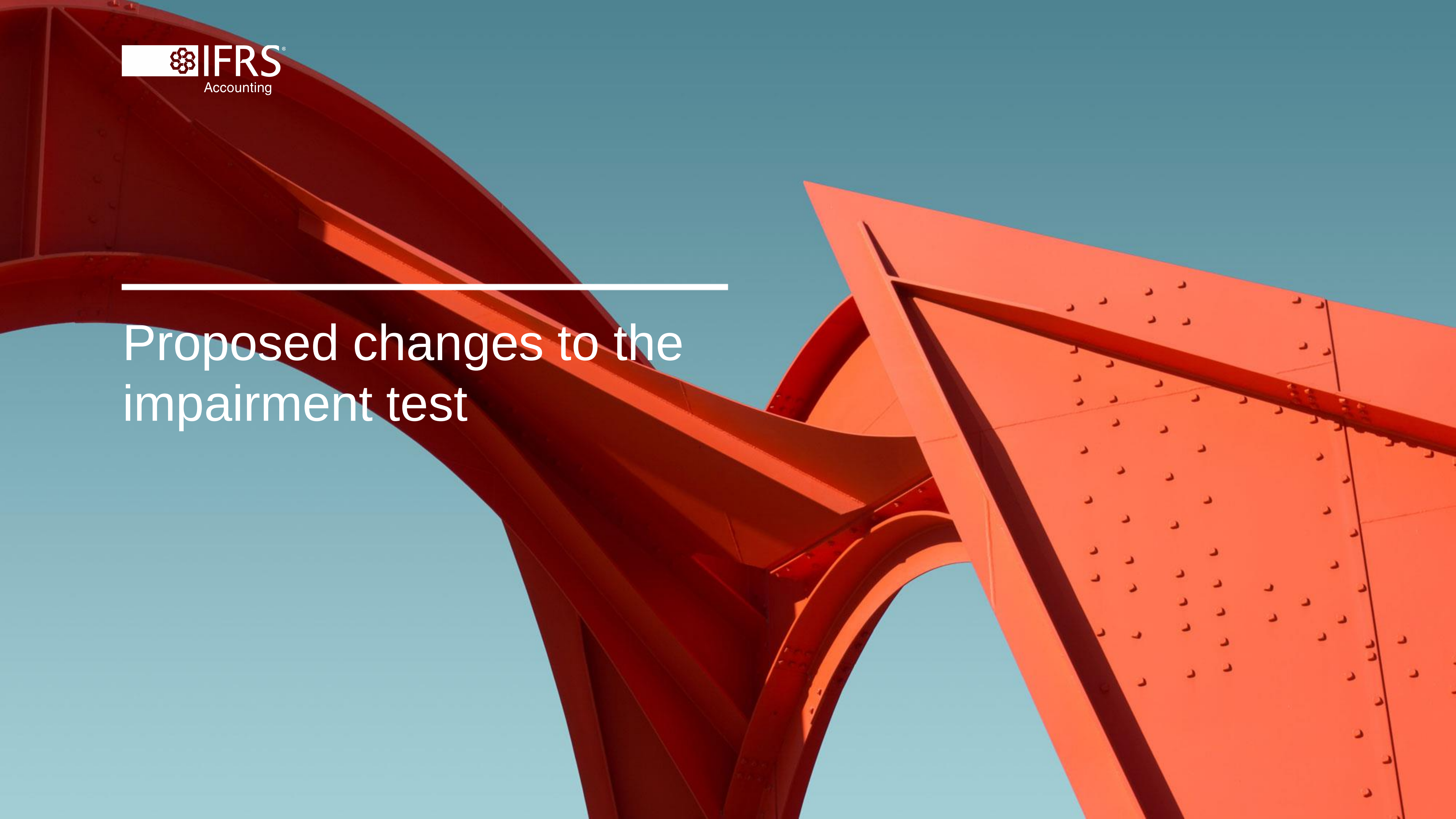
Synergies—Acquisition-date information

Expected synergies	The business combination is expected to generate recurring annual revenue synergies of CU80–CU100 and recurring annual cost synergies of CU100–CU125.
Cost to achieve synergies	The costs to achieve these synergies are expected to include recurring costs of CU15 to achieve the revenue synergies and a one-off cost of CU75 to achieve the cost synergies.
Expected timeframe	Management expects the benefit of the revenue synergies to start from 20X4 and the benefit from the cost synergies to be fully realised by 20X3.

Disclosure of expected synergies is only required at the acquisition date. An entity might be exempt from disclosing information about synergies in some situations.

Other proposed amendments to disclosure requirements in IFRS 3

Disclosure objectives	New disclosure objectives would require an entity to disclose: • the benefits an entity expects from a business combination when agreeing the price to acquire a business; and • for a strategic business combination, the extent to which the benefits an entity expects from the business combination are being met
Strategic rationale	Replacing the requirement for entities to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination



Proposed changes to the impairment test

Proposals

Effectiveness of the impairment test

Proposals to reduce:

- **shielding**; and
- **management over-optimism**

Cost and complexity of the impairment test

Changes to the calculation of **value in use** (focus of our discussion today)

The IASB decided not to reintroduce amortisation for subsequent accounting of goodwill.

Proposed changes to impairment test – Value in use (VIU) calculations

VIU calculation under current requirements	IASB proposal	IASB basis for proposed changes
A company is **not permitted** to include estimated cash flows expected to arise from: a) a future restructuring to which the entity is not yet committed (future restructuring); or b) improving or enhancing an asset's performance (asset enhancement).	Remove restriction on including cash flows from uncommitted future restructurings or asset enhancements	• to make the impairment test easier to understand, audit and enforce • to better align with management's forecast • to **reduce cost** for preparers and result in investors receiving more **relevant information**

*The impairment test compares the carrying amount to the higher of value in use and fair value less cost of disposal. A change in how VIU is calculated would not necessarily impact the amount of impairment loss an entity would need to recognise.

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