IFRS Accounting

Staff paper

Agenda reference: 18A

IASB® meeting

Date	**January 2025**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Other IFRS 3 disclosures**
Contacts	Akshaya Megharikh (akshaya.megharikh@ifrs.org)

Purpose and structure

1. As Agenda Paper 18 for this meeting explains, this paper summarises feedback on proposals to amend IFRS 3 *Business Combinations* in the Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (Exposure Draft) not discussed at the IASB's December 2024 meeting. In particular, this paper summarises feedback on the proposals to:

    (a) add new disclosure objectives (proposed paragraph 62A of IFRS 3);

    (b) replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for a business combination;

    (c) amend paragraph B64(q) of IFRS 3 to improve the information users of financial statements (users) receive about the contribution of an acquired business;

    (d) improve the information entities disclose about pension and financing liabilities assumed in a business combination; and

    (e) delete some disclosure requirements from IFRS 3.

2. Many respondents commented on these proposals. Feedback on each proposal is summarised in the sections below:

   (a) proposed new disclosure objectives (paragraphs 3–8);

   (b) strategic rationale (paragraphs 9–13);

   (c) contribution of the acquired business (paragraphs 14–32);

   (d) information about pension and financing liabilities (paragraphs 33–36); and

   (e) deletion of some disclosure requirements (paragraphs 37–40).

New disclosure objectives

Background

3. The IASB proposed adding two new disclosure objectives to IFRS 3 to respond to users' need for better information about business combinations. These disclosure objectives would require an entity to disclose information that helps users evaluate:

   (a) the benefits an entity expects from a business combination when agreeing on the price to acquire a business; and

   (b) for a strategic business combination, the extent to which the benefits an entity expects from the business combination are being obtained.

4. Paragraphs BC23–BC28 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for this proposal.

Feedback

5. Almost all respondents who comment agree with the proposed disclosure objectives.

6. A few respondents who agree suggest:

   (a) clarifying whether the term 'benefit' in the proposed disclosure objective is the same as 'expected synergies'.

(b) explicitly noting that the amended disclosure requirements (in particular amended paragraphs B64 and B67) do not provide an exhaustive list of all disclosures entities could report when complying with the objectives, to avoid boilerplate disclosures.

(c) amending the wording of the objective from ‘the benefits an entity expects from a business combination when agreeing on the price to acquire a business’ to ‘the benefits that an entity expects from a business combination when agreeing to acquire a business’. This is because an entity does not agree to a price in isolation but in conjunction with other related conditions, some of which may be as important as the price.

7. One preparer group agrees but says the disclosures proposed in the Exposure Draft might not fulfil the proposed disclosure objectives for reasons explained in Agenda Papers 18B–18E of the IASB’s December 2024 meeting—for example, because information about the performance of the combined business (when a business combination has been integrated) might not be representative of the performance of the acquired business.

8. A few respondents disagree, some of whom say the information required to meet these objectives should be provided outside financial statements[1].

Strategic rationale

Background

9. Paragraph B64(d) of IFRS 3 requires an entity to disclose its primary reasons for a business combination. The IASB proposes to replace that requirement with a requirement for an entity to disclose the strategic rationale for the business combination. The IASB expects the description of the strategic rationale to be broad

[1] Agenda Paper 18B for the IASB’s December 2024 meeting discusses feedback on requiring information about the performance of a business combination and quantitative information about expected synergies in financial statements.

(for example, 'to expand the entity's geographical presence in Region Z by acquiring Entity B, which trades in Region Z').

10. The intention of the proposal is to provide a clearer link between the objectives for a business combination and an entity's overall business strategy.

Feedback

11. Almost all respondents who comment agree with the proposed change.

12. A few respondents (including those who agree and disagree) say the proposed requirement is similar to current requirement and therefore expect little, if any, change in practice.

13. One respondent suggests using general terms, such as 'economic rationale' or 'commercial rationale' because the rationale for a business combination might not always be 'strategic'. Another respondent requests clarity on the definition of 'strategic rationale'.

Contribution of the acquired business

Background

14. Paragraph B64(q) of IFRS 3 requires an entity to disclose:

> (i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and
>
> (ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period (combined entity information).

15. The IASB proposes to amend paragraph B64(q) to improve the information users receive about the contribution of the acquired business. In particular, the IASB proposes:

    (a) to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss as defined in IFRS 18 *Presentation and Disclosure in Financial Statements*;

    (b) to explain the purpose of the requirement for combined entity information but add no specific application guidance; and

    (c) to specify that the basis for preparing combined entity information is an accounting policy.

16. Paragraphs BC166–BC177 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for these proposals.

Feedback

17. The following paragraphs discuss:

    (a) feedback on the proposal to specify that the amount of profit or loss is the amount of operating profit or loss (paragraphs 18–21);

    (b) feedback on the decision to not propose application guidance (paragraphs 22–23);

    (c) feedback on the proposal to specify that the basis for preparing combined entity information is an accounting policy (paragraphs 24–27); and

    (d) other feedback (paragraphs 28–32).

Operating profit or loss

18. Most respondents comment on the proposal to specify that the amount of profit or loss referred to is the amount of operating profit or loss as defined in IFRS 18. Most of these respondents agree but some disagree.

19. A few respondents who agree say the change would result in more relevant information. A few respondents who disagree say the information would not be useful and might not be available.

20. A few respondents who disagree say operating profit would not always be the most useful measure of profit on which to base the information. They say:

    (a) operating profit in IFRS 18 is after amortisation of intangible assets recognised applying IFRS 3, which may not be relevant when assessing an acquired business. The required disclosure might therefore be of limited use to users unless they have information to adjust for such amortisation (one respondent).

    (b) the definition of operating profit excludes operating results from investing activities, such as profit sharing from associates or joint ventures, and financing activities. This exclusion could lead to a presentation of operating profit/loss that does not fully align with the performance information users may want to receive for a business combination. The incomplete disclosure could also lead to deviation from the objective of this disclosure identified in BC411(b) of IFRS 3[2] (one respondent).

    (c) the IASB should consider also requiring disclosure of information based on 'investing profit or loss' because an acquired business may also have significant items classified in the investing section of the statement of operations, for example, investments in associates (one respondent).

    (d) an entity should be able to use a measure of profit or loss other than operating profit or loss if doing so would be more appropriate based on the nature of the entity's activities and the purpose of the business combination (one respondent).

[2] Paragraph 411 (b) of the Basis for Conclusions states that disclosure requirements in IFRS 3 were intended to provide the users of an acquirer's financial statements with information that enables them to evaluate, amongst other things, the financial effects of gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current period or in previous periods.'

21. One respondent says the proposal implies that the entity should disclose this information for all business combinations (including immaterial business combinations) that affect operating profit in a period. However, not all business combinations in the period may require disclosure due to materiality considerations.

Application guidance

22. As paragraph BC176 of the Basis for Conclusions on the Exposure Draft explains, the IASB decided against providing application guidance on how to prepare combined entity information because it would be difficult to provide guidance that would be applicable for all business combinations and would answer all application questions.

23. Many respondents comment on the IASB's decision to not provide specific application guidance. Most of these respondents agree with the decision. However, some say application guidance would be required to ensure consistency in application. One of these respondents says such application guidance should explain what proposed paragraph B64(q)(ii) means by developing an accounting policy 'that helps users … forecast future performance of the combined entity'.

Specifying that the basis for preparing combined entity information is an accounting policy

24. Most respondents provide feedback on the proposal to specify that the basis for preparing combined entity information is an accounting policy. Many of these respondents agree with the proposal and many others disagree.

25. Of the respondents who agree with the proposal, a few suggest:

    (a) clarifying that the expectation is for entities to disclose the accounting policy only to the extent that information is material; and

    (b) providing application guidance (paragraph 23 explains this suggestion)

26. The respondents who disagree with the proposal say it would be difficult to develop a consistent accounting policy for preparing combined entity information because the

information available to prepare the information varies by business combination. These respondents suggest requiring an entity to disclose the basis on which the entity has prepared combined entity information.

27. One preparer group recommends an exemption, to be used in rare circumstances, that would allow an entity to not disclose information required applying paragraph B64(q) of IFRS 3 when, for example, doing so would be misleading to users of the financial statements along with a statement to that effect.

Other feedback

28. A few respondents say combined entity information might not be useful (particularly in forecasting future performance of the combined entity), and cost of preparing the information would exceed the benefits to users. One respondent says combined entity information does not add value to users because such information has limitations and similar information of the acquiree could be available from other sources.

29. One respondent suggests specifying whether the amount of revenue and operating profit or loss should be the amount recognised in the acquiree's consolidated financial statements or the acquiree's standalone financial statements.

30. One respondent says the acquirer might not have access to the acquiree's financial statements relating to the period before it obtained control of the acquiree.

31. One user group says information about what an entity has acquired and paid is important for users and that existing disclosures about contribution information and consideration paid in IFRS 3 can be improved to provide users with more detailed information.

32. A few respondents suggest further changes to the existing requirements—for example:
    (a) requiring separate disclosure of depreciation, amortisation, impairment and capital expenditure;

(b) requiring separate disclosure of contribution information for each operating segment;

(c) requiring disclosure of contribution information for the previous year and interim periods; and

(d) removing or adjusting the exception from disclosing the information if doing so is impracticable.

Information about pension and financing liabilities

Background

33. Paragraph B64(i) of IFRS 3 requires an entity to disclose the amounts recognised for each major class of assets acquired and liabilities assumed in a business combination. The IASB proposes to:

(a) delete the word ‘major’ from paragraph B64(i) of IFRS 3; and

(b) add pension and financing liabilities as classes of liabilities assumed in the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3.

34. Paragraphs BC178–BC181 of the Basis for Conclusions on the Exposure Draft explain the IASB’s rationale for these amendments.

Feedback

35. Almost all respondents who comment agree with the proposal. One accounting professional body who agrees suggests defining ‘class’.

36. A few respondents disagree including:

(a) a few (particularly preparers and preparer groups) who say removing the word major could result in excessive disclosures or could lead to a misunderstanding about which assets and liabilities to disclose information for;

(b) one preparer who says the proposal would not provide additional useful information; and

(c) one user and one user group who suggest requiring entities to disclose all classes of assets acquired and liabilities assumed.

Deletion of some disclosure requirements

Background

37. The IASB proposes to delete from IFRS 3:

(a) paragraph B64(h)—information about acquired receivables;

(b) paragraph B67(d)(iii)—adjustments resulting from the subsequent recognition of deferred tax assets as part of the reconciliation of the carrying amount of goodwill;

(c) paragraph B67(e)—the amount and an explanation of material gains or losses relating to the identifiable assets acquired or liabilities assumed in a business combination effected in the current or previous reporting period.

38. Paragraph BC183 of the Basis for Conclusions on the Exposure Draft explains the IASB's rationale for the proposed deletions.

Feedback

39. Almost all respondents who comment agree with the proposed deletions. They also:

(a) say preparers need to ensure useful information is not lost (one respondent); and

(b) suggest deleting other less useful disclosures (one respondent).

40. One respondent who disagrees says paragraphs B64(h) and B67(e) should be retained because the information disclosed applying these paragraphs is more useful and

reliable than the expected synergy information that the IASB proposes to require an entity to disclose (explained in Agenda Paper 18E of the IASB's December 2024 meeting).

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