Staff paper

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Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Subsidiaries without public accountability**
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Purpose and structure of this paper

1. As Agenda Paper 18 explains, this paper summarises feedback on the proposed disclosure requirements for a subsidiary without public accountability (as defined in IFRS 19 *Subsidiaries without Public Accountability: Disclosures*).

2. The paper contains:

   (a) key messages (paragraph 3–5);

   (b) background (paragraphs 6–7); and

   (c) feedback summary (paragraphs 8–25); and

   (d) question for the IASB.

Key messages

3. Many respondents agree, and many others disagree, with the proposal to require an eligible subsidiary[1] to disclose expected synergy information. Most of the respondents who disagree also disagree with disclosing expected synergies more generally for all entities.

[1] This paper uses the phrase 'eligible subsidiary' to mean an entity that meets the scope requirements in paragraphs 7–12 of IFRS 19.

4. Most respondents that comment on the other proposed disclosure requirements agree with requiring an eligible subsidiary to disclose the information that would be required applying those disclosure proposals. Some respondents who disagree say the proposed disclosures would be burdensome, costly, complex and excessive.

5. No respondents suggested requiring eligible subsidiaries to disclose additional information.

Background

6. The Exposure Draft proposed requiring an eligible subsidiary to disclose:

   (a) quantitative information about synergies expected from combining operations of an acquirer and an acquiree (expected synergy information);

   (b) the strategic rationale for a business combination;

   (c) information about the contribution of the acquired business; and

   (d) whether the discount rate used in an impairment test is pre-tax or post-tax.

7. Paragraphs BC252–BC256 of the [Basis for Conclusions] on the Exposure Draft (Basis for Conclusions) explains the IASB's rationale for these proposals.

Feedback summary

8. This section summarises feedback on the proposals to require an eligible subsidiary to disclose:

   (a) expected synergy information (paragraphs 9–15);

   (b) strategic rationale (paragraphs 16–18);

   (c) the contribution of the acquired business (paragraphs 19–22); and

   (d) whether the discount rate is pre-tax or post-tax (paragraphs 23–25).

Expected synergy information

9. The Exposure Draft proposed requiring an eligible subsidiary to disclose expected synergy information (explained in Agenda Paper 18E of the IASB's December 2024 meeting). Many respondents agree and many disagree.

10. Respondents who agree say:

    (a) expected synergy information would increase transparency and reliability of information provided to users, while remaining sufficiently scaled down for subsidiaries (many respondents);

    (b) expected synergy information, in addition to being relevant for assessing an entity's short-term cash flows (as paragraph BC255(a) of the Basis for Conclusions explains), is relevant for assessing potential mid-to-long-term cash flow contributions of an acquiree (one investor group); and

    (c) expected synergy information would help users assess the anticipated benefits and financial logic behind the business combination (one accounting standard-setter).

11. Of the respondents who disagree:

    (a) most disagree with requiring expected synergy information more generally for all entities. Agenda Paper 18E of the IASB's December 2024 meeting summarises these respondents' concerns.

    (b) some agree with requiring expected synergy information for entities other than eligible subsidiaries but say eligible subsidiaries should not be required to disclose this information.

12. Particularly for eligible subsidiaries, respondents who disagree say:

    (a) the costs of requiring expected synergy information would outweigh the benefits (paragraph 13);

    (b) expected synergies would be difficult to measure (paragraph 14); and

(c) they disagree for other reasons (paragraph 15).

Costs and benefits

13. Many respondents say the costs of requiring an eligible subsidiary to disclose expected synergy information would outweigh the benefits because:

(a) substantial effort and resources could be needed to gather and provide expected synergy information (many respondents); and

(b) similar information might already be available in the parent entity's financial statements and the user base for the disclosure in an eligible subsidiary's financial statements would be small (many respondents including preparer groups and accounting standard-setters).

Estimating synergies

14. In addition to concerns about the challenges of estimating synergies for all entities (summarised in paragraphs 17–19 of Agenda Paper 18E of the IASB's December 2024 meeting), specifically for eligible subsidiaries respondents say:

(a) synergies are often spread across the group level so it would often be impractical to isolate synergies specific to a subsidiary (many respondents); and

(b) eligible subsidiaries may lack formalised processes and controls to capture the information needed to make the disclosure (some respondents).

Other reasons

15. Other concerns on requiring eligible subsidiaries to disclose expected synergy information include:

(a) information reviewed by key management at the eligible subsidiary level may differ from that at the parent entity level, potentially causing confusion among users if different metrics are reported in an eligible subsidiary's financial statements and in a parent entity's financial statements (a few respondents).

(b) an eligible subsidiary's management may lack access to detailed information about expected synergies, which is often monitored by the parent entity's management (a few respondents).

(c) expected synergies often contribute to value creation over a longer period and may not be useful for assessing short-term cash flows (a few respondents). These respondents disagree with the IASB's rationale in paragraph BC255(a) of the Basis for Conclusions.[2]

(d) IFRS 19's disclosure requirements are generally based on the requirements of IFRS for SMEs. IFRS for SMEs does not require an entity to disclose expected synergy information and consequently, it would be unnecessary for an eligible subsidiary to disclose such information (one accounting firm). The respondent also says information similar to expected synergy information is required in management reports in many jurisdictions only for publicly accountable enterprises.

Strategic rationale

16. Most respondents agree with requiring an eligible subsidiary to disclose the strategic rationale for a business combination because:

(a) the information would be useful and improve transparency;

(b) the information would provide valuable context for understanding a business combination's objectives and for assessing management stewardship of the entity's economic resources; and

(c) the requirement would be cost-effective.

[2] Paragraph BC255(a) of the Basis for Conclusions explains the IASB's view that expected synergy information is typically about an entity's short-term cash flows.

17. Some respondents disagree because they disagree with all the proposed disclosures for an eligible subsidiary and say the proposed disclosures would be burdensome, costly, complex and excessive.

18. One preparer group suggests not requiring an eligible subsidiary to disclose the strategic rationale for a business combination under common control because the strategic rationale may be decided by the parent.

Contribution of the acquired business

19. Most respondents agree with requiring an eligible subsidiary to disclose information about the contribution of the acquired business and say the information would be helpful for users to forecast an entity's short-term cash flows (a few respondents).

20. Although generally agreeing with this proposal, a few respondents repeat concerns about whether the disclosure should be an accounting policy (see paragraphs 24–27 of Agenda Paper 18A to this meeting).

21. Some respondents disagree with requiring an eligible subsidiary to disclose information about the contribution of the acquired business because they disagree with all the proposed disclosures for an eligible subsidiary and say the proposed disclosures would be burdensome, costly, complex and excessive. One regulator says it would be costly for an eligible subsidiary to manage and review information about the contribution of an acquired business.

22. Additionally:

    (a) one user group that agrees with the proposal suggests also requiring an eligible subsidiary to disclose qualitative information about the contribution of an acquired business;

    (b) one preparer group says when developing IFRS 19, the IASB decided to not require an eligible subsidiary to disclose information about the contribution of an acquired business (paragraph B64(q) of IFRS 3), so it would be contradictory to now add this requirement;

(c) one accounting firm suggests waiting for the IFRS 19 post-implementation review before deciding whether to add this requirement to IFRS 19.

Whether the discount rate is pre-tax or post-tax

23. Most respondents agree with requiring an eligible subsidiary to disclose whether the discount rate used in an impairment test is pre-tax or post-tax. They say:

(a) this disclosure would enhance transparency and understanding of how the entity has calculated value in use; and

(b) this disclosure will help users fully understand the financial metrics, assumptions and uncertainties underpinning impairment assessments.

24. One academic says the accounting policy choice of whether to use a pre-tax or post-tax discount rate could result in reduced comparability but if an eligible subsidiary is allowed that choice, then the eligible subsidiary should disclose whether the discount rate is pre-tax or post-tax. One user group suggests requiring an eligible subsidiary to also disclose the discount rate used.

25. Some respondents disagree because they disagree with all the proposed disclosures for an eligible subsidiary and say the proposed disclosures would be burdensome, costly, complex and excessive. Respondents that disagree did not provide additional reasons specific to this proposal.

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